

<b>Item No.</b> 18.	<b>Classification:</b> Open	<b>Date:</b> 21 July 2015	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Revenue Outturn Report 2014/15, including Treasury Management	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Fiona Colley, Finance, Modernisation and Performance	

## **FOREWORD – COUNCILLOR FIONA COLLEY, CABINET MEMBER FOR FINANCE, MODERNISATION AND PERFORMANCE**

The 2014/15 revenue outturn report shows that we have once again succeeded in meeting our increasing difficult budget challenge and that our financial position remains sound.

We delivered the majority of the £25.9m savings agreed in our budget as planned, supported by a net reduction in reserves of £6m.

However, the continuing pressure of homelessness in the borough meant that we needed to use £1.77m of our contingency budget to top up our budget for temporary accommodation. This is an area of continuing pressure and which we will need to continue to monitor and manage carefully during 2015-15. Increasingly we are finding that homelessness applicants are coming from the private rented sector and are in work. With further reductions to our Discretionary Housing Payments allowance from government and the proposed reduction in the benefit cap and in-work benefits we can expect the demand for temporary accommodation to continue.

It was also disappointing to see the excellent performance on council tax collection, with £4.5m more collected than expected, undermined by a £4.2m deficit in business rate collection. This was due to a combination of a significant time lag in new business premises being valued and an enormous number of appeals being lodged in the final quarter of the year. Officers are meeting with the Valuation Office Agency to discuss these worrying issues and working with London Councils to improve our forecasting of retained business rate income.

## **RECOMMENDATIONS**

1. That the cabinet notes:
  - the general fund final outturn for 2014/15 and net movement in reserves by department;
  - the housing revenue account (HRA) final outturn for 2014/15 and resulting movements in reserves;
  - the treasury management activity for 2014/15;
2. That the cabinet notes that £1.77m was taken from contingency to address temporary accommodation pressures.

3. That the cabinet notes that £5.940m was taken from reserves during 2014/15.
4. That the cabinet notes performance in the collection of council tax.
5. That the cabinet notes the performance in collection of business rates and the risks associated with the Business Rate Retention Scheme.
6. The cabinet approves the general fund budget movements that exceed £250k, as shown in Appendix A.

## BACKGROUND INFORMATION

7. The purpose of this report is to report the outturn position for the financial year 2014/15. The council agreed a balanced general fund budget of £308.2m on 26 February 2014 based on a nil council tax increase, and £6.2m use of reserves, giving a budget of £314.4m. This budget was set in the context of a fourth year of significant overall cuts in government funding.
8. The council also approved budget decisions including reductions of some £25.9m within the general fund for 2014/15. Performance on achieving these savings was closely monitored through the year and significant variances are included in departmental narratives.
9. For the Housing Revenue Account, cabinet set tenants' rents and service charges on 28 January 2014. The HRA budget included a £5.9m savings target for 2014/15.

## KEY ISSUES FOR CONSIDERATION

### General fund overall position

10. The final outturn position for general fund services, before the use of reserves, was an adverse variance of £5.939m. After the application of £7.723m from reserves, this became a favourable variance of £1.784m. Table 1 below shows the outturn position for 2014/15 by department.

**Table 1: General fund outturn position for 2014/15**

General fund	Original budget	Budget movement	Revised budget	Spend in year	Variance before use of reserves	Net movement in reserves	Total use of resources	Variance after use of reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Children's and adults services	203,078	-9,458	193,620	198,754	5,134	(4,996)	193,758	138
Environment and leisure	72,359	-933	71,426	73,877	2,451	(2,451)	71,426	0
Housing and community services	36,519	3,309	39,828	39,661	(167)	135	39,796	(32)
Public Health	-264	264	0	-228	(228)	228	0	0
Chief executive's department	18,365	-1,254	17,111	17,880	769	(787)	17,093	(18)
Finance and corporate services	38,342	-1,602	36,740	30,734	(6,006)	4,135	34,869	(1,871)
Support cost recharges	(57,956)	11,448	(46,508)	(46,508)	0	0	(46,508)	0

General fund	Original budget £'000	Budget movement £'000	Revised budget £'000	Spend in year £'000	Variance before use of reserves £'000	Net movement in reserves £'000	Total use of resources £'000	Variance after use of reserves £'000
Contingency	4,000	-1,774	2,226	0	(2,226)	2,226	2,226	0
<b>Total general fund services</b>	<b>314,443</b>	<b>0</b>	<b>314,443</b>	<b>314,170</b>	<b>(273)</b>	<b>(1,510)</b>	<b>312,660</b>	<b>(1,783)</b>
Use of reserves to underwrite base budget	(6,213)	0	(6,213)	0	6,213	(6,213)	(6,213)	0
<b>Net revenue budget</b>	<b>308,230</b>	<b>0</b>	<b>308,230</b>	<b>314,170</b>	<b>5,940</b>	<b>(7,723)</b>	<b>306,447</b>	<b>(1,783)</b>

Note 1 – Public Health is shown separately. Children’s and Adults and Chief Executive’s Departments exclude Public Health budgets and spend.

Note 2 - Explanations of the fourth and final quarter’s budget movements are provided in Appendix A.

11. Included in the table above are reserves totalling £1.757m released for the purpose of meeting ill health retirements and one off re-organisation and redundancy costs incurred as departments continue to put into action plans necessary to deliver the on-going savings identified within the budget.

	£'000
Children's and adults' services	654
Environment and leisure	588
Finance and corporate services	515
<b>Total</b>	<b>1,757</b>

12. Table 1 reflects budget movements to the end of 2014/15. Appendix A details the final quarter’s movements for cabinet to approve or note as appropriate. Earlier budget movements were included in the quarter 1, quarter 2 and quarter 3 reports.

13. The following key areas of activity in 2014/15 have explanatory commentary

- Contingency (paragraphs 14 to 15)
- Reserves (paragraphs 16 to 27)
- Direct revenue funding of capital (paragraphs 28 to 28)
- Temporary Accommodation (paragraph 29)
- No recourse to public funds (paragraphs 30 to 31)
- Collection fund (paragraphs 32 to 33)
- Public Health (paragraph 36)
- HRA (paragraphs 37 to 39 )
- Savings (paragraph 40)
- Schools (paragraphs 41 to 43)
- Treasury Management (paragraphs 44 to 46)
- Municipal bond agency (paragraph 47)

## Contingency

14. The 2014/15 budget included £4m for contingency, held to meet unforeseen costs that may arise during the year within departments that strategic directors are unable to contain. During 2014/15 £1.774m was used to support funding for temporary accommodation demand pressures.

15. The remaining £2.226m was transferred to reserves, forming part of the £6.163m

“planned contribution to support General Fund budget 2015/16 reserve”. This is included within strategic financing, technical liabilities and future financial risks reserves in Appendix C.

## Reserves

16. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. These reserves are maintained to fund.
  - ‘invest to save’ opportunities, which form part of the modernisation agenda and are expected to deliver future on-going revenue savings
  - investment in regeneration and development where spend may be subject to unpredictable market and other factors.
  - exceptional items/pressures which are difficult to predict and which are not included in revenue budgets or within the capital programme.
17. There is a robust process for seeking support from reserves. The department must demonstrate that they are unable to contain the identified additional pressure within their existing budget, or provide evidence of prior agreement that the expenditure will be met from reserves.
18. A net total of £5.736m was drawn from reserves to support departmental budgets during 2014/15. Appendix B is a departmental analysis showing totals of sums drawn from and contributing to departmental and corporate reserves.
19. Cabinet will be asked to approve this funding support where the amount is £250k or above, all of the above are included within Appendix A.
20. Included in the reserve movements above are the following new corporate reserves:
 

	£'000	Funding Source
Southwark Scholarship Reserve	450	Transfer from youth fund
Southwark Emergency support Scheme (SESS)	3,100	£1,427 from welfare hardship fund. £1,673 from underspends on corporate budgets.
21. The budget approved by council for 2014/15 included a planned release of reserve of £6.213m. This call on reserves provided some flexibility in terms of budget setting and the savings that the council identified in the Policy and Resources Strategy 2014-17. This call on reserves has been made in full.
22. Additionally, a new reserve “the fair and valued treatment for employees and contractors” reserve was set up for £2.000m, and the remaining contingency of £2.226 (see paragraphs 14 and 15) was transferred to reserves.
23. After taking into account the £1.784m favourable variance, the total amount drawn down from reserves for 2014/15 was £5.940m.

**Table 2: Summary of earmarked reserves**

<b>Summary of earmarked reserves</b>	<b>Balance as at 31/03/14 £'000</b>	<b>Net movement in reserves £'000</b>	<b>Balance as at 31/03/15 £'000</b>
Corporate projects and priorities	11,219	5,647	16,866
Service reviews and improvements	29,816	(1,894)	27,922
Capital programme and other capital investment	31,898	(1,553)	30,345
Strategic financing, technical liabilities and future financial risks	37,785	(8,140)	29,645
<b>Total</b>	<b>110,718</b>	<b>5,940</b>	<b>104,778</b>

24. Corporate projects and priorities reserves are held to fund those future activities that will enable the council to function more efficiently and effectively. They include resources held to meet the cost of ongoing re-organisation and restructuring that the council must undertake to modernise and improve service levels and operational efficiency of Southwark's activities.
25. Service reviews and improvements represent resources held that can be directly linked to services provided.
26. Capital programme and other capital investment reserves are held to fund one-off expenditure that may be incurred over more than one year and by its nature is not appropriate to be included within annual revenue budgets, to facilitate the significant regeneration and development taking place in the borough. Projects include the Elephant & Castle, Canada Water, Southwark Schools for the Future, land acquisitions and other significant one-off costs associated with these projects.
27. Strategic financing, technical liabilities and future financial risks reserves are in the main held to mitigate against future financial risks that may arise. For example, taxation risks, legislative and funding changes including actions involving the Greater London Authority and other government bodies, risks as a result of unavoidable changes in accounting practice, and circumstances in so much as they represent uninsured risks. They also include balances that are held for technical accounting reasons as described above.

#### **Direct revenue funding of capital**

28. For accounting and control purposes, where it is proposed that reserves are released to meet capital expenditure, they are at first released into revenue and a direct contribution from revenue is then made to capital. When this occurs cabinet is asked to approve or note these contributions in Appendix A. In 2014/15 a total of £4.535m was used for this purpose, in addition to a further £1.682m from departmental budgets, giving a total of £6.217m.

#### **Temporary Accommodation**

29. Previous monitoring reports have alerted cabinet to the serious financial pressure presented by temporary accommodation costs. Demand for temporary accommodation has increased significantly during 2014/15 and continues to rise, whilst restrictions on the supply-side have necessitated the use of more expensive bed and breakfast accommodation. Private sector leased

accommodation is no longer financially viable for providers given the impact of welfare benefit reforms, and the availability of hostels and estate voids have been restricted, which has traditionally helped to ameliorate the impact through the HRA. As part of the council's budget planning, the risk was recognised and corporate funds earmarked for this purpose. It has been necessary to use £1.774m during 2014/15.

### No Recourse to Public Funds

30. The final outturn for no recourse to public funds was £5.4m, after the planned use of £1.8m one-off council reserves, an adverse variance of £772k remained.
31. Currently, around 320 families are being supported. The rate of increase has been mitigated by the management action implemented, with more rigorous checks undertaken of new cases and existing ones being reassessed by officers including internal audit. As the no recourse budget includes the use of one-off reserves, there is a potential 2015/16 spending pressure.

### Collection fund

32. The collection fund covers both council tax and business rate collection. The year end position shows a net surplus for Southwark of £312k, comprising of a council tax surplus of £4.475m (from a total surplus of £5.943m) and a business rates deficit of £4,163m (from a total deficit of 13,876m).

Authority	Council Tax		Business Rates		Total
	%	£'000	%	£'000	£'000
<b>Southwark Council</b>	<b>75.3%</b>	<b>(4,475)</b>	<b>30</b>	<b>4,163</b>	<b>(312)</b>
Greater London Authority	24.7%	(1,468)	20	2,775	1,307
Central Government			50	6,938	6,938
<b>(Surplus) / Deficit</b>		<b>(5,943)</b>		<b>13,876</b>	<b>7,933</b>

33. Southwark's share of the surplus / deficit is £2.590m less than the £2.902m surplus reported at quarter three, the reasons for this are as follows;

	£'000
Growth not yet put onto valuation list by valuation agency (VA), consequently unable to bill.	1,719
Increase in appeals.	1,443
Council tax surplus increase.	(572)

34. There may be a time lag between the occupation of a property and the property's inclusion on the valuation list. Once a property has been valued and has been included on the rating list, the bills can then be raised, and be back dated to the date of occupation.
35. With regard to the increase in appeals, appeals made after 1 April 2015 can only be backdated until 1 April 2015, whereas appeals made before 31 March 2015 can be backdated to 1 April 2010. As a consequence of this, some 1,500 appeals were received during pre 31/03/15, the average of the previous three quarters being around 100.

## **Public health**

36. The Public Health outturn position was £228k favourable variance on a total budget of Public Health grant and CCG funding of £24.282m. This has been transferred to the ring-fenced Public Health reserve to support future Public Health budget commitments. As previously reported, sexual health continues to be a cost pressure which was mitigated in year by the use of the Public Health contingency. Commissioners for both sexual health services and substance misuse are continuing to review their approaches to commissioning and have made efficiencies through innovations such as on line sexual health testing (SH24) and joint commissioning arrangements.

## **Housing revenue account (HRA)**

37. The housing revenue account (HRA) shows a positive variance for 2014/15, enabling earmarked reserves to be increased to a more sustainable level, additional revenue contributions to be made to support the investment programme and an accelerated repayment of internal borrowing in order to maximise borrowing headroom to support direct delivery and other capital works programmes. The need to spend on landlord responsibilities to manage, maintain and improve the housing stock remains constant and consumes the largest proportion of HRA resources. The adoption of an enhanced voids specification has driven up acceptance rates and transformed satisfaction levels to over 90%.
38. The cumulative rent debit raised was £236.5m, which was marginally higher than that budgeted, with collection at 99.66%. Leaseholder service charges, which are partly linked to levels of activity within the investment programme, totalled £37.2m against a collection target of £30m. On-going pressures include the continued transition towards componentised depreciation, which must be completed by April 2017.
39. The ring-fenced nature of the HRA requires that surpluses/deficits are carried forward between years and at 31 March 2015 HRA reserves stand at £25.9m, of which around three-quarters are specifically earmarked for investment in the stock alongside the modernisation and improvement of services. The remainder is held against unforeseen events in line with the medium-term resource strategy.

## **Savings**

40. The £25.9m savings included in the 2014/15 budget have largely been achieved, the only reported slippages are as follows
- Children's and Adults' savings targets were £4.4m and £6.9m for 2014/15. Children's savings have been delivered. Adults' Services savings have slipped by £2.1m due mainly to delays in starting Learning Disability and Older people redesign work.
  - Environment and leisure department has in the main, achieved the proposed budgeted savings for 2014/15 with the exception of a £60k saving from centralising departmental procurement support. This is due to a delay in the implementation of an appropriate structure for procurement support for the department. The adverse variance resulting

from this has been offset by favourable variances elsewhere in the department.

### **Schools**

41. The Dedicated Schools Grant (DSG) final outturn position was a favourable variance of £2.8m, on a final DSG allocation £193m (1.5%). The final position is in line with the projection at quarter three, mainly on budgets for funding of high needs arrangements in schools and other providers.
42. The Schools Forum agreed to ring-fence one-off two year old place and trajectory funding as the eligibility for free 15 hours education for two years olds is extended from September 2014. This funding will be based on actual participation from April 2015 and is to be used in future years to continue to increase capacity and support the two year old programme.
43. The Schools Forum will consider the application of the 2014/15 funds at the July 2015 Schools Forum meeting.

### **Treasury management**

44. The council holds its cash in money market instruments diversified across major banks, building societies, and bonds issued by the UK government and supranational entities. The investment priorities are capital preservation and liquidity. The investments themselves are managed by an in-house operation and two investment firms. In the year to March 2015 the sum invested averaged £210m and the balance at 31 March 2015 stood at £165m.
45. The average return on investments in 2014/15 was 0.73% (0.69% 2013/14). Base rates here have been held at 0.50% since 2009 and monetary policy since then has intensified investors' search for yields, driving yields lower.
46. The council has balances remaining on long term loans to pay for investment in housing and general fund capital spend carried out many years ago when rates were high. The loans are all from the Public Works Loans Board (PWLb, the local authority lending arm of the government) at fixed rates. In 2014/15, £5.7m loans (all General Fund) fell for repayment and were paid off. The balance remaining on all PWLB loans at 31 March 2015 was £469m (£371m HRA and £98m General Fund).

### **Municipal Bond Agency**

47. The Local Government Association has reported interest from up to 60 councils to launch a municipal bond agency as an alternative to the PWLB. The agency has around £4m in pledges to launch its first bond issue in 2015. The LGA itself is contributing £500,000. The council's own contribution is £200,000. The agency is looking to lend funds at a slightly lower rate than the PWLB. The terms will be fixed when the first bond is issued and potential borrowers will assess the benefits from any savings in the rate against any joint and several guarantee or other conditions the agency places. Any future borrowing the council needs will be from whichever source is the cheapest having regard to any conditions.

## Community impact statement

48. This report monitors expenditure on council services, compared to the planned budget agreed in February 2014. Although this report has been judged to have nil or a very small impact on local people and communities, the expenditure it is reporting reflects plans designed to have an impact on local people and communities. Community impact was considered at the time the services and programmes were agreed. It is important that resources are efficiently and effectively utilised to support the council's policies and objectives.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources 2014/15 to 2016/17: Cabinet 28/01/14	160 Tooley Street PO Box 64529 London SE1P 5LX	John Braggins 020 7525 7489
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/documents/s43572/Report%20Policy%20and%20Resources%20Strategy%20201415%20to%20201617%20-%20Provisional%20Settlement.pdf">http://moderngov.southwark.gov.uk/documents/s43572/Report%20Policy%20and%20Resources%20Strategy%20201415%20to%20201617%20-%20Provisional%20Settlement.pdf</a>		
Revenue monitoring report for Quarter 1, 2014/15, including Treasury Management : Cabinet 16 September 2014	160 Tooley Street PO Box 64529 London SE1P 5LX	John Braggins 020 7525 7489
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/documents/s48481/Report%20Revenue%20Monitoring%20Report%20for%20Quarter%201%20201415%20including%20Treasury%20Management.pdf">http://moderngov.southwark.gov.uk/documents/s48481/Report%20Revenue%20Monitoring%20Report%20for%20Quarter%201%20201415%20including%20Treasury%20Management.pdf</a>		
Revenue monitoring report for Quarter 2, 2014/15, including Treasury Management : Cabinet 18 November 2014	160 Tooley Street PO Box 64529 London SE1P 5LX	John Braggins 020 7525 7489
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/documents/s49971/Report%20Q2%20Revenue%20Monitoring.pdf">http://moderngov.southwark.gov.uk/documents/s49971/Report%20Q2%20Revenue%20Monitoring.pdf</a>		
Revenue monitoring report for Quarter 3, 2014/15, including Treasury Management : Cabinet 10 February 2015	160 Tooley Street PO Box 64529 London SE1P 5LX	John Braggins 020 7525 7489
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/documents/s51819/Report%20Revenue%20monitoring%20Q3.pdf">http://moderngov.southwark.gov.uk/documents/s51819/Report%20Revenue%20monitoring%20Q3.pdf</a>		

## APPENDICES

No.	Title
Appendix A	Budget movements to be approved, £250k and above and movements to be noted.
Appendix B	Movements to and from corporate and departmental reserves in 2014/15
Appendix C	Movements in reserves: extract from draft Statement of Accounts 2014/15.

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Fiona Colley, Finance, Modernisation and Performance	
<b>Lead officer</b>	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
<b>Report author</b>	Jennifer Seeley, Deputy Finance Director	
<b>Version</b>	Final	
<b>Dated</b>	10 July 2015	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Director of Legal Services	No	No
Strategic Director of Finance and Corporate Services	N/a	N/a
Cabinet Member	Yes	Yes
<b>Date final report sent to constitutional team</b>		10 July 2015