

<b>Item No.</b> 12.	<b>Classification:</b> Open	<b>Date:</b> 6 February 2018	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Policy and Resources Strategy: Revenue Monitoring Report, including Treasury Management 2017-18 (Month 8)	
<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**

This is the second budget monitoring report of 2017-18 showing our position at the end of month 8 of the financial year (November 2017).

The monitor shows that our budget recovery work in Children’s and Adults is succeeding with adults anticipated to stay within budget and Children’s Services over spend limited to £5m in the face of continuing demand and cost pressures. Our plans to increase the budgets for both Adults and Children’s in 2018-19 and to make further efficiency savings will put the department on a sustainable financial footing.

Other significant areas of budget pressures include No Recourse to Public Funds (where we have succeeded in reducing spending by £1m, but are still £1m over budget), Temporary Accommodation, ICT and Corporate Facilities Management. There has been a particular growth in the FM overspend with a significant and backdated increase in our rent on the Queens Road 1 office. These budget pressures are all reflected in our budget commitments for 2018-19, again seeking to ensure that we have sustainable budgets for these services.

## **RECOMMENDATIONS**

1. That cabinet notes:

- the general fund outturn forecast for 2017-18 is an overspend of £0.035m (table 1, paragraph 12) after the application of the supplementary improved better care fund grant (IBCF) as agreed by the Health and Well Being Board on 11 September 2017
- the continuing pressures on Children’s and Adults’ social care of £5.059m, including the net use of reserves totalling £1.383m; prior to the application of the IBCF, these cost pressures were forecast to be £12.530m (paragraphs 13 to 17)
- the adverse variance in Public Health of £0.5m due to continued demand pressures in sexual health services (paragraphs 20 to 24)
- the favourable variance in Environment and Social Regeneration of £2.0m is largely due to the reduced demand and costs from the waste PFI contract (paragraphs 20 to 24)
- the continuing cost pressures in Housing and Modernisation in Temporary

Accommodation, No Recourse to Public Funds and severance payments (paragraph 26 to 38;

- The favourable variance in Strategic Finance of £1.500m (paragraph 43);
  - the £4m contingency is utilised in full to mitigate the total impact of cost pressures (paragraph 45)
  - the general fund outturn forecast including the final projected outturn position assumes a total net reduction in reserves of £10.6m (Table 3)
  - the forecast reduction in reserves includes the full allocation of remaining Dedicated Schools Grant Reserve of £1.249m as well as a further draw down from reserves of £3.500m creating a future call to the DSG reserve of £3.500m (paragraphs 18 and 19)
  - the housing revenue account forecast set out in table 2, paragraph 47 to 54
  - the treasury management activity to date in 2017-18 (paragraph 60 to 64).
2. That cabinet approves the general fund budget movements that exceed £250k, as shown in Appendix A.
  3. That cabinet note the general fund budget movements that are less than £250k as shown in Appendix A.

## **BACKGROUND INFORMATION**

4. The purpose of this report is to provide a forecast for the end of the financial year 2017-18, using predictions based on the experience to date, and to use this to inform the policy and resources strategy for future years' budgets. Work continues throughout the council to ensure that a balanced position is achieved by the end of the year.
5. The council agreed a balanced general fund budget of £274.327m on 22 February 2017 based on a 2% council tax increase (with 3% precept for adult social care), and £3.7m use of reserves. This budget was set in the context of further significant overall cuts in government funding. Subsequently, as reported to cabinet in July 2017, government issued a supplementary budget including notification of a further £7.471m of improved Better Care funding.
6. In the context of 2016-17 adverse budget variances and the consequential reduction in the level of balances, officers are attentive to the 2017-18 budget position, in particular the cost pressures in children's and adults' services.
7. The council also approved budget decisions including reductions of £26.4m within the general fund for 2017-18. Performance on achieving these savings is closely monitored and significant variances will be included in departmental narratives.
8. Following the agreement of the council's 2017-18 budget in February 2017, the government announced a supplementary spring budget. The details of the announcements were shared as part of the cabinet report of 18 July 2017 - "Policy and Resources Strategy 2017-18 and 2018-19 Updated Financial Remit". This supplementary budget included additional allocations of Improved Better Care Fund of £7.417m for 2017-18, increasing the total allocation of Improved Better Care Fund to £9.1m. The report details the decision for the utilisation of this supplementary Improved Better Care Fund grant (paragraphs 13 to 17).

9. The cabinet agreed a balanced housing revenue account (HRA) budget on 24 January 2017.
10. As reported to Cabinet on 19 September 2017, the month 4 general fund outturn forecast 2017-18 was an overspend £0.407m. The key drivers included the reduced but continuing pressures on Children's and Adults' social care of £4.229m. The adverse variance in Public Health of £0.600m due to continued demand pressures in sexual health services. Cost pressures of £0.883m in Housing and Modernisation within Temporary Accommodation, No Recourse to Public Funds and Corporate Facilities Management. Strategic Finance forecasting a favourable variance of £1.600m arising from a review of the insurance provision, treasury and technical liability budgets and £4.000m contingency forecast to be utilised in full to mitigate the total impact of these cost pressures

## KEY ISSUES FOR CONSIDERATION

### General fund overall position

11. Table 1 below shows the current forecast outturn position by department. All strategic directors will continue to take action ensure that they deliver their services within budget. Progress for each department is shown in the narrative below.

**Table 1: General fund outturn position for 2017-18**

General fund	Original budget £'000	Budget movement £'000	Revised budget £'000	Forecast Spend in year £'000	Variance before use of reserves £'000	Planned movement in reserves £'000	Total use of resources £'000	Variance after use of reserves £'000
Children's and Adults' Improved Better Care Fund <sup>(1)</sup>	177,384 0	-1,981 0	175,403 0	189,316 -7,471	13,913 -7,471	-1,383	187,933 -7,471	12,530 -7,471
Total Children's and Adults' Public Health	177,384 0	-1,981 0	175,403 0	181,845 550	6,442 550	-1,383	180,462 550	5,059 550
Environment and Social Regeneration	65,363	2,944	68,307	66,283	-2,024		66,283	-2,024
Housing and Modernise	65,537	3,469	69,006	74,220	5,214	-2,120	72,100	3,094
Chief Executive's	7,474	1,528	9,002	9,002	0		9,002	0
Finance and Governance	27,884	-6,717	21,167	20,272	-895	-249	20,023	-1,144
Strategic Finance	-26,438	-311	-26,749	-29,867	-3,118	1,618	-28,249	-1,500
Support cost recharges	-43,177	1,068	-42,109	-42,109	0		-42,109	0
Use of reserves to underwrite base budget	-3,700	0	-3,700	0	3,700	-3,700	-3,700	0
<b>Total general fund services</b>	<b>270,327</b>	<b>0</b>	<b>270,327</b>	<b>280,196</b>	<b>9,869</b>	<b>-5,834</b>	<b>274,362</b>	<b>4,035</b>
Contingency	4,000	0	4,000	0	-4,000		0	-4,000
<b>Net revenue budget</b>	<b>274,327</b>	<b>0</b>	<b>274,327</b>	<b>280,196</b>	<b>5,869</b>	<b>-5,834</b>	<b>274,362</b>	<b>35</b>

<sup>(1)</sup>Please refer to paragraphs 12.

12. As shown in Table 1, within services there is a forecast adverse variance of £0.035m; this is after the net utilisation of £5.834m of general fund reserves. Reserves are considered in more detail in paragraphs 54 to 58.

### **Children's and Adults' Services**

13. As reported to cabinet in September and December 2017, Children's and Adults' services are experiencing significant pressures on their revenue budgets. These pressures are created by a combination of demand and cost pressures and severe reductions in government grant for these statutory responsibilities as well as to the council as a whole. Nationally, pressures on social care linked to pressures in the NHS are recognised, but these pressures far exceed the resources announced in the government settlement. In total, an estimated adverse variance of £12.5m is forecast for 2017-18. Following on from the agreement of the Health and Wellbeing Board to release the supplementary IBCF funding notified in the government's 2017-18 Spring budget of £7.471m in line with the agreed priorities, this variation will be reduced to approximately £5.1m.
14. It should be noted that significant management action has been taken and controls are in place. A budget recovery board is overseeing the management actions.
15. The indicative budget to be agreed at council assembly in February 2018 proposes Adult Social Care efficiencies and income generation for 2018-19 at £5.4m and commitments of £19.4m resulting in a proposed net impact of a budget increase of £14.0m for 2018-19. This demonstrates the investment of the increased Improved Better Care Fund (£10.9m) to homecare pressures, nursing care home pressures, and transformation work to improve the health, wellbeing and resilience of vulnerable service users. This also reflects the allocation of new resources for Adult Social Care, including the Adult Social Care Precept (£2.7m), investment in the development of an all age disabilities pathway (£3.8m) and funding the full-year cost of the implementation of the Southwark Ethical Care Charter (SECC) in Care At Home contracts (£2.0m).
16. There are considerable pressures in 2017-18 for Children's Services and this is despite protection for Children's Services budgets in 2017-18. Rising demand including protecting children from sexual exploitation, a sharp reduction in secure care places provided by government and pressures such as unaccompanied asylum seeking children have all contributed to the overspend.
17. In Education, grant and funding continue to impact upon budget, as well as the increasing demand for statutory SEN home to school transport.
18. For the DSG, the reserve of £1.2m will be fully applied by 31 March 2018. With pressures on the DSG overall, in particular with the high needs block as is consistent across many other local authorities, a deficit of £3.5m on DSG is anticipated by the 31 March 2018. Schools Forum is being consulted on measures to fund the carried forward deficit in 2018-19 at its meeting on 18 January, including block transfers. However given the ongoing structural pressures on the high needs block which continue into 2018-19 and beyond, together with new stricter regulations on movement between blocks and pressures associated with the new national funding formula, a deficit position on

the DSG is likely to persist for a number of years and therefore full recovery of the deficit is likely to be in the medium to longer term.

19. A working group is being formed with Schools Forum to consider a range of savings and costs avoidance options in 2018-19 and for futures years which are being developed and modelled by officers. This also includes reviewing the funding held back centrally for a range of supporting Council services. There also continues to be robust lobbying of Central Government to address the unfairness of the current funding system for high needs, in particular with regard to the extension of the age range to 25 for which no funding was provided, and also the failure to recognise demographic and demand pressures, as well as higher costs in London.

### **Environment and Social Regeneration (including Public Health)**

20. The Environment & Social Regeneration department is forecasting a favourable variance of £1.5m.
21. The £1.5m favourable variance incorporates the projected overspend of £550k in the ring-fenced public health grant and therefore the departmental position excluding public health is a favourable variance of £2.0m.
22. The £550k adverse variance on public health grant is due to the remaining cost pressures in sexual health services. Since the public health grant was moved to local authorities in 2013/14 these have been a significant cause of overspend within this budget. Tackling this area of pressure has been complicated as by statute the services are open access and it is therefore difficult to manage demand. This situation is compounded by high levels of sexual health need within Southwark and testing is required to control the spread of infection. Despite this, a number of interventions have been put in place to manage these cost pressures which have been reducing year on year. This year the foundations have been laid for bringing this budget under control by negotiating new contracts with the acute trusts and continuing the development of our e-service through buying into a new London wide e-service which will support low cost asymptomatic testing. There has been a delay in implementing the new London e-service due to contractual issues between the provider and City of London the contract holder.
23. The new arrangement for the council to access the new London-Wide sexual health contract awarded to Kings College Hospital and Guy's and St Thomas Hospital Trust for the provision of integrated sexual health services in clinics across the borough is expected to generate savings of approximately £10m over the next 4.5 years which will bring the budgets back under control and will contribute towards repaying the negative reserve of £1.9m in public health as reflected in the previous revenue monitor report to cabinet.
24. The favourable variance of £2.0m on departmental budgets excluding public health is mainly due to the lower than anticipated waste tonnage on the waste PFI contract and other favourable variances on parking services budget.

### **Savings**

25. The department has implemented most of the proposed savings for this financial year and is on course to meet the savings target set for 2017-18.

## **Housing and Modernisation (H&M)**

### **Overview**

26. The forecast indicates there is an adverse variance of £5.2m against budget (inclusive of severance and redundancy), before the drawdown of earmarked reserves to cover unavoidable budget pressures and commitments. The position has deteriorated due to demand/activity led cost pressures primarily within NRPF and temporary accommodation, which were previously highlighted as risks in the month 4 monitoring report. Severance and redundancy costs are estimated at £0.6m. The key headlines are outlined below.

### **No Recourse to Public Funds (NRPF)**

27. NRPF represents a significant and persistent pressure on council resources. Substantial progress has been made in stabilising acceptance rates and reducing long term caseload. Costs are also reducing compared to previous years but not at a rate sufficient to remain within the approved budget. The ability to discharge our duty relies on the Home Office determining a client's status and whilst cases are proactively escalated, the process remains protracted and not within the council's control. The current forecast is around £1.1m over budget and is predicated on a net reduction of ten cases per month to year-end to enable this target to be met. Furthermore, it is critical that the downward trajectory in caseload is maintained during 2018-19 to enable costs to be brought back within the approved budget.

### **Housing Solutions/Temporary Accommodation (TA)**

28. Notwithstanding Southwark's continuing success in homeless prevention, this remains a particularly challenging service area. The council continues to face increasing budgetary pressure through rising demand, restricted housing supply and legislative obligations, which based on current activity levels give rise to a budget pressure of £1.2m in 2017-18.
29. Net caseload has increased since April and a reduction in direct offers and the impact of rehousing Ledbury tenants has affected the number of properties available for homeless households. The council's commitment to ensure no family with children is placed in unsuitable nightly paid accommodation has seen families moved to self-contained accommodation since July. Whilst this is laudable, it comes at a cost, as these properties are predominantly more expensive and require the council to pay upfront incentives to landlords.
30. This year, government introduced changes to the funding regime for temporary accommodation replacing the Temporary Accommodation Management Fee (TAMF) chargeable by authorities and payable through welfare benefits, with Flexible Homelessness Support Grant (FHSG). The purpose being to focus homeless activity on prevention rather than meeting demand and reduce the use of expensive and unsuitable nightly paid accommodation.
31. A homelessness strategy has been developed and plans are in place to fully utilise this confirmed funding covering 2017-18 and 2018-19. Given that activity didn't start until mid-year, the current spend profile means that a proportion of the grant is required to be set aside in reserves this year in order that it can be drawn upon in future years.

32. The transition to Universal Credit (UC) is accelerating with a current caseload of around 4,800 across all council tenures. Long lead-in times and direct payment has seen deterioration in collection rates compared with non-UC cases, requiring a higher level of bad debt provision to be made, currently estimated to be a minimum of £0.5m. This trend is concerning and represents another drain on resources, over which the council has limited control. *(Note. In November the Chancellor announced changes in relation to Universal Credit from April 2018, which may assist to alleviate the position to some extent).*

### **Information Technology and Digital Services (ITDS)**

33. Cabinet will be fully conversant with the changes in IT provision from 1 November as the shared service went 'live'. The provision of a stable, resilient and quality IT service is essential for the provision of a modern, reliable, secure and cost effective technology, which underpins everything the council does and is critical to delivering the transformation agenda and realising potentially greater operational cost savings down the line.
34. However, this cannot be achieved without the need for a revenue budget commitment (both general fund and HRA) from 2018-19 onwards and sustained capital investment over the long term. At this point, there is no material change to the estimated outturn projection (£1.8m) that has been reported previously. This will be funded on a one-off basis from reserves.

### **Corporate Facilities Management (CFM)**

35. The council has an extensive operational estate to which facilities management services must be provided to ensure that buildings are compliant with health and safety regulations and fit for purpose for both staff and service users. The requirement to maintain higher service standards has created budget pressure which requires greater and faster rationalisation of the council's office accommodation in line with the modernisation agenda. There are a number of unavoidable one-off and base budget pressures arising within CFM during the current year, comprising lease rental reviews (£540k) and professional and technical support required to cover capacity shortfalls in the delivery of specific projects in relation to procurement, contract management and development of the council-wide accommodation strategy. This is partially offset by savings in PPM and other operational areas (net £300k). Wider departmental and corporate savings predicated in previous budget rounds have not been fully achieved as planned during the year or are in abeyance pending the wider review of the council's accommodation strategy (£570k). CFM also manages/delivers capital projects which generate fee income; but a slowdown in programme activity means the budgeted income target cannot be met (£347k). For these reasons the forecast shows a net adverse variance of £844k after the planned drawdown of earmarked reserves (£1.757m gross). For 2018-19, a budget commitment, subject to cabinet approval, will serve to realign and substantially stabilise the base budget position going forward.

## **Human Resources (HR) and Organisational Development (OT)**

36. HR administers and manages the Comensura contract for the provision of temporary staff across the council. Usage/costs are variable and subject to changing circumstances, but have regularly exceeded expectations and generated higher fee income (2017-18 estimate is £0.5m). Whilst this trend will continue in the short term, measures are in place to reduce usage through refocused workforce planning and recruitment to long-standing agency roles, which will reduce council-wide agency expenditure and consequently income recovery will shift downwards, closer to the budgeted figure.
37. OT administers the training and development programme and budget on behalf of Children's and Adults services. Additional activity to support the Children's Social Care workforce and member induction has taken place during the year and will be funded from specific earmarked reserves. Other ad-hoc costs, such as the Southwark staff survey and learning management system will be contained within budget.

## **Customer Services**

38. One of the key areas of responsibility within Customer Services is the administration of concessionary travel. The budget for 2017-18 was set at a broadly similar level to the previous year, whereas the cost of provision by TFL has reduced by around £0.4m. Other relatively minor budget variations across the wider division total a further £0.1m overall.

## **Chief Executive's department**

39. The Chief Executive Department is forecasting to budgets and no variances are expected at this stage. The budgets are being monitored closely and any changes to this projected outturn position will be reported at the next revenue monitor report to cabinet.

## **Savings**

40. The department has implemented most of the proposed savings for this financial year and is on course to meet the savings target set for 2017-18

## **Finance and Governance**

41. The Finance and Governance department is forecasting an underspend for the 2017-18 financial year of £1.144m, which contrasts to an £295k overspend forecasted at month 4. Staffing costs constitute approximately three quarters of the expenditure budget within the department and an increased incidence of staffing vacancies across the department has led to the change in forecast. A number of departmental vacancies have been deliberately left unfilled as part of advanced planning for departmental savings required for the 2018-19 financial year. This reduction in forecast staffing costs is also a consequence of a planned reduction in temporary staff following the continued transfer of caseload to Universal Credit and increasing digitalisation of services.
42. The underspend to budget for staffing and contracts is partially offset by the cost of the snap general election in 2017, whilst the Cabinet Office does reimburse much of the costs associated with management of the general election for the



constituencies within Southwark; this amount is not sufficient to cover the full cost of a comprehensive and robust election operation. The shortfall is estimated to be in the region of £311k. This cost is expected to be funded through reserves.

43. The department is currently on track to meet the savings targets as required for this financial year.

### Strategic Finance

44. Strategic Finance is currently forecasting a favourable variance of £1.500m. This arises from a review of the insurance provision, treasury and technical liability budgets.

### Contingency

45. It is anticipated that the £4m contingency budget will be fully utilised to meet the Children's and Adults' Services and No Recourse to Public Funds budget pressures as described above.

### Progress in Delivering Efficiencies and Improved Use of Resources and Income Generation

46. As part of the budget setting process for 2017-18, £26.5m savings and income generation proposals were agreed. At this point, it is anticipated that in the majority of cases where savings are at risk of being fully implemented in year, substitute savings have been identified, as reflected in the forecast outturn position reported for each department.

### Housing Revenue Account (HRA)

**Table 2: HRA forecast outturn position for 2017-18**

HRA M4 MONITOR 2017-18	Full Year Budget	Forecast Outturn	Forecast Variance
	£000	£000	£000
Asset Management	49,031	50,738	1,707
Communities	8,763	8,726	-36
Resident Services	38,281	38,091	-191
Customer Services	3,313	3,584	271
Central Services	123,926	113,195	-10,732
Tenant's Rents & Service Charges	-221,278	-221,708	-431
Exchequer Services	-27,839	-18,428	9,411
Revenue Contribution to Capital	23,745	23,745	0
Appropriations to /(from) Reserves	2,057	2,057	0
<b>Total HRA</b>	<b>0</b>	<b>0</b>	<b>0</b>

47. There are a number of known budget pressures and commitments impacting the HRA identified at this point, which are being actively managed within the available resources. However, given the size and complexity of the HRA and

HIP, the forecast should be viewed with a degree of caution. In summary, the key budget headlines are outlined below.

48. Landlord services, particularly the maintenance, repair and improvement of the housing stock consume the greatest proportion of operating resources. Control of high volume, high value contracts is critical in delivering greater value for money, but budgets remain under pressure and are currently forecast to be overspent (£0.8m). The forecast also includes a projected trading deficit of a further £0.9m from Southwark Building Services (SBS), which falls to the HRA.
49. Under self-financing, rents and service charges and other income streams assumed paramount importance for the sustainability of the HRA business plan, but there have been a succession of changes in government policy, culminating in the imposition of the 1% rent reduction policy (2016-17 to 2019-20), which has reduced the financial flexibility within the HRA to maintain and invest in the housing stock and build new homes as originally envisaged. For illustration purposes, there is a 5% differential in the rental base for 2018-19, between an increase at CPI+1%, i.e. 4% and the 1% reduction, which broadly equates to £9.4m in cash terms (including void and stock movements).
50. A key indicator for the HRA is the rent debit raised, which is tracking above target. This is principally due to a higher level of estate void usage for temporary accommodation, which has a beneficial financial impact and assists in mitigating budget pressures elsewhere in HRA. Rent collection performance remains challenging, particularly the impact of Universal Credit (UC) which is subject to statutory waiting times and processing delays and is impacting on arrears disproportionately to non UC cases. This remains subject to close monitoring, but the HRA continues to maintain a prudent level of revenue provisions to meet potential losses of this nature.
51. The second most significant income stream is Homeowner service charges. Costs relating to ex-council stock sold under the Right to Buy (RTB) are fully recoverable under the terms of the lease in order to prevent cross-subsidy from tenants. The value of rechargeable capital works is intrinsically linked to the HIP. The extent of capital investment in the housing stock over recent years is unprecedented and this has been reflected in higher billing to homeowners. However, current and future works programmes are not of the same magnitude and are more focused on internal works which are not relevant to homeowners. In the current year, billing is estimated to be around £8m lower than budget and this will be addressed by way of a matching reduction in the level of revenue support provided to the HIP. For 2018-19, budgets will be adjusted to reflect the lower baseline.
52. The central services activity comprises key budgets pertaining to departmental/corporate overheads, debt financing, CERA, depreciation, arrears write-offs/provisions and major projects, the revenue impact of which falls outside mainstream operational budgets due to their exceptional nature. For example, Ledbury, which presents an immediate and unavoidable call on both revenue and capital resources.
53. Notwithstanding the measures the council has already adopted since Lakanal in 2009 and the considerable investment already made in fire safety, the council has redoubled its efforts in response to the tragic events at Grenfell Tower and is undertaking type 4 intrusive inspections across all high rise blocks. This has the

potential for significantly greater cost, exacerbating the pressure on already stretched capital resources. Government have announced that one billion of additional borrowing approvals are available from 2019-20. This is not a general consent, but requires Secretary of State approval. Whilst welcome, this is not free money, it is simply an approval to borrow more and any decision in this regard will need to ensure the additional revenue financing costs can be supported by the HRA over the long term.

54. The ring-fenced nature of the HRA requires that surpluses/deficits are carried forward between years. At 31 March 2017 HRA reserves stood at £14.3m. Whilst every effort is made to maintain reserves at an appropriate level to mitigate future risks, fulfil future commitments and enable the transformation and modernisation of services going forward, this is considered to be below the optimal level required and presents a moderate risk. This will be managed over the medium-term with a view to building a more sustainable level of balances going forward.

### **Reserves**

55. 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 ongoing revenue savings
  - investment in regeneration and development where spend may be subject to unpredictable market and other factors
  - exceptional items or pressures which are difficult to predict and which are not included in revenue budgets or within the capital programme
56. Where a department identifies a need for additional funding there is a robust process for seeking support from reserves. The department must demonstrate that it is unable to contain the identified additional pressure within its existing budget, or provide evidence of prior agreement that the expenditure will be met from reserves. Further, opportunities will be sought to reduce the call on reserves through capitalisation of costs as appropriate.
57. The budget approved by council for 2017-18 included a planned release of reserve of £3.7m. 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. This call on reserves will have to be made in full. As the year progress departments will continue to take management actions to reduce the cost pressures identified, and any plans to draw down further from reserves to support the budget for 2017-18 will be monitored.
58. The level of reserves will need to be kept under close review. In 2016-17, £23.124m of revenue reserves (including Dedicated Schools Grant of £8.923m and £4.036m capital reserves) were utilised, resulting in revenue reserves opening balances of £33.226m for 2016-17. As the period of austerity and funding reductions for local government continues, the council will wish to ensure that reserves are retained at appropriate and adequate levels to safeguard service provision as well as to support modernisation of the organisation.

59. The forecast level of closing revenue reserves are set out below; a net reduction of reserves of £5.269m. In addition, a reduction in the Dedicated Schools Grant reserve of £4.749m and £0.600m increase in the deficit carried forward on the ring-fenced Public Health Grant is forecast.

**Table 3: Forecast Revenue Reserves 2017-18**

	2017-18 Opening Balance £000	Actual Reserve Movements £000	Planned Reserve Movements £000	Total Actual and Planned Reserve Movements £000	Forecast Budget Variance £000	Total Movement in Reserves £000	Forecast Closing Balance £000
Corporate Projects and Priorities	4,956	244	-353	-109	0	-109	4,847
Service Reviews and Improvements	4,801	667	-746	-79	0	-79	4,722
Capital	22,515	740	-2,340	-1,600	0	-1,600	20,915
Strategic Financing, Technical Liabilities and Future Financial Risk	24,127	-3,733	-313	-4,046	565	-3,481	20,646
<b>Total</b>	<b>56,399</b>	<b>-2,082</b>	<b>-3,752</b>	<b>-5,834</b>	<b>565</b>	<b>-5,269</b>	<b>51,130</b>
Public Health Grant	-1,907	0	0	0	-600	-600	-2,507
Dedicated Schools Grant	1,249	0	-4,749	-4,749	0	-4,749	-3,500
<b>Total</b>	<b>55,741</b>	<b>-2,082</b>	<b>-8,501</b>	<b>-10,583</b>	<b>-35</b>	<b>-10,618</b>	<b>45,123</b>

### Treasury management

60. 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. Cash funds represent income received in advance of expenditure plus balances and reserves. The investment priorities are capital preservation and liquidity. These investments are managed by an in-house operation and two investment firms: Aberdeen Asset Managers and Alliance Bernstein.
61. For the period 1 April 2017 to 30 November 2017 the average available cash balances for the council were £126m (£188m during the same period last year) and the balance at 30 November 2017 was £124m (£175m at 30 November 2016). The reducing cash balances reflects a number of factors, in particular the use of reserves to support both capital and revenue spending and the recent commercial property portfolio acquisition.
62. The half year return for treasury management assets was 0.16%.
63. In the period to 30 November 2017 £5m in Public Works Loan Board (PWLB) loans matured and were paid off. No new debt was drawn in the period and the debt balance outstanding at 30 November 2017 was £453m. Affordability and the “cost of carry” remained important influences on the council’s borrowing strategy.

64. The Policy and Resources Policy and Resources Strategy: capital monitoring report, including capital programme update 2017-18 report, indicates that external borrowing will be necessary in 2017-18. Options for the most appropriate financing are being considered to meet this requirement.

### Community impact statement

65. This report monitors expenditure on council services, compared to the planned general fund budget agreed in February 2017, and HRA budget agreed in January 2017. Although as a monitoring report this report has been judged to have no direct 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 Strategy 2017-18	160 Tooley Street PO Box 64529 London SE1P 5LX	Ahsan Khan 0207 525 4349
<b>Link: (Copy and paste link into browser)</b> <a href="http://moderngov.southwark.gov.uk/documents/s66524/Report%20Policy%20and%20Resources%20Strategy%202017-18%20-%202019-20.pdf">http://moderngov.southwark.gov.uk/documents/s66524/Report%20Policy%20and%20Resources%20Strategy%202017-18%20-%202019-20.pdf</a>		
Housing Revenue Account budget: 2017-18	160 Tooley Street PO Box 64529 London SE1P 5LX	Ian Young 020 7525 7849
<b>Link: (Copy and paste link into browser)</b> <a href="http://moderngov.southwark.gov.uk/documents/s66095/Report%20Housing%20Revenue%20Account%20-%20Final%20Rent-Setting%20and%20Budget%20Report%202017-18.pdf">http://moderngov.southwark.gov.uk/documents/s66095/Report%20Housing%20Revenue%20Account%20-%20Final%20Rent-Setting%20and%20Budget%20Report%202017-18.pdf</a>		
Revenue Monitoring Report and Treasury Management 2016-17 Outturn Report	160 Tooley Street PO Box 64529 London SE1P 5LX	Fay Hammond 0207 525 0614
<b>Link: (Copy and paste link into browser)</b> <a href="http://moderngov.southwark.gov.uk/documents/s69816/Report%20Revenue%20Monitoring%20Report%20and%20Treasury%20Management%202016-17%20Outturn%20Report.pdf">http://moderngov.southwark.gov.uk/documents/s69816/Report%20Revenue%20Monitoring%20Report%20and%20Treasury%20Management%202016-17%20Outturn%20Report.pdf</a>		

### APPENDICES

No.	Title
Appendix A	Interdepartmental Budget Movements Months 5 to 8

## AUDIT TRAIL

<b>Cabinet member</b>	Councillor Fiona Colley, Finance, Modernisation and Performance	
<b>Lead officer</b>	Duncan Whitfield, Strategic Director of Finance and Governance	
<b>Report author</b>	Jennifer Seeley, Director of Finance	
<b>Version</b>	Final	
<b>Dated</b>	25 January 2018	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Director of Law and Democracy	No	No
Strategic Director of Finance and Governance	N/a	N/a
Cabinet Member	Yes	Yes
<b>Date final report sent to Constitutional Team</b>		25 January 2018

## Appendix A - Interdepartmental Budget Movements months 5 to 8

### Interdepartmental movements to be approved for months 5 to 8

Department from	Amount £	Department to	Amount £	Description of the budget movement
Strategic Finance	(308,000)	Finance and Governance	308,000	Transfer corporate budgets to cover known pressures in Finance and Governance
Chief Executive	(707,092)	Finance and Governance	707,092	Transfer of Land Charges budgets
Children's and Adults' Services	(722,972)	Housing and Modernisation	722,972	Transfer Corporate Facilities Management, Health and Safety and Access to Records
Environment and Social Regeneration	(371,389)	Housing and Modernisation	371,389	Transfer of planned Facilities Management services through new contracts
Children's and Adults' Services	(1,312,942)	Environment and Social Regeneration	107,928	Support Cost Reallocations
Strategic Finance	(299,844)	Chief Executive	189,153	
Housing and Modernisation	(650,834)	Finance and Governance	898,935	
		Support Cost Reallocations	1,067,604	
Finance and Governance	(8,011,270)	Children's and Adults' Services	1,763,386	Transfer of depreciation charges to departments
		Housing and Modernisation	993,239	
		Environment and Social Regeneration	2,993,518	
		Chief Executive	2,261,127	
Finance and Governance	(747,241)	Housing and Modernisation	747,241	Relieve NNDR pressure in Corporate Facilities Management

### Interdepartmental movements to be noted for months 5 to 8

Department From	Amount £	Department to	Amount £	Description of the budget movement
Finance and Governance	(68,336)	Housing and Modernisation	68,336	Transfer freedom of information
Strategic Finance	(114,000)	Finance and Governance	114,000	Transfer of Constitutional Salaries
Finance and Governance	(27,470)	Housing and Modernisation	27,470	Transfer of Constitutional Services