Item No.	Classification:	Date:	Meeting Name:
12.	Open	24 July 2018	Cabinet
Report title:		Revenue Monitoring Report and Treasury Management 2017-18 Outturn Report	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Victoria Mills, Finance, Performance and Brexit	

FOREWORD – COUNCILLOR VICTORIA MILLS, CABINET MEMBER FOR FINANCE, PERFORMANCE AND BREXIT

As anticipated in our last revenue monitor report the authority ended 2017-18 with a balanced position after movements to/from reserves. I am pleased to say that our budget recovery work in children's and adults has been effective with adults staying within budget and children’s services overspend limited to £2m in the face of continuing demand and cost pressures. The approved budget for 2018-19 increases resources for both adults and children’s, including further efficiency savings, which will put the department on a sustainable financial footing.

However, there remains other areas of significant budget pressure including No Recourse to Public Funds (where we are still £1.3m over budget) and in temporary accommodation. These budget pressures are reflected in our budget commitments for 2018-19, again seeking to ensure we have sustainable budgets for these services.

As set out in the report the 2017-18 outturn position is indicating significant cost pressures within the Dedicated Schools Grant flowing from the High Needs block and new national funding formula. The DSG as at 31 March 2018 was £4m in deficit with the deficit set to increase further in 2018-19. Whilst we will continue to lobby government for additional funding, the budget will need to be kept under close scrutiny.

There was better news from other departments, which stayed within budgets or underspent together with some one-off savings and income receipts enabling the council to replenish reserves by £10.9m following the draw down of £27.4 from reserves in 2016-17.

The work of the Budget Recovery Board will continue in 2018-19. Further areas are being considered for inclusion, in particular Schools and Education where the DSG reserve has reduced by £14.283m in two years.

RECOMMENDATIONS

1. That the cabinet notes the general fund outturn position for 2017-18 (Table 1).

2. That the cabinet notes the key adverse variations and budget pressures underlying the outturn position:

- The continuing pressures on children's and adults' social care leading to an overall adverse variance of £2.258m (paragraphs 23 to 27)
- The DSG outturn position of a £4.111m deficit and the significant pressures on the high needs budgets (paragraphs 29 to 30)
- the budget pressures on temporary accommodation (paragraphs 34 to 38)
- the budget pressures on No Recourse to Public Funds (paragraph 39).

3. That the cabinet notes the variations helping to relieve the outturn position:

   - The favourable budget variance on Strategic Finance (paragraphs 51 to 53)
   - The largely planned favourable position on Finance and Governance budgets (paragraphs 49 to 50)
   - utilisation of £4m contingency (paragraph 54) to offset adverse variances across the council
   - planned use of earmarked reserves of £3.700m to support the General fund budget.

4. That cabinet notes the following in respect of ring-fenced budgets:

   - housing revenue account outturn for 2017-18 (table 2, paragraphs 55 to 65)
   - the dedicated schools outturn and utilisation of £5.360m reserves (paragraphs 29 to 30).

5. That cabinet notes the detailed utilisation of reserves in 2017-18 and closing reserve balances as set out in the report (paragraphs 66 to 71).

6. That cabinet notes the treasury management activity in 2017-18 (paragraphs 80 to 89).

7. That cabinet approves the general fund budget movements that exceed £250k, as shown in Appendix A.

8. That cabinet note the general fund budget movements that are less than £250k as shown in Appendix A.

9. That cabinet notes the outturn position implications for the 2018-19 budgets and beyond set out in paragraphs 78 to 80).

BACKGROUND INFORMATION

10. This report sets out the outturn position for the general fund, housing revenue account and dedicated schools grant for the 2017-18 financial year.

11. Council Assembly agreed a balanced general fund budget of £278.0m on 22 February 2017 based on a 4.99% council tax increase (with 3% precept for adult social care), and £3.7m use of reserves, giving a budget of £274.3m. This budget was set in the context of further significant overall cuts in government funding. This was after maximising resources available from both business rate retention and growth in the council tax base.

12. The council also approved budget decisions including reductions of some

£24.0m within the general fund for 2017-18.

13. The cabinet agreed a balanced housing revenue account (HRA) budget on 24 January 2017.

KEY ISSUES FOR CONSIDERATION

General fund overall position

14. The final outturn position for the general fund is balanced after the utilisation of reserves as set out in Table 1 below. This table sets out the departmental budget outturn variances together with the planned and unplanned utilisation of reserves to come to the balanced budget as at the end of 2017-18.

15. The underlying cost pressures within this balanced budget include:

- a £2.258m adverse variance within Children's' and Adults' Services, largely related to pressures in Children's Services, this is an improvement of £2.801m on the position forecast at month 8;

- £3.845m reported within Housing and Modernisation largely relating to No Recourse to Public Funds and Temporary Accommodation pressures; and

- a deficit of £4.111m on dedicated schools grant (DSG) reserve due to pressures within the high needs block and specifically the increase demand and complexity of special educational needs and disability (SEND) services.

These variances are described in more detail in the narrative below.

16. This adverse budget position has been offset through the use of the budgeted £4m contingency and favourable variances within other services.

17. The utilisation of reserves in 2017-18 included the full drawdown of the DSG reserve of £1.250m as well as a further £4.111m borrowed against future years' allocations. Schools forum has been consulted on measures to fund the carried forward deficit in 2018-19.

18. After the utilisation of £5.361m of DSG reserve, the council has been able to contribute £10.799m to general fund reserves to mitigate future risks, fulfil commitments already made and to provide resources to support service transformation with a nil variance to the overall 2017-18 outturn position.

19. This compares to month 8 cabinet report of a forecast outturn position adverse variance of £0.035m after the estimated use of reserves of £8.834m. This movement from the forecast use of reserves is mainly attributable to increased autumn statement section 31 monies and a review of how Minimum Revenue Provision (MRP) is funded.

Table 1: General fund outturn position for 2017-18

General Fund	Original Budget	Budget Movement	Revised Budget	Spend in Year	Total Net Reserve Movement	Total Use of Resources	Variance after Use of Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Children's Services	51,544	3,387	54,931	57,125	(152)	56,973	2,042
Adult Social Care	89,414	(2,092)	87,322	83,912	2,833	86,745	(577)
Commissioning	8,121	(640)	7,481	8,021	-	8,021	540
Education	27,223	(1,373)	25,850	27,736	(1,633)	26,103	253
Children's and Adults' Services	**176,302**	**(718)**	**175,584**	**176,794**	**1,048**	**177,842**	**2,258**
Dedicated Schools Grant	(11)	1,631	1,620	6,280	(549)	5,731	4,111
Environment and Social Regeneration	60,348	4,654	65,002	63,323	1,476	64,799	(203)
Housing and Modernisation	71,860	(2,854)	69,006	74,055	(1,204)	72,851	3,845
Chief Executive	6,552	2,450	9,002	9,934	(987)	8,947	(55)
Finance and Governance	18,945	5,535	24,480	22,512	1,321	23,833	(647)
Strategic Finance	(16,792)	(11,766)	(28,558)	(47,680)	13,924	(33,756)	(5,198)
Support Cost Reallocations	(43,177)	1,068	(42,109)	(42,109)	-	(42,109)	-
Contingency	4,000	-	4,000	-	4,000	4,000	-
Total General Fund Services	**278,027**	**-**	**278,027**	**263,109**	**19,029**	**282,138**	**4,111**
Use of Reserves to Underwrite Base Budget	(3,700)	-	(3,700)	-	(3,700)	(3,700)	-
Net Revenue Budget	**274,327**	**-**	**274,327**	**263,109**	**15,329**	**278,438**	**4,111**
DSG Reserve to Balance Budget							(4,111)
Final Outturn after Use of Reserves							**-**

20. The appendices attached to this report provide more detail on the in year budget movements, the utilisation of reserves by each department and closing reserve balances (Appendices A, B, C and D).

21. The overall impact of these transactions are reported in full within the draft statement of accounts which are to be considered by the Audit, Governance and Standards committee, and were signed by the S151 Officer on 31 May 2017. These are now subject to external audit.

22. The following key areas of activity for the year are outlined below.

- Children's and Adults Services (including DSG) (paragraphs 23 to 30)
- Environment and Social Regeneration (including Public Health) (paragraphs 31 to 32)
- Housing and Modernisation (paragraphs 33 to 47)
- Chief Executives (paragraph 48)

- Finance and Governance (paragraphs 49 to 50)
- Strategic Finance (paragraphs 51 to 53)
- Contingency (paragraph 54)
- Housing Revenue Account (paragraphs 55 to 65)
- Reserves (paragraphs 66 to 71)
- Collection Fund (paragraphs 72 to 76)
- Treasury Management (paragraphs 80 to 89).

Children's and Adults' Services (including DSG)

23. The overall outturn position for Children's and Adults' Services is an adverse variance of £2.258m, an improvement of £2.801m on the position forecast at month 8. The outturn position is also a considerable improvement when compared with prior years and has been achieved whilst making a net contribution of £1.048m to departmental reserves compared with a drawdown of £11.450m in 2016-17.

24. Despite the overall adverse variance, expenditure in both Children's and Adults' services is down across most categories year on year, hence the greatly improved outturn position. Previous reports have indicated that the department has struggled to implement savings and efficiencies at the required rate, so it is encouraging to see that significant momentum has now been achieved. Changes in frontline social work practice have enabled teams to better control spend and protect services, whilst the Budget Recovery Board has provided the necessary support and scrutiny to help realise savings. The commissioning teams have contributed to these efforts by ensuring the council is only funding services for which it has a duty and by right-sizing the council's share of the cost of jointly funded arrangements.

25. Prudent application of Better Care Fund (BCF) monies against strained budgets has allowed the service to offset growing stresses in the system whilst supporting fragile local care markets. This, combined with the council tax precept, has gone some way towards offsetting upward pressure in homecare and residential nursing care costs. Joint working with Southwark NHS CCG through the pooled BCF budget and the Partnership Commissioning Team has continued to benefit both parties, resulting in better outcomes for service users and better value for money for the public purse. Once again, the Southwark Council and CCG BCF Plan was one of the first nationally to gain DH approval and our performance against Delayed Transfers of Care targets (a key metric) is one of the best in the country.

26. Whilst performance in 2017-18 has shown a marked improvement, the department remains exposed to significant risk and uncertainty in 2018-19 and beyond. Increasing inflation, partly driven by the London Living Wage, is pushing up the cost of care and the council must remain alert to the possibility of provider failure. An ageing population combined with an increase in working age referrals with complex needs will also add to the challenge. There remains uncertainty around central government funding and as we move into 2018-19, the BCF accounts for over 20% of the gross adult social care budget. The service may also become subject to backdated liabilities resulting from recent HMRC guidance requiring employers to pay national minimum wage for 'sleep-ins'.

27. The outturn position on Children's Services, a £2.042m adverse variance from budget, was in line with the forecast position as at Month 8. This represents a

considerable improvement in financial performance from the 2016-17 outturn position, which was a £7.193m adverse variance from budget. The improved position flows from a range of measures, most notably; Budget Recovery Board initiatives across a range of areas, the move to an all age disabilities service, the use of available reserves and also additional budget provision for placements. In 2018-19 additional provision has also been made for staffing and placements budgets to the value of £3.2m, with staffing savings of £1m also being set against this. The Budget Recovery Board process will continue for Children's Services in 2018-19 to ensure that there continues to be a continued budget improvement trajectory and this will also include additional cost avoidance measures on semi independent placements and also care leaver placements.

28. For Education there was a small overspend (£0.250m) in 2017-18 as compared to a small underspend in 2016-17. This change between years primarily flowed from pressures on SEND and also on Transport and largely reflects that funding sources are no longer available, most notably the DSG associated reserves. In 2018-19 additional funding of £2.469m has been agreed which includes provision for SEND and SEND transport, in recognition of grant reductions and the transition to a traded school improvement service. Set against this are some £1.340m of savings within Education.

29. The DSG outturn position as at 31 March 2018 was confirmed as being a £4.1m deficit as compared to the £3.5m forecast at Month 8. There is some provision to repay £0.5m of the deficit in 2018-19, however ongoing pressures mean that the deficit as at 31 March 2018 will be significantly higher. The pressures within the DSG flows from the high needs block and specifically the significant increase demand and complexity of SEND, together with challenges associated in the supply of placements. Many local authorities are also facing this same challenge and are also moving into deficit positions and there continues to be a strong lobby from local authorities on the inadequacy of funding with regards to the high needs block, in particular at a time when other changes in funding limit the flexibility of movements from other blocks. Notably there was no additional funding for local authorities when there was an extension of the age range for responsibility for provision to 25 and this has added significantly to financial pressures.

30. Work is presently underway with the Schools Forum in reviewing and analysing this issue in terms of costs, volumes and benchmarking across a range of provision in order to the develop a range of options to reduce the pressures and make savings on the high needs block (currently funded at the level of £43m), although given the scale of the issue, this is likely to be a medium to long term activity. This will also involve reviewing the funding that the Council currently centrally retains for a range of services.

Environment and Social Regeneration (including Public Health)

31. The final outturn for the department was £64.799m against a budget of £65.001m resulting in a favourable variance of £0.202m.

32. There were some costs pressures impacting on departmental budgets in some areas but these were monitored very closely and mitigated mainly by robust management of departmental budgets and favourable variances across other areas resulting in a net departmental underspend of £0.202m. In addition to this, the department has also been able to achieve the 2017-18 total savings target of nearly £7m consisting of £5.2m and £1.5m of efficiency and increased income targets respectively. The 2016/17 revenue outturn report to cabinet on

18 July 2017 noted an adverse variance of £1.9m on the public health grant which was transferred to a negative reserve against future ring-fenced Public Health grant. New contract arrangements within the Public Health service areas together with robust budget management has resulted in a favourable variance of £0.160m for 2017-18 which has been used to reduce the negative reserve.

Housing and Modernisation

33. Following the planned drawdown of earmarked reserves to cover exceptional items, including one-off shared service IT transition costs and specialist professional advice in support of facilities management and the wider modernisation agenda, the outturn shows an adverse variance of £3.845m against budget. While this is higher than earlier forecasts, it is primarily attributable to higher activity/demand pressures in temporary accommodation and NRPF and includes severance and redundancy costs at a departmental rather than a corporate level.

Temporary accommodation/Housing solutions

34. Notwithstanding Southwark's success in homelessness prevention, this area remains particularly challenging and the council continues to face increasing budgetary pressure through a combination of rising demand, restricted housing supply, the impact of Universal Credit on arrears and legislative and policy obligations, which give rise to a budget pressure of £2.6m in 2017-18.

35. The council's commitment to ensure no family with children is placed in unsuitable nightly paid accommodation meant families have been moved to self-contained accommodation. These properties are predominantly more expensive and invariably require the payment of upfront incentives costing £0.8m in 2017-18. Furthermore, the impact of rehousing Ledbury tenants and limited opportunity to make direct offers to TA clients, and policy constraints in relation to the council discharging its duty in to the private sector and out of borough have all contributed to the increase in costs during 2017-18.

36. Government introduced changes to the funding regime for 2017-18 with the replacement of the TA management fee (TAMF) chargeable by authorities and payable through the benefits system, with Flexible Homelessness Support Grant (FHSG). The purpose of this change was to focus activity on prevention rather than meeting demand and reduce the burden on the welfare benefit bill. The loss of TAMF funding to the council amounts to £1.7m in 2017-18 and has been mitigated through the use of FHSG, and will continue to be so in the short-term. At this juncture, FHSG funding is only confirmed up to and including the 2019-20 financial year.

37. The transition to Universal Credit is accelerating with a current caseload of approximately 5,600 across all council tenures. Long lead-in times and direct payment has seen deterioration in collection performance compared with non-UC cases, requiring a higher level of bad debt provision to be made at £0.8m. This situation is concerning and represents another drain on already over-stretched resources, over which the council has limited control. However, government has recognised difficulties exist and introduced changes from 11 April 2018 that take new TA cases and change of circumstance cases out of UC and revert to the HB regime, which should assuage the arrears position to some extent.

38. During the last quarter of 2017-18, Southwark were requested to create a Training Academy by the Ministry of Housing, Communities and Local Government's (MHCLG) to train other London boroughs in homelessness prevention best practice. The Academy will be fully operational in early 2018-19 and the funding utilised during the year.

No Recourse to Public Funds (NRPF)

39. As with temporary accommodation, this service is demand driven, subject to volatility and presents a significant and persistent pressure on council resources. Whilst progress has been made in clearing long-term caseload resulting in reduced costs compared to previous years, the budget remains overspent by £1.3m. As reported previously, the council's ability to discharge its duty relies on the Home Office determining a client's status and whilst case management is proactively managed and escalated, the process remains protracted and not within the council's direct control. For 2018-19 it is critical that the downward trajectory in net caseload continues to enable costs to be brought back within the approved budget.

Information technology and digital services (ITDS)

40. In November 2017, the council entered in to a shared service arrangement with the boroughs of Brent and Lewisham for the provision of IT services. A stable and resilient IT platform is critical to delivering modern, reliable and cost effective services and underpins the council's modernising agenda. However, this could not be achieved without greater investment which cabinet recognised by re-basing the revenue budget for 2018-19, along with an uplift to the capital programme for long-term sustainable improvement.

41. Transitioning to the new service during 2017-18 went smoothly and the cost was lower than originally forecast as staffing structures took longer to fill and contingency sums were not utilised, requiring a net £1m drawdown from general fund reserves. It is envisaged that by working closely with our partners to develop and align processes/systems that operational improvements and cost savings can be delivered over the medium-term.

Corporate Facilities Management (CFM)

42. The council has an extensive operational estate to which facilities management services must be provided to ensure buildings are compliant with health and safety regulations and fit for purpose for both staff and service users. To address former service deficiencies, contract standards are more comprehensive and rigorous and inevitably more expensive than what went before, leading to budget pressure within CFM and in departments, particularly where services are commissioned over and above the baseline provision.

43. Unavoidable one-off and base budget pressures include the impact of lease rental reviews for the Queens Road complex and professional and technical support required to cover capacity shortfalls in the delivery of specific projects, including contract procurement and management and development of the council-wide accommodation strategy. Fee income generated from the provision of professional support for capital projects is below the budget target due to programme slippage, but better than previously forecast. Going forward it is important that a stable and sustainable capital programme is developed to minimise future budget variation.

44. Also reflected within the CFM outturn are specific departmental and corporate savings identified in previous budget rounds that are either currently in abeyance pending operational review or no longer deliverable as circumstances have changed. For 2018-19 this has largely been addressed through the budget process to re-align and stabilise the position going forward.

Human Resources (HR) and Organisation Transformation (OT)

45. HR administers and manages the corporate contract for the provision of temporary staff across the council. Usage/costs can be variable and subject to changing circumstances and whilst it is on a downward trajectory, it remains higher than target. In line with this, the contract fee income is also higher which has helped to mitigate the cost of severance and redundancy across the department following restructuring. Measures to reduce agency usage through the refocusing of workforce planning and recruitment to long-standing roles continues.

46. OT administers corporate training and development programmes and related budgets on behalf of Children's and Adults services (CAS) and has worked in partnership to oversee spending on the L&D programme. Earmarked reserves held for this purpose have been transferred directly under C&A management going forward. Additional activity to support member development has also taken place during the year and will be funded from specific earmarked reserves. Other ad-hoc costs such as the staff survey and learning management system have been contained within budget.

Customer Services

47. 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 actual cost of provision by TFL was lower thereby generating a windfall underspend of £0.4m. Budget variations across other divisional service areas are broadly neutral overall.

Chief Executive's department

48. The Chief Executive Department's outturn was £4,646k against a revised net budget of £5,423k resulting in a favourable variance of £783k. This variance is mainly due to higher than budgeted planning fee income for the year. The department has implemented the proposed savings for the year.

Finance and Governance

49. The Finance and Governance Department is reporting a favourable variance of £1.968m, prior to the application of reserve movements for the financial year 2017-18. This has allowed for the net transfer of £1.3m to specific reserves to support the continued pressures upon the department, including welfare reform and the implementation of universal credit.

50. The favourable variance is largely attributable to staffing underspends, with a number of posts held vacant as part of planning for savings required for 2018-19 financial year, as well as better than expected rates of collection for historic debt and recoveries in accordance with the Proceeds of Crime Act.

Strategic Finance

51. Strategic Finance is reporting a favourable variance of £5.198m, after the application of reserve movements.

52. The variance is largely attributable to revenue savings arising from a review of how the council funds debt repayments, i.e. minimum revenue provision (MRP), and additional Section 31 grants received from the government in respect of NNDR business rate, largely due to the sustained growth in the borough.

53. The favourable variation has been used to both support in year pressures on departmental budgets and enable the council to increase reserve balances.

Contingency

54. The £4m contingency budget was fully utilised to offset overspends in Children's and Adults' services, No Recourse to Public Funds and Temporary Accommodation budget pressures as described above.

Housing Revenue Account (HRA) Outturn 2017-18

55. The HRA has been subject to a number of service/budget demands during the year, most notably the impact of emergency measures necessary at the Ledbury Estate, a reduction in rechargeable capital works to homeowners as the Warm, Dry, Safe (WDS) programme winds down and generally greater pressure on services across the board, particularly repairs and maintenance. Notwithstanding, the position has been managed within the overall resources available, earmarked reserves have risen to a more sustainable level and the outturn is broadly consistent with expectations. The key headlines/issues are outlined below.

Table 2: HRA outturn position for 2017-18

HRA Outturn 2017-18	Full Year Budget 2017-18 £000	Outturn 2017-18 £000	Variance 2017-18 £000	*Month 8 Forecast 2017-18* *£000*	*Movement* *£000*
Asset Management	49,031	51,312	2,281	*1,707*	*574*
Communities	8,733	8,047	(686)	*(36)*	*(650)*
Resident Services	38,281	37,934	(347)	*(191)*	*(156)*
Customer Services	3,313	3,471	158	*271*	*(113)*
Central Services	38,638	32,971	(5,667)	*(10,731)*	*5,064*
Debt Financing	33,319	22,518	(10,801)	-	*(10,801)*
Depreciation	53,000	53,000	-	-	-
Tenant Rents & Service Charges	(221,278)	(222,076)	(798)	*(431)*	*(367)*
Exchequer Services	(27,839)	(17,478)	10,361	*9,411*	*950*
Revenue Contribution to Capital	23,745	24,697	952	-	*952*
Appropriations to/from Reserves	1,057	5,604	4,547	-	*4,547*
	-	-	-	-	-

56. The need to spend on landlord responsibilities to repair, maintain and improve the housing stock is relentless and consumes the greatest proportion of HRA

resources (£49m). Robust management and monitoring of high volume, high value contracts are critical to delivering greater value for money, and remain a high priority. However, it has not been possible to contain costs within budget in this area during the year with a £2.3m variation, including the Southwark Building Services (SBS) trading deficit which falls to the HRA as client. In general, other operational areas have come in close to their budgets or within an acceptable margin despite mounting service demands/expectations.

57. The introduction of self-financing in 2012 meant all government financial support for local authority housing provision ceased and the HRA became entirely reliant on its primary rental stream, along with service charge, garage, commercial and other miscellaneous income streams to sustain its business plan over a 30 year planning horizon. However, since then there has been a succession of changes in government policy, all detrimental to the rental stream, culminating in the imposition of the four-year rent reduction policy (2016-17 to 2019-20). To illustrate the impact, for 2017-18 there was a 3% differential in the rental base, between what would otherwise have been an increase of 2% (CPI+1%), as opposed to the 1% reduction, equating to an in-year loss of resources of c. £5.7m (on a like for like stock basis). Over the four year period, the compounded rental loss is c. £62.5m compared to previous business plan assumptions.

58. The rent debit raised, void loss and collection rates are all key indicators of performance and are closely monitored throughout the year. Overall, the cumulative residential debit raised was £0.8m higher at £222.1m, a variance of just 0.36% against budget, which demonstrates sound budget planning/forecasting.

59. Rent collection for the year was 98.91% overall, which is lower than budget but represents respectable performance given the challenges presented by welfare benefits changes, particularly the transition to Universal Credit and direct payment, which have impacted arrears levels. Revised operational arrangements and use of arrears management software help to mitigate the position and restructuring of the council's income collection function during 2018-19 should further improve performance. Increasing arrears presents a moderate risk going forward, but the HRA maintains a prudent level of bad debt provisions to meet potential losses of this nature.

60. Homeowner service charges represent the costs relating to council stock sold under the Right to Buy (RTB), that 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 investment programme and nature of capital works being undertaken. The unprecedented level of investment over recent years has been reflected in higher billing to homeowners. However, present and future works programmes are not of the same magnitude and are more focused on internal works which are not pertinent to homeowners. Net billing during 2017-18 including prior-year account actualisations was significantly lower than budget (£4.4m vs £15m). This has been largely mitigated by the deferment of the planned debt repayment and limiting the level of revenue support to ensure a balanced position. On a positive note, actual collection performance was £32.2m against a target of £30.8m, which is consistent with prior year's over-achievement. Going forward, this risk has been partially addressed through the 2018-19 budget setting process, with the

income target being reduced to reflect the anticipated lower recoverable baseline.

61. Capital investment in the housing stock during 2017-18 was higher than the previous year at £167.5m, comprising £88.4m spent on existing stock and £79.1m on new council homes. The mainstream maintenance/renewal programme has been funded predominantly from revenue and specific earmarked reserves (£69.8m) and non-RTB receipts (£18.6m). Funding for the new build programme comprised RTB receipts and S106 developer contributions (£42.4m), which are subject to strict criteria/restrictions and borrowing of £36.7m for the purchase of developments at Sylvan Grove and Churchyard Row as part of the council's 11,000 new homes target.

62. Since Lakanal in 2009, the council has made considerable investment in fire safety in its housing stock and efforts have been renewed following the tragic events at Grenfell Tower. Given the size of the council's stock and the number of high-rise blocks, it has the potential for significantly greater cost, exacerbating the pressure on already stretched capital resources and requiring programme priorities to be reassessed. At 31 March 2018 the council's borrowing headroom stood at £147.6m, which at best will be exhausted within three to four years at current investment levels (save for the retained contingency to meet exceptional events).

63. However, on a positive note, Government have announced a £1 billion additional borrowing approval from 2019-20 for authorities in 'high affordability areas'. The GLA have also confirmed £4.82 billion 'Building Council Homes for Londoners' funding, relaxation of current grant restrictions and the further protection of RTB receipts in order to accelerate housing delivery. Whilst the devil will be in the detail, these measures are to be cautiously welcomed and the council is currently working towards a bid submission in summer 2018. Any decision to seek additional borrowing approval will need to be fully cognisant of the revenue financing implications arising and ensure they can be supported by the HRA over the long-term.

64. Central services comprise key budgets pertaining to departmental and corporate overheads, debt financing, CERA, depreciation, arrears provisions and major projects. The most notable variations arose as a result of Ledbury, which presented an immediate and unavoidable call on both revenue and capital resources during the year and the need to off-set the shortfall in rechargeable capital works income (explained in more detail above). Conversely, there were a number of positive variations through lower use of provisions and contingency sums, higher rent income and interest on balances and generally orderly budgetary management throughout.

65. The ring-fenced nature of the HRA requires that surpluses/deficits are carried forward between years. In the same way as the council's general fund operates, the HRA holds reserves for specific purposes and as contingency against unforeseen events and to mitigate future risks in line with the council's medium-term resource strategy (MTRS). At 31 March 2018 reserves stood at £19.9m (against £14.4m in 2016-17), of which around 65% is committed. Given the size and complexity of the council's HRA and HIP, this upward movement is positive, but still remains below the optimal level considered prudent and represents a moderate degree of risk. This will be managed over the medium-term with a view to building a more sustainable level of balances going forward.

Reserves

66. 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.

67. 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.

68. The budget approved by council for 2017-18 included a planned release of reserve of £3.700m. This call on reserves provided cushioning of the general fund budget during a period of significant funding reductions and service pressures. This call on reserves was made in full.

69. In 2017-18, the council was able to set aside an additional £10.799m in reserves, resulting in revenue reserves closing balances of £66.541m for 2017-18:

	£m
Contributions to reserves (see Table 1)	15.329
Deficit on DSG reserve	-4.111
NNDR income adjustment (Valuation Office error)	-0.419
Net reserve movement	**10.799**

70. The total net movements in earmarked reserves for the key designations are set out below and further detail included in Appendix D.

71. Reserves are:
- **Corporate projects and priorities** reserves are held to fund those future activities that will enable the council to operate more efficiently and effectively. They include resources held to meet the cost of ongoing reorganisation and restructuring that the council must undertake to modernise and improve service levels and operational efficiency of the council's activities.
- **Service reviews and improvements** represent resources held that can be directly linked to services provided.
- **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.
- **Strategic financing, technical liabilities and future financial risks**

reserves are in the main held to mitigate future financial risks that may arise. Such risks include 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 inasmuch as they represent uninsured risks. They also include balances that are held for technical accounting reasons.

Collection fund

72. The Collection Fund represents the accumulated surplus or deficit for Business Rates and Council Tax. Both taxation schemes are designed to be self balancing; an estimate of any accumulated surplus or deficit is made each year and factored into the following year's tax requirement. In this way, most of the benefit or burden of any in-year variance is received or borne by taxpayers in the following year.

73. Monies received into the Collection Fund are distributed between the council and its preceptors based on their respective shares.

	Council Tax	Business Rates
Southwark Council	77.1%	30.0%
Greater London Authority	22.9%	20.0%
DCLG		50.0%

74. Whilst the Collection Fund is a single entity, for reporting purposes it is split between Council Tax and Business Rates. In-year performance is set out below (all figures are Southwark's share only).

75. **Council Tax.** The surplus carried forward for the council tax element of the collection fund is £1.6m, this is planned to be factored into the tax setting for 2019-20. This surplus is attributed to an increase of around 3,000 dwellings in the tax base due to new homes being built, collection levels have been maintained and the number of council tax support claimants continues to reduce.

76. **Business Rates**. The surplus carried forward for the Business Rates element of the collection fund is 1.2m, this is also planned to be factored into the tax setting for 2019-20. This surplus is attributed to substantial growth in the borough which has increased total Rateable Value and so in turn the collectable debit. Collection of both current and previous years balances has also improved.

Implications for 2018-19 budget

77. The 2017-18 identified outturn pressures in Children's and Adults' and Housing and Modernisation were recognised as part of the 2018-19 budget agreed. The budget set out a net increase in the Children's and Adults' budget of £17.5m and £1m growth for No Recourse to Public Funds and Temporary Accommodation. Further, budget pressures arising in 2018-19 for No Recourse to Public Funds and Temporary Accommodation, over and above the commitment proposed, will be mitigated by the use of the £4m contingency set aside within the council approved policy and resources strategy for 2018-19.

The 2018-19 budget assumed the implementation of £18.2m of savings across the council and the delivery of these savings will continue to be monitored.

78. The Policy and Resources Strategy for 2018-19 assumes that reserves will no longer be used to underwrite the budget. The level of balances remains subject to the scrutiny of the section 151 officer who must ensure that any one-off contributions to the budget are appropriate and affordable.

79. Further, as set out in this report, the full use of the DSG reserve as well as a further £4.111m borrowed against future years allocations means that going forward; the budget will need to be under closer scrutiny. Given the on-going 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.

Treasury management

80. 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. In determining the suitability of potential investment decisions, the council prioritises the preservation of capital and liquidity of investments before the consideration of the yield on investments. In the year to 31 March 2018, the average investment balance was £127m (£188m for 2016-17) and the value at 31 March 2018 stood at £126m (£159m 31 March 2017).

81. The overall rate of return on investments during 2017-18 was 0.34% (0.71% 2016-17). In November 2017 the Bank of England's Monetary Policy Committee increased the bank base rate by 0.25% to 0.50%, with markets pricing further increases during 2018. The negative impact on asset price valuations from an increase in market yields dampened investment performance for the year.

82. The debt management strategy for the council as part of the treasury management strategy for 2017-18 and since 2011-12 has been to pursue a policy of internal borrowing, which is the use of existing reserves and balances to fund capital expenditure rather than the use of external borrowing.

83. The use of internal borrowing allows the council to minimise unnecessary external borrowing costs by only borrowing when needed for liquidity, or to benefit from advantageous borrowing rates. Borrowing in advance of need creates a 'cost of carry' which is the difference between the short term investment income earned through holding cash balances compared against longer term external debt financing costs.

84. During the period from 2011-12 to 2017-18 the rate of return on short term investments was consistently much lower compared to longer term borrowing. The savings for the council from deferring external borrowing for the period to 2017-18 equate to circa £20m.

85. Efficient use of existing council resources to fund capital expenditure through internal borrowing also reduces the council's counterparty risk inherent in the investment of cash balances.

86. However, during 2017-18, it became necessary to undertake new borrowing in order to fund the capital programme and to maintain target cash balances.

During the course of the financial year 2017-18 the council borrowed £110m in short term loans from other local authorities.

87. Officers regularly monitor current and forecast interest rates to determine the appropriateness of the internal borrowing strategy, so that the reduction in current borrowing costs from use of internal balances, is not offset by higher borrowing costs in the future.

88. In light of the borrowing requirements as expected from the current capital programme, the current extent of internal borrowing and the scheduled debt repayment of longer term borrowing, it is expected that the council will look to borrow on a longer term basis over the course of the 2018-19 financial year.

89. The average rate of interest for the council's debt portfolio is 4.6% as at 31 March 2018. This reflects the largely historical nature of the debt, the majority of which was drawn prior to 2008 at rates reflecting the prevailing economic conditions at the time. All long term external debt is from the Public Works Loans Board, part of HM Treasury, at fixed rates. During 2017-18, £5m of debt principal matured and was repaid to PWLB. The remaining debt principal outstanding at 31 March 2018 was £563m (£458m as at 31 March 2017).

Community impact statement

90. 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 to 2019-20: Cabinet 07/02/2017	160 Tooley Street PO Box 64529 London SE1P 5LX	Rob Woollatt 020 7525 0614
Link: (copy and paste into browser) http://moderngov.southwark.gov.uk/documents/s66524/Report%20Policy%20and%20Resources%20Strategy%202017-18%20-%202019-20.pdf		
Policy and Resources Strategy 2018-19 to 2020-21: Cabinet 06/02/2018	160 Tooley Street PO Box 64529 London SE1P 5LX	Rob Woollatt 020 7525 0614
Link: (copy and paste into browser) http://moderngov.southwark.gov.uk/documents/s73878/Report%20Policy%20and%20Resources%20Strategy%202018-19.pdf		

Background Papers	Held At	Contact
Housing Revenue Account: Final Rent-Setting and Budget report 2017-18: Cabinet 24/01/2017	160 Tooley Street PO Box 64529 London SE1P 5LX	Ian Young 020 7525 7849
Link: (copy and past into browser) http://moderngov.southwark.gov.uk/documents/s66095/Report%20Housing%20Revenue%20Account%20-%20Final%20Rent-Setting%20and%20Budget%20Report%202017-18.pdf		

APPENDICES

No.	Title
Appendix A	Interdepartmental movements to be approved for month 9 onwards
Appendix B	Analysis of reserve movements by category
Appendix C	Analysis of reserve movements – withdrawals and additions
Appendix D	Total movement in earmarked reserves in 2017-18

AUDIT TRAIL

Cabinet member	Councillor Victoria Mills, Finance, Performance and Brexit	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report author	Rob Woollatt, Interim Departmental Finance Manager	
Version	Final	
Dated	12 July 2018	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments included**
Director of Law and Democracy	No	No
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	Yes	Yes
Date final report sent to constitutional team		12 July 2018