Item No. 15.	Classification: Open	Date: 18 June 2019	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy: revenue monitoring outturn, including treasury management 2018-19	
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

I am pleased to present a balanced outturn position for 2018-19, after movements to and from reserves. The outturn continues to demonstrate strong financial management arrangements and represents a further improvement in the councils overall financial standing. This is particularly important at the current time given the considerable future financial uncertainty with respect to Brexit, a spending review, a new funding distribution formula and a review of business rates retention arrangements - all of which have the potential to reduce the councils core funding from 2020-21 and beyond.

The outturn for 2018-19 confirmed that the budget recovery work in children's and adults has been effective in putting the service on a sustainable financial footing with the services coming in on budget after setting aside resources in an Adult Social Care Resilience Reserve. Whilst performance in 2018-19 has shown a marked improvement, the department remains exposed to significant risk and uncertainty in 2019-20 and beyond. The creation of the reserve will assist the department in managing the impacts of the continuing rise in demand and cost pressures within social care.

In Education, there are significant pressures on schools funding via the Dedicated Schools Grant with demand and cost pressures particularly acute on the High Needs Block, which largely stem from increased numbers of Education, Health and Care Plans (EHCPs). As at 31 March 2018, there was an accumulated deficit of £4.1m, which increased to £11.5m by the end of 2018-19. It is clear at a national level that there is now recognition that the quantum of funding is inadequate. We will continue to challenge and lobby government along with representative bodies for additional funding. The council continues to work with the Southwark Schools Forum on a deficit recovery plan, supported by the budget recovery board.

Elsewhere there remain areas of significant budget pressure, particularly in Temporary Accommodation and No Recourse to Public Funds. Whilst Southwark is recognised nationally as a leading authority in homelessness prevention, statutory and policy obligations, increasing demand and restricted housing supply mean that temporary accommodation remains a particularly challenging area. Net growth in these budges has been included in our budget commitments for 2019-20, seeking to ensure we have sustainable budgets for these services.

There was a small overspend in Environment and Leisure, principally due to liabilities arising from changes in employment law relating to “holiday pay” backdated to October 2016. The in year cost to the department was £0.9m. Resources have been allocated in future years budgets to address this issue.

There was better news from other departments, which stayed within budgets or underspent, together with some one-off savings and one-off income receipts enabling the council to bolster reserves to help manage financial risks and improve overall financial resilience.

On a further positive note, the London Devolution Deal and business rate pooling arrangement means the additional income generated from business rates growth, notably within Southwark, will be retained within London, rather than being returned to Government. This has facilitated pan London strategic investment schemes such as the South London Innovation Corridor as well as enabling £10.2m to be earmarked for local initiatives, such as the Positive Futures Fund, Southwark Pioneers Fund, a ground-breaking commitment to children and youth people’s mental health and investment in our libraries and heritage. In addition £2m has been set aside to manage Brexit risks.

RECOMMENDATIONS

1. That cabinet notes the general fund outturn position for 2018-19 (Table 1).

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

   - The DSG outturn position of a £11.515m deficit and the significant pressures on the high needs budgets (paragraphs 30-31);
   - the budget pressures on Temporary Accommodation (paragraphs 36-37) and No Recourse to Public Funds (paragraph 39);

3. That cabinet notes the utilisation of £4m contingency (paragraph 54) to offset adverse variances on temporary accommodation and NRPF;

4. That cabinet notes the housing revenue account outturn for 2018-19 (table 2, paragraphs 55-63);

5. That cabinet notes the increase in unallocated general fund balance (paragraphs 64-66)

6. That cabinet notes the earmarking of the one-off financial benefits arising from the London Devolution deal (paragraphs 71-73);

7. That cabinet notes the detailed movements of earmarked reserves as set out in Appendices B, C and D;

8. That cabinet notes treasury management activity in 2018-19 (paragraph 83-91)

9. That cabinet approves the interdepartmental budget movements that exceed £250,000, as shown in Appendix A.

10. That cabinet note the interdepartmental general fund budget movements that

are less than £250,000 as shown in Appendix A.

11. That cabinet notes the outturn position implications for the 2019-20 budgets and beyond set out in paragraphs 80-82).

BACKGROUND INFORMATION

12. This report sets out the outturn position for the general fund, housing revenue account and dedicated schools grant for the 2018-19 financial year.

13. Council Assembly agreed a balanced general fund budget of £278.0m on 22 February 2018 based on a 5.99% council tax increase (with a 3% precept for adult social care). This budget was set in the context of further significant overall cuts in government funding and after maximising resources available from both business rate retention and growth in the council tax base.

14. The council also approved budget decisions including reductions of some £24.0m within the general fund for 2018-19.

15. The cabinet agreed a balanced housing revenue account (HRA) budget on 24 January 2018.

KEY ISSUES FOR CONSIDERATION

General fund overall position

16. The final outturn position for the general fund is balanced after the utilisation of reserves, as set out in Table 1 below. This table shows 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 2018-19.

Table 1: 2018-19 General fund outturn position

General Fund	Original Budget £000	Budget Movement £000	Revised Budget £000	Net Spend in Year £000	Total Net Reserve Movement £000	Total Use of Resources £000	Variance after Use of Reserves £000
Children's and Adults' Services (excluding DSG)	195,160	(8,597)	186,105	179,354	6,726	186,080	(25)
Dedicated Schools Grant	(11)	1,084	1,073	8,477	0	8,477	7,404
Environment and Leisure	65,818	(1,190)	64,628	65,551	(471)	65,080	452
Housing and Modernisation	64,454	(369)	64,823	69,302	(576)	68,726	3,903
Place and Wellbeing	6,144	(2,371)	3,773	3,615	27	3,642	(131)
Chief Executive	3,202	194	3,396	3,677	(282)	3,395	(1)
Finance and Governance	21,135	237	21,372	20,358	999	21,357	(15)
Strategic Finance	(29,969)	14,574	(15,395)	(23,094)	7,516	(15,558)	(183)
Support Cost Reallocations	(37,264)	(3,842)	(41,106)	(41,106)	-	(41,106)	-
Contingency	4,000	-	4,000	-	-	-	(4,000)
Net Revenue Budget	**294,269**	**-**	**294,269**	**287,734**	**13,939**	**301,673**	**7,404**

In year receipts taken direct to reserves in year				-11,017	11,017	0	0
DSG reserve to balance budget				0	(7,404)	(7,404)	(7,404)
Final Outturn after reserve movements	**294,269**	**-**	**294,269**	**276,717**	**17,552**	**294,269**	**0**

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

- a deficit within Housing and Modernisation relating to pressures on Temporary Accommodation (£3.9m) and No Recourse to Public Funds (£0.6m); and

- an in year overspend of £7.4m on dedicated schools grant (DSG) 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.

18. The adverse variances relating to Temporary Accommodation and No Recourse were largely offset through the use of the £4m contingency budget and favourable variances within other services.

19. The overall 2018-19 outturn position shows a nil variance after movements to reserves:

- a net increase in earmarked reserves of £15.4m, arising from planned contributions and one-off/windfall income and savings. These resources have been earmarked principally to mitigate future financial risks but also to fulfil commitments already made;

- an increase in the unallocated general fund reserve by £2.2m to improve financial resilience;

- the earmarking of the ‘one-off’ benefits of £10.2m from the 2018-19 London business rates pool pilot for specific purposes and initiatives agreed by Cabinet.

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 signed by the S151 Officer on 31 May 2019 and considered by the Audit, Governance and Standards committee on 5 June 2019. 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 23-31).
    - Environment and Leisure (paragraphs 32-34)
    - Housing and Modernisation (paragraphs 35-44)
    - Place and Wellbeing, including Public Health (paragraphs 45-49)
    - Chief Executives department (paragraph 50)
    - Finance and Governance (paragraphs 51)
    - Strategic Finance (paragraphs 52-54).

- Housing Revenue Account (paragraphs 55 to 63)
- General Fund balance (paragraphs 64-66)
- Earmarked Reserves (paragraphs 67-74)
- Collection Fund (paragraphs 75-79)
- Treasury Management (paragraphs 83-91)

Children's and Adults' Services

Social Care

23. The overall outturn position for Children's and Adults' social care services is a favourable variance of £25k. In increasingly uncertain times, it is encouraging to see both a balanced budget and a net contribution to reserves for the first time in many years.

24. Ongoing work to control costs and maximise value for money continues to take effect, and once again expenditure is down across a number of key categories year-on-year. It is clear that the momentum achieved in prior years is continuing to build as new approaches are becoming fully integrated throughout the department. 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 adult social care 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 mitigating 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 joined-up efforts to reduce DTOCs are having a positive effect.

26. Whilst performance in 2018-19 has shown a marked improvement, the department remains exposed to significant risk and uncertainty in 2019-20 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 2019-20, the BCF accounts for over 25% (2017-18: 20%) of the gross Adult Social Care budget. At the time of writing, neither NHSE nor MHCLG have provided any assurance of continued BCF funding beyond 2019-20 and it is imperative that government outlines its future commitments to the health and social care agenda if real transformation is to be achieved.

27. Children's Services outturn overall was a very modest adverse of £0.1m. The improved financial performance from 2017-18 (an adverse variance of £2.2m) reflects additional budget for both staffing and placements in 2018-19, but also significant reductions in residential placements spend, reduction in LAC, as well

as better control of headcount in the workforce, much of which was driven by the Budget Recovery Board. Saving targets for 2018-19, most notably on management restructuring, were achieved against this backdrop and there was significant progress in relation to payment by results for Troubled Families. This was also underpinned by the movement to an all age disabilities service within Adult Social Care which was supported by an in year budget transfer for placements from Children's Services in year.

28. However against this positive and improving picture, the small residual adverse variance reflects the continue underlying pressures within the system and inadequate funding from government, in particular in relation to care leavers with the extension of responsibilities to 25 and also for unaccompanied asylum seeking children. Whilst there are commitments against these areas in 2019-20, there continues to be significant lobbying by the authority for additional funding to reflect the actual costs of service provision. There also continue to be issues with funding for services by the CCG, most notably with regard to therapy on individual placements and also CAMHS related services. In the light of the pressures DSG funding, a significant contributor to both early help and residential, it will be important to secure additional funding in these areas.

29. Education Service's overall outturn was also a very modest adverse variance of £0.1m. However as the departmental contingency for both Children's and Education is held in this area, overall when taken with this, there is an underspend overall of £0.1m, to offset the adverse variance in Children's. The operating environment of the Education service continues to be challenging in the light of inadequate funding for high needs and services more generally. Notably there are pressures flowing from the increased numbers of EHCP's and the consequential impact upon SEN transport. In addition many of the Authority's services to schools, including school improvement, is moving towards a fully traded model over time and provision is being made financially (through reserve transfer) to prepare for this, as school's continue to be financially challenged within the constraints of the DSG. Finally, the service has faced the financial challenge and pressure of the significant reshaping of day nursery provision against the need to maintain commitments to both parents and staff during the year by the extension of some service provision to the end of July 2018.

Dedicated Schools Grant (DSG)

30. Overall, the outturn position on the DSG was a £7.4m in year deficit, which has meant that the DSG was in an overall £11.5m deficit as at 31 March 2019. The reasons behind the deficit position have been well rehearsed and largely stem from increased numbers of EHCPS (a 10% increase during the financial year), the extension of responsibilities to 25 from 2014-15, increase in parental rights, limited supply of special provision across the country and also the increase in the level and complexity of need, most notably with regard to ASD. It is clear at a national level that there is a now a recognition that the quantum of funding is inadequate and this is being challenged robustly by local authorities, representative bodies and as well as parents nationally. The recognition of that through additional funding, has to date been insufficient to make substantial inroads to the overall deficit. Many other authorities are also in a similar position with regard to a DSG high needs deficit.

31. Against that background the DSG continues to be in the Budget Recovery Board process working with Schools Forum. Whilst there has been some

progress in developing a DSG recovery plan, most notably with regard to a block transfer approved by the Secretary of State, reductions in central retentions and a reduction in pressure on alternative provision, there remains much work to do by Budget Recovery Board and Schools Forum in continuing to develop and shape a robust plan which will be able to meet the in year structural deficit, before the payback of the accumulated deficit is even considered. Given the level of deficit at the Authority, it will be a requirement for the S151 officer to submit a DSG recovery plan by 30 June 2019 and the 151 officer has written to the Secretary of State in advance of this to highlight his significant concerns.

Environment and Leisure

32. The final outturn for the department was £65.080m against a budget of £64.628m, resulting in an adverse variance of £0.452m.

33. The unfavourable variance is mainly due to the liabilities arising from the changes in employment law relating to the “Holiday Pay” ruling backdated to 1 October 2016. The department had over 700 frontline staff who qualified for the backdated pay costing approximately £0.9m. The extent of this cost pressure has been mitigated by robust monitoring of departmental budgets and maintaining favourable variances in some areas resulting in final adverse variance of £0.452m.

34. In addition to this, the department has also been able to achieve the 2018-19 total savings target of £4.660m, consisting of £1.880m and £2.780m of efficiency and increased income targets respectively.

Housing and Modernisation

35. The headline outturn for 2018-19, shows an adverse variance of £3.9m against budget, including planned movements in earmarked reserves. This is largely as reported at month 8, with the principal cost pressures being temporary accommodation and no recourse to public funds (NRPF), which continue to be problematic. Overall, the position has been moderated to some extent by a number of positive movements in other H&M service areas which net the position down, albeit these are of a largely non-recurring nature. The key headlines are outlined below:

Customer Services

36. **Temporary Accommodation (TA)/Housing Solutions** - Southwark is recognised nationally as a leading authority in homelessness prevention and was invited by the Ministry of Housing, Communities and Local Government's (MHCLG) to train other boroughs in prevention best practice. To date over 1,000 staff across the capital including approximately 140 apprentices and trainees who have been homeless themselves have received training, fully funded by MHCLG.

37. Notwithstanding this achievement, factors such as rising homeless demand, restricted housing supply, the impact of Universal Credit on arrears and legislative and policy obligations have contributed to a budget pressure of £3.8m in 2018-19. This should be seen in the context of sustained growth in TA budgets over the medium term, higher external grant funding (albeit

predominantly one-off) and the availability of estate voids and recommencement of direct lettings which would otherwise have made the position far worse. Cabinet will be aware that the outlook is unlikely to change in the short term without further mitigation and the 2019-20 budget is predicated on policy changes currently under consideration being approved in order to meet the revised target.

38. **Concessionary Travel and Customer Service Centre** - for 2018-19 the cost of provision by Transport for London (TFL) was lower than budgeted which has assisted in mitigating cost pressures elsewhere within the general fund. The majority of customer service related activities (principally the contact centre) are now accounted for within the housing revenue account as the primary consumer of those services, with a proportionate amount recharged to the general fund which showed a modest underspend against budget.

Communities

39. **No Recourse to Public Funds (NRPF)** - this is a demand driven service, subject to volatility and represents a persistent pressure on council resources. Whilst steady progress has been made in stabilising acceptance rates and reducing the average cost of accommodation, which has assisted in mitigating the pressure to some extent, the position remains overspent for 2018-19 (£0.6m). Additional resources have been approved for 2019-20 which it is anticipated will be sufficient to contain the pressure going forward (based on current activity levels). The strategic project board will continue to review and monitor performance in this area.

Modernise

40. **Information Technology and Digital Services (ITDS)** - the need for a stable and resilient IT platform is crucial to delivering modern, reliable and cost effective services and underpins the council's modernising agenda. The council has and continues to commit substantial resources to its IT service, both internally and with the shared service to bring about long-term sustainable improvement. The service continues to review all operations and applications across the board with a view to developing and aligning systems and processes wherever possible to drive greater efficiency and deliver cashable savings over time. 2018-19 was the first full year of operation of the shared service and it should be acknowledged that the scale and complexity of transitioning to the new arrangement has presented some technical and operational difficulties, both of which are being addressed. Overall, costs largely remain as predicated in the original business model, albeit some variations have emerged in terms of the spend profile and split between capital and revenue funding streams.

41. **Corporate Facilities Management (CFM)** - The council has an extensive operational estate to which CFM provide a comprehensive facilities management service to ensure buildings are compliant with health and safety regulations and fit for purpose for both staff and service users. Budget realignment in previous years has addressed long-standing resource pressures, which has enabled the service to operate within budget during 2018-19. However, the co-termination of FM service contracts and re-procurement from 2020 could give rise to additional cost pressure going forward given current industry uncertainty.

42. **Human Resources (HR) and Organisation Transformation (OT)** - one of the key responsibilities for HR is the administration and management of the corporate contract for the provision of temporary staff across the council. Activity fluctuates in line with changing circumstances and capacity shortfalls but the council remains committed to reducing its reliance on agency usage through greater workforce planning and permanent recruitment. For 2018-19 contracts fee income has remained higher than planned which has helped to mitigate the impact of one-off severance and redundancy costs across the department following restructuring.

43. OT is responsible for the corporate L&D programme in partnership with services across the council, along with member development and activities such as the staff survey, IIP accreditation and project support for critical cross-cutting improvement programmes, which has given rise to some additional costs during the year.

Central Services

44. Centrally managed budgets predominantly of a corporate overhead nature which underpin the wider provision of front-line services within H&M. SCR costs are uncontrollable at a local level and aligned with budgets corporately. There are also minor operational budgets for insurance and legal costs that are not directly attributable to a specific service area. Windfall variances in these areas, reflecting lower than anticipated activity have positively contributed to the outturn position.

Place and Wellbeing

45. The Place and Wellbeing department's final outturn, excluding the ring fenced public health grant areas, was £3.642m against a budget of £3.773m resulting in a favourable variance of £0.131m.

46. There were some cost pressures in the replacement of the IT software system which manages the council's statutory functions of planning, building control and local land charge. However, this has been mitigated by robust monitoring of departmental budgets and maintaining favourable variances in other areas resulting in final favourable variance of £0.131m.

47. In addition to this, the department has also been able to achieve the 2018-19 total savings target of £0.875m consisting of £0.330m and £0.545m of efficiency and increased income targets respectively.

48. The public health division within the department also achieved savings of £0.725m in line with the reduction in the ring fenced public health grant for 2018-19.

49. 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 resulted in a favourable variance of £0.160m for 2017-18 which was offset against this negative reserve. An additional favourable variance of £0.026m in the public health grant budgets for 2018-19 has also been used to reduce the negative reserve further.

Chief Executive's Department

50. The Chief Executive department's final outturn was £3.395m against a budget of £3.396m, resulting in a favourable variance of £1,000.

Finance and Governance

51. The Finance and Governance department is reporting a favourable variance of £1.014m prior to the application of reserves. This is largely a consequence of under budget staffing costs from vacancies and turnover of staff. The department has also successfully achieved a better than expected rate of debt collection. This underspend has allowed the department to increase reserve balances to prepare for known future challenges, including cost and uncertainty associated with the rollout of universal credit and the administration of the EU Parliament Election in May 2019.

Strategic Finance

52. Strategic Finance is reporting a favourable variance of £0.183m, after the application of reserve movements.

53. The favourable variances arising from unused provisions (one-off), additional in year grant announcements, additional rental income from commercial property acquisitions and savings on capital financing budgets were applied to increase strategic financial risk reserves. This improves the councils overall financial standing and resilience as we enter a period of significant financial uncertainty.

Contingency

54. The £4m contingency budget was fully utilised to offset budget pressures in Temporary Accommodation and No Recourse to Public Funds, as detailed above.

Housing Revenue Account (HRA) outturn 2018-19

Table 2: HRA outturn position for 2018-19

HRA Outturn 2018-19	**Full Year Budget 2018-19**	**Outturn 2018-19**	**Variance 2018-19**	***Month 8 Forecast 2018-19***	***Movement***
Asset Management	50,029	60,522	10,493	3,754	6,739
Communities	9,028	8,741	-287	38	-325
Resident Services	38,938	39,676	738	100	638
Customer Services	8,421	9,150	729	795	-66
Central Services	31,445	27,884	-3,561	-3,249	-312
Debt Financing	33,319	22,677	-10,642	-105	-10,537
Depreciation	53,000	50,752	-2,248	0	-2,248
Exchequer Services	13,244	12,471	-773	-794	21
Tenant's Rents & Service Charges	-225,185	-225,649	-464	-808	344
Homeowner Service Charges	-30,984	-29,117	1,867	2,882	-1,015
Revenue Contribution to Capital	18,745	22,019	3,274	0	3,274
Appropriations to /(from) Reserves	0	874	874	-2,613	3,487

Total HRA	0	0	0	0	0

55. The HRA has been subject to a number of exceptional service commitments and budget pressures throughout the year, as highlighted in previous monitoring reports to Cabinet, along with the measures being taken to mitigate the position. The final outturn shows improvement with costs being contained within the overall resource pool available. It has also been possible to increase the level of revenue support for the investment programme and maintain borrowing at its existing level. The key headlines/issues are outlined below.

56. The need to spend on landlord responsibilities for the repair, maintenance and renewal of the housing stock is relentless and consumes the greatest proportion of HRA resources (£50.6m during 2018-19). Management and monitoring of high volume, high value contracts are critical to delivering greater value for money and remain a key priority, but demand consistently outstrips the budgeted resources available given the rental income foregone since 2016. This is manifested by negative budget variations across the asset management division totalling £4m. Moreover, the service has been subject to substantial upheaval during the year with the cessation of the Mears contract in October 2018 and move to in-house provision by Southwark Building Services (SBS). As expected, the close-out of the Mears contract and the transition to SBS, including the settlement of the long-outstanding holiday pay claim, have given rise to higher costs as predicated in the original business model totalling £6m. Moving into 2019-20, much remains to be done to fully embed the new working arrangements, not least of which is the implementation of new terms and conditions and achievement of greater operational efficiency and reduction in costs through the price per property (PPP) and void equivalent (PPV) cost models.

57. With the introduction of self-financing in 2012, all central government financial support for local authority housing provision ceased and the HRA became entirely reliant on its income streams, primarily tenant rents and service charges, homeowner service charges, garages and commercial property and other fees and charges and miscellaneous sources 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). Estimates at the time indicated the compounded rental loss over the period to be in the order of £62.5m, but in reality it will be greater as inflation (as measured by CPI) has generally run at a higher rate than the original business plan assumptions. Extrapolated over the life of the 30 year business plan, this represents a profound loss of resources for housing provision, not only in Southwark but nationally which can never be recovered under a regime of rent control. Government has confirmed that rents will revert to CPI+1% increases from April 2020.

58. Given the critical importance of rent income to the HRA, the 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 £0.4m higher at £225.6m against budget, which demonstrates robust budget planning/forecasting. Collection performance was 99.61% overall, which represents good performance given the challenges presented by the transition to Universal Credit and direct payment, which impact on arrears. Revised operational measures including the use of arrears management software help

to maximise performance and restructuring of the council's income function during 2019-20 will provide the required capacity and resilience to sustain improvement going forward. Whilst arrears present a moderate risk going forward, the HRA maintains a prudent level of bad debt provisions to meet potential losses of this nature.

59. 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 linked to the investment programme and nature of capital works being undertaken and the unprecedented level of investment in recent years has been reflected in higher homeowner billing. However, present and future works programmes are not of the same magnitude and are more focused on internal works which are not germane to homeowners. Net billing for 2018-19 including prior-year account actualisations was lower than budget at £1.9m, but £1m better than earlier forecasts suggested and collection performance again exceeded target (£30.4m vs £29.6m). Going forward, this risk has been significantly reduced through the budget setting process, with the income target being re-aligned to reflect the lower budget baseline.

60. Capital investment in the council's housing stock during 2018-19 was higher than previously forecast as a result of a late site acquisition for new homes. Otherwise it was broadly as expected at £143.8m, comprising £65.9m on investment in the existing stock, £61.9m on the new build programme including the acquisition of land for future development and £16m on wider regeneration schemes, which also delivers affordable housing. The mainstream maintenance/renewal programme was funded from HRA revenue/reserves (£64.9m) and receipts/other contributions (£17m). Funding for the new build programme comprised RTB receipts and S106 developer contributions (£50.8m), and grants/revenue of £11.1m.

61. In October 2018, the council were awarded £88m grant funding from the Greater London Authority (GLA) to support delivery of its new homes programme. Furthermore, government lifted the HRA borrowing cap for local authorities, primarily to stimulate new home building. Borrowing has been almost exclusively reserved for the provision of new homes and over the long-term will be fully consumed in delivering the council's commitment to build 11,000 properties. Whilst the council welcomes the borrowing freedom, it is not without risk and should not be seen as a panacea, as the revenue financing costs of servicing the debt must be sustainable over the long-term (thirty to fifty years on average). Borrowing remains subject to the provisions of the Local Government Act 2003 which requires local authorities to have due regard to the CIPFA's 'Prudential Code' when determining how much it can prudently afford to borrow. Consideration of borrowing along with other financing sources remains part of any scheme appraisal and is assessed on a case-by-case basis. Whilst it wasn't necessary to borrow during 2018-19 to fund the programme, this is likely to change during 2019-20 as other resources decline and the use and mix of capital funding streams remains subject to strict criteria/restrictions.

62. Central services comprise non-service specific budgets such as departmental and corporate overheads, debt financing and major projects, CERA, depreciation and arrears provisions. Given the budget pressures referred to elsewhere, it has been necessary to defer any debt repayment this year. Unlike

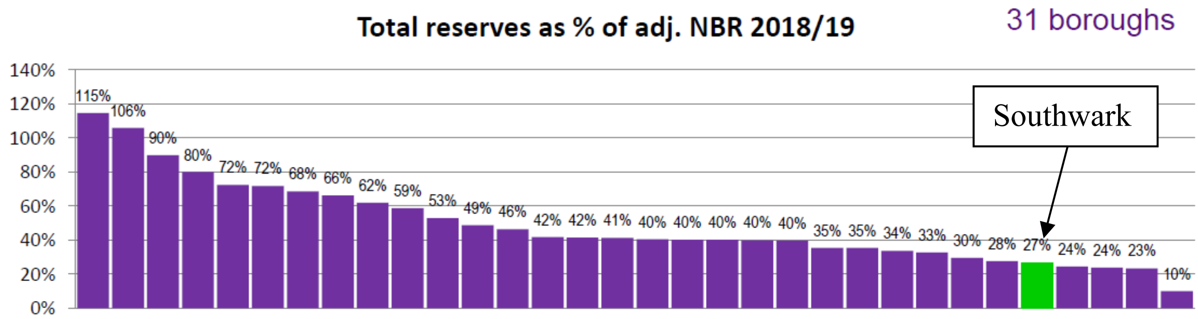
the general fund, there is no requirement to make a minimum revenue provision (MRP) in the HRA which has provided the flexibility to manage budgets across the piece and mitigate exceptional demands and one-off pressures as they arise. In addition, there were a number of other positive variations including the lower requirement for provisions, higher rent debit, homeowner service billing and interest receivable, which have contributed to the better than previously forecast outturn position.

63. In the same way as the council's general fund, the HRA holds reserves for specific purposes and as contingency against operational deficits, unforeseen events and to mitigate future risks in line with the council's medium-term resource strategy (MTRS). At 31 March 2019 reserve balances stood at £20.8m (against £19.9m in 2017-18). Whilst this upward movement is to be welcomed, the size of the council's HRA and HIP is such that balances remain 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 greater level of sustainability going forward.

General Fund Balance

64. Unallocated reserves are a key indicator of an authority's ability to cope with financial shocks. The CIPFA Financial Resilience Index places the council as 'high risk' on this metric.

65. London Councils also conducts an annual financial stress survey across London that includes reviewing the levels of reserves. As demonstrated by the graph below, the council's levels of reserves are low relative to the council's budget requirements and other councils.



The council's auditors, Grant Thornton, commented in their latest annual Value for Money assessment:

'it is concerning that the council is ranked so lowly when the level of reserves are compared to the council's gross revenue spend on an annual basis, where you are ranked in the bottom five London Boroughs on this metric'

66. The strategic director of finance and governance has reviewed the level of the general fund balance and recommends that this unallocated reserve should be maintained at a level of 2.5% of gross revenue expenditure (net of internal recharges). Gross revenue expenditure in 2019-20 is estimated at £846m indicating a required general fund balance of £21m, an increase of £2.2m.

Earmarked Reserves

67. In addition to the general fund balance, the council retains a level of earmarked

reserves which 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.

68. Reserves are categorised as:

- **Corporate projects and priorities** - reserves 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 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;

- **Technical liabilities and smoothing reserves** – reserves held in respect of uninsured risks, risks arising as a result of unavoidable changes in accounting practice, equalisation of liabilities where costs are likely to vary year to year;

- **Strategic financial risk reserves -** reserves held to mitigate and manage future financial risks. Such risks include legislative and funding changes as well as the additional risk arising from increased reliance on local taxation, e.g. business rate retention growth.

69. For a number of years previously, the council had planned for the use of reserves to help smooth the impact of government funding reductions and other budget pressures especially during the period of austerity. Not only did this help to protect council services but it has also allowed time to transition towards new ways of working, productivity improvements and efficiencies. Whilst there was no budgeted contributions from reserves for 2018-19 (or 2019-20), looking forward to 2020-21 and beyond the council is entering a period of considerable financial uncertainty. It is vital that the council enters this period with sufficient reserves to mitigate and manage funding shocks and financial risks and to ensure a smooth transition over the forthcoming medium term financial planning period.

70. In closing the 2018-19 accounts the council was able to increase reserves, principally financial risk reserves, by a net £17.552m:

	£m
Increase in General Fund Balance	2.200
Increase in earmarked reserves	22.756
Net reserve movements as Table 1	**24.956**
Decrease in DSG Reserve (increased deficit)	-7.404
Net increase in reserves	**17.552**

71. In 2018-19, London Councils entered into a pilot arrangement for the retention of business rate growth through pooling. The agreement set out the principles and method for distributing any net financial benefits generated by the pool. Latest figures from the London Councils indicate that Southwark's share of the Pool growth in 2018-19 is £10.2m, subject to audit.

72. Recognising that this additional income is 'one-off', the receipts were not included in the base budget with the benefits being ring-fenced in a London devolution reserve until Cabinet approves their use for specific one-off initiatives. Allocations approved to date include:

- £0.5m for the Positive Futures Fund, approved by Cabinet December 2018;

- Funding for the Southwark Pioneers Fund (the amount to be agreed in a forthcoming report to Cabinet);

- £1m support for the London Counter Fraud Hub over the next seven years, as approved by Council Assembly February 2019;

- A Brexit risk reserve of £2m to protect the council against the negative effects of Brexit, as approved by Council Assembly February 2019;

- A £2m fund in support of the council's Health and Wellbeing Board commitment to mental health, specifically prevention and early help for Southwark's children, as approved by Council Assembly February 2019;

- £1m over four years to support the implementation of the Libraries and Heritage Strategy, as approved by Council Assembly February 2019;

73. It has also been necessary to create a pooling reserve to manage the timing differences of payments and receipts within the Pool and statutory accounting arrangements for the collection fund

74. The total movement in earmarked reserves are detailed in Appendix D:

Collection fund

75. 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. Any difference between estimated and actual outturn will be received or borne by taxpayers in the following year.

76. Monies received into the collection fund are distributed between the council and its preceptors based on their respective shares.

77. 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).

78. **Council Tax.** The surplus carried forward for the council tax element of the collection fund at 31 March 2019 is £3.9m. £3.8m was factored into the 2019-20 budget setting. The difference will be taken into account in setting the level of council tax for 2020-21. This surplus is principally due to an increase in the tax base as new homes are built, a decrease in the number of council tax support claimants and maintenance of collection levels.

79. **Business Rates**. Overall there was a deficit on the business rate collection fund of £6.5m. The difference between the estimated surplus (£1.1m) and the actual deficit will be factored into 2020-21 budget setting. Whilst there was underlying growth in the number of properties and rateable values, a deficit arose due to:

- Changes to the rating list in the latter part of the financial year arising from successful appeals and challenges (which were then back dated a number of years);

- an increase in mandatory reliefs, notably empty property relief.

The London Business Rate Pooling arrangements for 2018-19 meant that 100% of the business rates income generated within London was retained within the city.

Implications for 2019-20 budgets

80. 2018-19 outturn highlights the growing pressures on temporary accommodation and no recourse to public fund budgets. These pressures were considered as part of the 2019-20 budget setting process with a net growth in temporary accommodation budget of £3.2m and £0.6m for no recourse to public funds. Further, budget pressures arising in 2019-20 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 2019-20. The 2019-20 budget assumed the implementation of £19.6m of savings across the council and the delivery of these savings will continue to be monitored.

81. The policy and resources strategy for 2019-20 assumes no use of reserves 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.

82. Further, as set out in this report, £11.5m has been borrowed against future years DSG allocations. Given the on-going structural pressures on the high needs block which continue into 2019-20 and beyond, together with strict regulations on movement between blocks, a deficit position on the DSG is likely to persist for a number of years.

Treasury management

83. As at 31 March 2019 the outstanding debt held by the council was £677m (£563m as at 31 March 2018), an in year increase of £114m.

84. The council's debt management strategy since 2011-12 has been to pursue a policy of internal borrowing, which is the use of existing reserves and balances to temporarily fund capital expenditure rather than the use of external borrowing. By doing so, the council has been able to minimise net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The savings for the council from deferring external borrowing in this way are in excess of £20m. This policy continues.

85. However, since 2017-18, it has also been necessary to undertake new external borrowing in order 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. The level of short term borrowing at 31 March 2019 was £120m.

86. In addition, and in accordance with the approved treasury management strategy, the council borrowed £117m from the public works loans board (part of HM Treasury) in 13 separate loans, with maturity terms ranging from 35 to 49 years at an average interest rate of 2.49%. Whilst short-term interest rates are currently lower than long-term rates, the extent of the council's capital financing requirement, the prospect for future interest rates and the need for long-term financial stability determined the need for long-term fixed rate borrowing with a view to keeping future interest costs low.

87. The council maintains sizable investment balances, representing income received in advance of expenditure plus balances and reserves held. Investments as at 31 March 2019 were £126m (£125m at 31 March 2018).

88. Council resources that are not immediately required for current expenditure are invested in money market instruments in accordance with the MHCLG guidance on local authority investments and the approved investment strategy. The MHCLG guidance gives priority to security and liquidity and the council's aim is to achieve a yield commensurate with these principles.

89. The rate of return for council treasury management assets for the 2018-19 financial year was 0.81%. Uncertainty surrounding the UK planned exit from the EU alongside mixed economic data for the UK impacted on short term market interest rates.

90. To assess the treasury management portfolio performance, the council measures the return against a composite investment benchmark of three month LIBID and one to three year gilt index. For the equivalent period of the financial year the benchmark index annualised return was 0.77% indicating a small outperformance of the council portfolio versus the benchmark.

91. The rate of investment return generated by the treasury management portfolio is a consequence of the council's prudent, low risk approach to treasury management investing. This is in line with the requirements of the statutory guidance for local government treasury investment issued by MHCLG.

Community impact statement

92. 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 2018-19 – revenue budget: Council Assembly 21-02-2018	160 Tooley Street PO Box 64529 London SE1P 5LX	Rob Woollatt 020 7525 0614
Link (please copy and paste into your browser): http://moderngov.southwark.gov.uk/documents/s74042/Report%20PR%20Budget%202018-19.pdf		
Policy and Resources Strategy 2019-20 – revenue budget: Council Assembly 27-02-2019	160 Tooley Street PO Box 64529 London SE1P 5LX	Rob Woollatt 020 7525 0614
Link (please copy and paste into your browser): http://moderngov.southwark.gov.uk/documents/s80705/Report%20Policy%20and%20Resources%20Strategy.pdf		
Housing Revenue Account: Final Rent-Setting and Budget report 2018-19: Cabinet 24-01-2018	160 Tooley Street PO Box 64529 London SE1P 5LX	Ian Young 020 7525 7849
Link (please copy and paste into your browser): http://moderngov.southwark.gov.uk/documents/s79784/Report%20Housing%20Revenue%20Account%20Final%20Rent-Setting%20and%20Budget%20Report%202019-20.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 2018-19

AUDIT TRAIL

<table>
<tr><th>Cabinet member</th><td colspan="3">Councillor Victoria Mills, Finance, Performance and Brexit</td></tr>
<tr><th>Lead officer</th><td colspan="3">Duncan Whitfield, Strategic Director of Finance and Governance</td></tr>
<tr><th>Report author</th><td colspan="3">Rob Woollatt, Interim Departmental Finance Manager</td></tr>
<tr><th>Version</th><td colspan="3">Final</td></tr>
<tr><th>Dated</th><td colspan="3">30 May 2019</td></tr>
<tr><th>Key Decision?</th><td colspan="3">No</td></tr>
<tr><th colspan="4">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</th></tr>
<tr><th colspan="2">Officer Title</th><th>Comments Sought</th><th>Comments included</th></tr>
<tr><td colspan="2">Director of Law and Democracy</td><td>No</td><td>No</td></tr>
<tr><td colspan="2">Strategic Director of Finance and Governance</td><td>n/a</td><td>n/a</td></tr>
<tr><td colspan="2">Cabinet Member</td><td>Yes</td><td>Yes</td></tr>
<tr><th colspan="3">Date final report sent to constitutional team</th><td>6 June 2019</td></tr>
</table>