Item No. 9.	Classification: Open	Date: 15 June 2021	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy: revenue monitoring outturn, including treasury management 2020-21	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Rebecca Lury, Finance, Performance and Democracy	

FOREWORD – COUNCILLOR REBECCA LURY, CABINET MEMBER FOR FINANCE, PERFORMANCE AND DEMOCRACY

This report sets out the outturn position for the general fund, housing revenue account and dedicated schools grant for the 2020-21 financial year. Despite the costs of the pandemic, I am pleased to present a balanced outturn position for 2020-21, after movements to and from reserves and the application of £43.5m of general Covid-19 government funding.

On the 23 March 2020, the Prime Minister announced the first lockdown to help contain the pandemic. Despite some easing of restrictions during the summer of 2020, the last 12 months have presented a significant challenge. The pandemic required an unprecedented response to mobilise resources, skills and good faith of many across the borough. Throughout the council has continued to deliver the services and support that our residents, businesses and communities have needed as well as implementing a huge range of national schemes such as Business Rates Grant support, council tax hardship support, test and trace, infection control, winter support payments and contain outbreak management arrangements.

When the pandemic began, the Government indicated it would do whatever it took to support local authorities through the Covid crisis. However, by June this promise of financial support changed to one of 'burden sharing', for example support for income losses was provided at 75 per cent of the losses after the first five per cent was covered, and the decision to defer losses from council tax and business rates over three years.

And now, as we come out of lockdown, there is a real need to focus on actions and measures to hasten recovery and support wellbeing.

The financial position at the end of 2020-21 is a complex picture as we reconcile the additional costs and lost income with the funding support from government (both quantum and timing), and also look to prioritise resources for the forthcoming period of recovery.

Perversely, in closing the 2020-21 accounts, there has been a significant increase in reserves. However, most of these are not available to support the provision of services but must be carried forward to cover losses arising from business rate and council tax collection in 2020-21 and that will be charged to the General Fund Balance in future years.

Beyond the financial impacts arising from the pandemic, there are a number of significant underlying budget pressures:

- The outturn position for the DSG is a £2.1m in-year deficit, bringing the accumulated deficit position to £20.6m at 31 March 2021. Whilst the in year deficit is significantly lower than the last few years, the prospect of achieving any reduction in the accumulated deficit is remote without additional government support;

- A growing underlying pressure on employee and placement costs in children's social care which is likely to be increasingly challenging in 2021-22 and future years;

- Additional costs and reduced fees arising from the leisure contract over and above the impact of the pandemic;

- Despite additional government support for rough-sleeping and temporary accommodation during the pandemic, spending in this area again exceeded budgeted resources.

As agreed with the Strategic Director of Finance and Governance, the corporate contingency was applied in full to offset spending pressures.

There was better news from other areas, which stayed within budgets or underspent, which, together with some one-off savings and unbudgeted income receipts, enabled the council to bolster reserves to meet deferred spending commitments, future budget contributions and to help manage future financial risks. The outturn has also enabled us to set aside additional resources to support the recovery and the aftermath of the pandemic as well as the inevitable impacts on welfare support for the vulnerable and less well off.

The last year has seen a fundamental change in the way the council does its business in order to meet the needs of citizens, communities and businesses during the pandemic. This response is against the backdrop of continuing under funding of local government following a decade of austerity, uncertainty about future funding arrangements, the threat of a business rates reset as well as increasing pressure on demand-led services like children's social care, temporary accommodation and welfare. Building financial resilience is imperative as we navigate our path to recovery and to ensure the council is well placed to meet future financial challenges.

The outturn position continues to demonstrate strong financial management and sound governance arrangements across the council.

RECOMMENDATIONS

1. That the cabinet notes the balanced general fund outturn position for 2020-21 after the application of reserves and emergency Covid-19 funding (Table 1);

2. That the cabinet note the application of £43.5m of general Covid-19 emergency grant funding;

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

   (i) The DSG outturn position of an £20.5m deficit and the pressures on high needs budgets;

   (ii) The growing pressures within Children's Social Care

   (iii) the continuing budget pressures on Temporary Accommodation;

   (iv) additional costs associated with protecting leisure services;

4. That the cabinet notes the utilisation of £4m contingency (paragraph) to offset adverse variances;

5. That cabinet notes the housing revenue account outturn for 2020-21 (table 2, paragraphs);

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

7. That cabinet notes treasury management activity in 2020-21 (paragraph)

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

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

BACKGROUND INFORMATION

10. This report sets out the outturn position for the general fund, housing revenue account and dedicated schools grant for the 2020-21 financial year, including the significant impact of COVID-19 on the Council's 2020-21 budget.

11. The council agreed a balanced General Fund budget of £294.292m on 26 February 2020 based on a 3.99% council tax increase. The Policy and Resources Strategy for 2020-21 assumed that no reserves would be used to underwrite the budget.

12. The council also approved budget decisions which included reductions of £9m within the General Fund for 2020-21. Performance on achieving these savings is closely monitored and any significant variances will be included in departmental narratives.

13. The cabinet agreed a balanced housing revenue account (HRA) budget on 21 January 2020.

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 shows the departmental budget outturn variances together with the utilisation of reserves to come to the balanced outturn as at the end of 2020-21.

Table 1: 2020-21 General fund outturn position

General Fund	Original Budget £000	Budget Changes £000	Revised Budget £000	Net Spend in Year £000	Year-end Reserve Movement £000	Total Use of Resources £000	Variance after use of Reserves £000
Children's Services	62,450	3,889	66,339	70,636		70,636	4,297
Adult Social Care	88,326	1,311	89,637	88,957		88,937	-700
Commissioning	4,987	-359	4,628	4,763		4,763	135
Education	26,617	-8,813	17,804	18,667		18,667	863
Children's and Adults' Services (excl. DSG)	182,380	-3972	178,408	183,003		183,003	4,595
Dedicated Schools Grant	150	-150	0	2,070		2,070	2,070
Environment and Leisure	69,624	17,250	86,874	102,820		102,820	15,946
Housing and Modernisation	69,789	-10,628	59,161	73,659		73,659	14,498
Chief Executive	3,140	-1,611	1,529	5,888		5,888	4,359
Finance and Governance	21,203	-118	21,085	24,877		24,877	3,792
Strategic Finance	-15,254	683	-14,571	-24,642	10,349	-14,293	278
Support Cost Reallocations	-40,740	-1,454	-42,194	-42,194		-42,194	0
Contingency	4,000	0	4,000	4,000		4,000	0
Net Revenue Budget	**294,292**	**0**	**294,292**	**329,481**	**10,349**	**339,830**	**45,538**
DSG overspend taken to DSG adjustment account				0	-2,070	-2,070	-2,070
Covid-19 emergency funding support				-43,468	0	-43,468	-43,468
Outturn after reserve movements				**286,013**	**8.279**	**294,292**	**0**

15. The overall 2020-21 outturn position shows a nil variance after movements to reserves and application of Covid-19 emergency funding support.

16. Within the overall position, additional costs and lost income due to the pandemic amounted to £43.468m which has been met by emergency funding support (including sales, fees and charges compensation).

17. The financial impact of COVID-19 has been significant and complex with

the need to reconcile the additional costs and lost income with the funding support received from the government (both quantum and timing).

18. In the last year the council has also had to implement national support schemes such as the Business Rates Grants Support Schemes; the Council Tax Hardship Support Schemes; Test and Trace Payments; the Winter Support Payments Scheme; Infection Control Schemes; and Contain Outbreak Management schemes as well as dealing with and implementing a range of supplier relief schemes and addressing increased demand for support to vulnerable households whilst accommodating new ways of working in response to the pandemic.

19. Elsewhere, underlying demand led pressures continue in several areas such as High Needs, Children's Social Care, Temporary accommodation and welfare support, whilst COVID-19 has impacted on normal business as usual expenditure in some areas where spending has been delayed or deferred creating in year savings, for example in adult social care. These variances are described in more detail in the narrative below.

20. The longer-term impacts of the pandemic on the councils finances extends into 2021-22, where the council will face further significant challenges and budget pressures in relation to the continuing response to the pandemic and the restoration of services and supporting the post-pandemic recovery.

21. Whilst some funding that has been made available by the government in 2021-22 to help with these challenges, it is far from certain whether this will be sufficient. There will potentially be a range of interventions required by the council and ongoing impacts post pandemic that will have as yet unquantified financial pressures.

22. Throughout the emergency, financial management and governance processes have continued to be paramount.

23. 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).

24. The overall impact of these transactions will be reported in full within the draft statement of accounts to be signed by the S151 Officer and will also be considered by the Audit, Governance and Standards Committee in July 2021. These will then be subject to external audit.

25. The following paragraphs outline in more detail the outturn by directorate:

CHILDREN'S AND ADULTS' SERVICES

26. This has been an unprecedented year for the department. In addition to

business as usual the teams had to respond to the challenges around COVID 19. Despite this the department in partnership with finance, HR and procurement colleagues from across the council succeeded to break even. Whilst there have been significant additional pressures across the department arising from the pandemic, to date these have largely been offset by central government funding, although it is still unclear how long this will continue.

Adults Social Care

27. The division has seen a number of years of favourable financial performance and once again managed to remain within budget during this challenging environment. Additional pressures have materialised due to Covid 19 especially care packages expenditure such as homecare, nursing and residential. However these have been mostly covered by additional government funding. The division has also ensured stability and resilience of the provider market through additional payments to providers such as infection control and provider sustainability payments.

28. The division will continue to ensure strict financial measures are in place as the post Covid 19 environment might lead to risk of increased expenditure in some service areas such as increased levels of disability due to longer than usual periods of hospitalisation and delays in seeking medical attention for other conditions during lockdown.

Children's Social Care

29. The division has worked very hard to minimise the impact Covid 19. While the direct impact of the pandemic has been less severe than for Adults', the resulting pressures on placement budgets combined with increasingly difficult local employment market has resulted in an adverse variance at year end.

30. There has been increasing shortage in the supply of children's social workers over a number of years at a national level. This trend combined with aggressive recruitment practices within London lead to increasing difficulties with permanent recruitment and an undesirable level of agency staffing within the division. In order to reduce this growing cost pressures on the Children's and Families budget, initiatives are underway to ensure that our recruitment and retention approach is as attractive as possible. However, it seems likely that without greater progress at a national level it will be difficult to fully resolve this in the short term.

Commissioning

31. The Commissioning division have been at the heart of the social care emergency response to the pandemic for care providers. In addition to maintaining the business as usual commissioning and procurement

functions, the team have also been dealing with vastly increased provider management and support and the distribution of millions of pounds of PPE on behalf of South East London.

Education

32. Education services continue to operate within a very challenging environment. This is mainly driven by the inadequate funding for high needs and services more generally. The Covid 19 pandemic has created further pressures within this area especially around diversion of resources and changes in the schools economy impacting on both savings and income generation targets. The periods of lockdowns have helped in preventing cost pressures on SEN transport escalating beyond the expected level. However, the post Covid restrictions combined with increased number of EHCP's are expected to have continuous unfavourable impact in this area. Officers within the service and in finance will monitor this area of the budget closely and work with providers to deliver the service as safely, efficiently and economically as possible.

Dedicated School Grant

33. The outturn position for the DSG has significantly reduced in comparison to previous year but still results an in-year deficit of £2.0m, bringing the accumulated deficit position to £20.6m at 31 March 2021. This deficit position is driven by increased number of Education and Health Care Plans (EHCPs), the extension of responsibilities to age 25 from 2014-15, increases 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 Autism Spectrum Disorders. The in- year deficit is also larger than expected due to the Secretary of State only approving part of the block transfer Southwark Council has applied for. The council has corresponded with the Department for Education (DFE) and Education and Skills Funding Agency (ESFA) over the past year about the support required to deal with the accumulated deficit. The issue is not a new one, nor is it just a local one and lobbying continues through both local and national Education and Finance directors' representative bodies.

34. In order to able to address the in-year deficit officers continue to pursue savings and efficiencies against the High Needs Block and in particular through commissioning work focussed on Independent Non-Maintained Special Schools and Alternative Provision. However the achievement of the balanced in year position has been affected by greater than anticipated increase in demand for EHCP's and savings and efficiencies delayed as result of resources diverted to respond to the pandemic.

35. There is also recognition that a number of maintained schools are experiencing increasing financial difficulties. This is mainly due to the continued falling roles, which has been experienced across all London

boroughs. Officers from the council work together with the schools to ensure robust plans are in place improve their financial situation.

ENVIRONMENT AND LEISURE

36. The final 2020-21 outturn for the Environment and Leisure department is an adverse variance of £15.946m.

37. The COVID 19 pandemic situation has had a significant impact on departmental budgets with substantial additional costs and loss of income across the numerous service areas within the department.

38. The financial implications of the COVID 19 pressures has been captured and reported in detail as part of the government returns to Ministry of Housing, Communities and Local Government (MHCLG) from the council.

39. The total cost of the COVID 19 budget pressure identified in the department amounted to £19.442m with some specific grant of £2.887m allocated to the department resulting in a net COVID budget pressure of £16.555m.

40. Therefore, once the net COVID pressure of £16.555m is adjusted against the above variance of £15.946m, the department reflects a favourable variance of £0.609m excluding COVID budget pressures.

41. The adverse variance of £15.946m is expected to be contained by central government COVID 19 grants and council's contingency resources held corporately.

42. The favourable variance on the 2020-21 ring-fenced Public Health grant budgets has enabled the repayment in full of the historical negative reserve that had existed on the Public Health accounts since 2016-17. The Public Health directorate was also able to contribute £0.132m towards a Public Health reserve to be used for future years.

HOUSING AND MODERNISATION

43. The departmental outturn for 2020-21 is a net budget pressure of £14.5m reflecting the impact of the Covid-19 pandemic, which was unforeseen when the budget was set in February 2020. Southwark has played a key role in supporting residents and businesses during the pandemic, ensuring that the most vulnerable in our community and local economy are protected, resulting in significant additional cost and loss of critical income streams that support the budget (estimated at £12.2m), which will not be fully covered through central government funding. The key headlines are set out below.

Customer Services - Temporary Accommodation (TA) and Housing Solutions

44. Homeless levels nationally have progressively increased over the last decade due to welfare reform changes and the unaffordable nature of the private rental sector, particularly in London, where market rents far exceed LHA rates. TA demand has been and continues to be acute in Southwark and the council has had to commit significant additional resources to it over recent years and again for 2021-22.

45. For 2020-21, the position has been seriously exacerbated by Covid-19, with a 34% increase year on year in homeless acceptances (around 600 households). In addition, the council has rehoused 324 existing clients from shared hostel accommodation and over the period a large cohort of rough sleepers due to the pandemic in accordance with government advice. In total the cost of TA provision is around £9.2m more than the previous year.

46. The aftermath of the pandemic will continue to be felt moving forward, as government financial assistance schemes end and with increasing business failures and rising unemployment. It is also anticipated that there will be a further spike in homeless applications as the embargo on private sector evictions ends (scheduled for 31 May 2021 at the time of writing), leading to considerable budget uncertainty throughout 2021-22 and beyond.

47. Overall, the outturn position shows an adverse variance of £10.6m for the provision of temporary accommodation (net of additional Covid-19 grant funding of £3.4m), and a further pressure of £1.5m within the housing solutions service, which predominantly comprises incentive payments for private sector leased properties. Arrears have also increased by over £2m and it has been necessary to set aside a much higher level of bad debt provision (£3.4m) than would otherwise have been necessary. Whilst early budget forecasts were assumed to be lower, the scale and prolonged nature of the pandemic has contributed to this exceptional position.

48. The council is fully cogniscent of its statutory homeless duties and keeps the TA policy framework under review to ensure it fulfils its obligations in the most cost effective and sustainable way. Whilst adopting greater flexibility in its strategy to procure good quality accommodation outside of London, the council has also introduced the Good Homes Standard, which sets the benchmark for private sector leased accommodation. These changes will have a mixed impact in terms of cost going forward and given current caseload predictions, early indications are that the TA budget will remain under considerable pressure during 2021-22.

Customer Services – Registrars and Citizenship and Mortuary and Coroners

49. The registrar's service was seriously affected as weddings and ceremonial events were severely restricted. With costs largely fixed, the loss of fee income exceeded £0.3m. Additional costs have also been incurred as a result of the pandemic in the provision of mortuary and coroners services. Overall the budget overspend across these areas is £0.7m.

Modernise – Technology and Digital Services

50. It is important to acknowledge that the service has delivered significant operational change in response to the Covid-19 crisis, which has enabled the council to maintain a high level of service capability throughout and continues to prepare for a measured and safe return to the office environment when the situation permits.

51. Overall, the cost of IT was £0.3m below budget. This favourable variance has been taken to reserves to fund a number of emerging priorities that need to be addressed in the short term. These include projects to deliver the council's data strategy with regard to data collection, storage and retention, predictive analytics and rationalisation and standardisation of the IT estate to create a more holistic approach to service delivery. Furthermore, the programme to migrate from data centres to a cloud-computing environment with Azure and upgrading to Office 365 continues and is expected to deliver greater operational efficiency and resilience in the longer term.

Modernise - Corporate Facilities Management (CFM)

52. CFM is responsible for managing the council's operational estate, ensuring that buildings are compliant with health and safety regulations and are fit for purpose for both staff and service users. The cost of compliance included in the outturn position is £0.4m. The service played a key role in responding to the pandemic, securing the delivery of PPE, making physical adaptations to buildings, providing sanitisers, screens, signage and providing security to buildings that remained in operational use throughout and those where it was necessary to close. The additional cost of Covid-19 is around £1.2m within CFM.

53. CFM delivers a planned works programme that generates fee income to support the budget. Covid-19 restricted the ability to fully deliver this programme in 2020-21 and consequently saw a reduction of £0.2m in fee income generated. Furthermore, during the course of the year, the service concluded a complicated procurement exercise for hard and soft facilities management contracts that required additional resources, the net pressure on staffing being £0.1m by the end of the year. However, due to a number of factors the procurement proved unsuccessful and will need to restart.

54. Lastly, the budget for 2020-21 was predicated on the Southwark Clinical Care Group (CCG) increasing their occupation of Tooley Street and generating additional income of £750k annually for the council. However, the workplace impact of Covid-19 led the CCG to reconsider these plans and withdraw from the proposed occupation resulting in the loss of income becoming an unavoidable budget commitment in 2021-22. These factors contributed to a total budget pressure of £2.7m for the year.

Central Services

55. Budgets held within this activity are of a department-wide nature including corporate recharges and costs that are not specifically attributable to a particular service, for example, financing and depreciation charges. This year the employee inflation budget was retained centrally as the pay award had not been agreed at the time of budget setting, which accounts for £0.4m of the favourable variance. Others budget savings accrued from legal services (£0.1m), which has now been taken as a saving for 2021-22 and the engineering assessments budget (£0.2m). Other minor movements account for the remainder.

CHIEF EXECUTIVES DEPARTMENT

56. The final 2020-21 outturn for the Chief Executive Department is an adverse variance of £4.359m.

57. The COVID 19 pandemic situation has had a significant impact on departmental budgets with substantial additional costs and loss of income across the numerous service areas within the department.

58. The financial implications of the COVID 19 pressures has been captured and reported in detail as part of the government returns to Ministry of Housing, Communities and Local Government (MHCLG) from the council.

59. The total cost of the COVID 19 budget pressure identified in the department amounted to £4.018m and once this is adjusted against the above variance of £4.361m, the department reflects a revised adverse of £0.343m excluding COVID budget pressures.

60. The adverse variance of £4.361m is expected to be contained by central government COVID 19 grants and council's contingency resources held corporately.

FINANCE AND GOVERNANCE

61. The Finance and Governance department, including Benefits and Subsidy and Pensions Administration, is reporting an adverse variance of £3.7m. The impact of the COVID-19 pandemic is the significant factor

with additional costs and lost income estimated at £3.9m.

62. During 2020-21 the Exchequer Services has been responsible for administering an exceptional number of pandemic related grant funding schemes and business rate reliefs for local businesses. These have included Business Support Grants, Local Restrictions Support Grant (LRSG) in addition to business rate reliefs for Retail, Hospitality and Leisure Sector and Nurseries. There has also been a significant additional administrative burden on the team with respect to the increasing number of welfare claimants and impact on council tax support (LCTS), Southwark Emergency Support Scheme (SESS) and hardship funds.

63. Elsewhere within the department (and after excluding pressures attributable to the pandemic), favourable variances were reported in Law and Governance as legal trading generated external income in excess of target and in Professional Finance Services, mainly due to vacancies.

Strategic Finance

64. Strategic Finance is reporting a small adverse variance of £0.3m. The variance is due to additional mortuary costs relating to the pandemic. These costs have been included within the return to MHCLG.

65. Strategic Finance includes a number of budgets that are not allocated directly to departments and which are managed centrally. These include treasury management, insurance, corporate provisions, levies and a number of technical accounting budgets, such as the reversal of depreciation, that do not impact on the net budget requirement or level of council tax that the council sets each year.

Contingency

66. As referenced elsewhere in this report, the £4m contingency budget was fully utilised to offset in-year budget pressures.

HOUSING REVENUE ACCOUNT (HRA) OUTTURN 2020-21

Table 2: HRA outturn position for 2020-21

	Budget £'000	Outturn £'000	Variance £'000
Asset Management	52,664	55,733	3,069
New Build	583	797	214
Communities	9,145	10,420	1,275
Resident Services	39,885	43,693	3,808
Customer Services	9,490	9,169	-321
Central Services	8,434	7,494	-940
Debt Financing	29,477	29,505	28
Depreciation	33,105	22,787	-10,318
Exchequer Services	53,000	53,458	458
Tenant's Rents & Service Charges	19,670	20,640	970
Homeowner Service Charges	-223,115	-222,116	999
Revenue Contribution to Capital	-32,338	-37,402	-5,064
Appropriations to /(from) Reserves	0	5,822	5,822
Total HRA	**0**	**0**	**0**

67. Earlier budget forecasts referred to uncertainty around the extent of unavoidable cost pressures and new commitments arising in the management and maintenance of the council's housing stock, and the exceptional circumstances arising from the Covid-19 pandemic. Whilst there have been some volatility and variation in certain areas during the year, costs have been contained and the outturn position shows favourable improvement overall. This has enabled earmarked reserves to be augmented and additional revenue funding to be made available, thereby reducing the level of new borrowing required to fund the housing investment programme (HIP). The key headlines and issues are outlined below.

68. The repair, maintenance and renewal of the housing stock consume the greatest proportion of operating resources (c. £106m including depreciation) and budgets remain under constant pressure. The size, age and nature of the housing stock are the most significant cost drivers, notwithstanding the substantial capital investment that has, and continues to be made in the stock.

69. There are a number of budget variances (both negative and positive) across the Asset Management division giving rise to a net overspend. The primary reason being the cost of works delivered in-house, comprising day to day repairs and maintenance, voids and communal works. As previously reported, the cost base remains significantly higher than budget and performance is not at the level predicated in the original business model (notwithstanding the impact of Covid-19). Realistically, this cannot be sustained as it diverts resources away from other high priority service areas and implementation of the repairs improvement

plan and ‘right sizing’ the organization is crucial to increasing operational efficiency/productivity, controlling costs and achieving the higher service standards and value for money that residents expect and deserve.

70. Other areas of particular concern are district heating, disrepair and voids, which are all over budget. Ageing district heating infrastructure is problematic causing frequent service outages requiring ad-hoc renewal and replacement works and temporary boiler installation to maintain service at substantial additional cost. It is recognised there is no easy, quick or cheap alternative to this situation which is expected to continue for the foreseeable future until a more sustainable solution can be implemented. This also needs to be seen in the context of national and local carbon reduction targets which increases both the build cost of new homes and the cost of retro-fitting carbon reduction measures to the existing stock. This requires long-term capital investment running into hundreds of millions of pounds and is one of the key priorities for the council in planning its investment strategy over the next decade.

71. The number of disrepair cases and associated costs are running above normal expectations and additional resources have been directed into this area to increase case settlement rates. There is evidence that this is being driven by external litigation firms targeting the council’s residents to make claims. Voids, particularly those used for temporary accommodation (reflected in the Resident Services divisional outturn), is running at a higher rate and unit cost than originally predicated in the budget. The unforeseen event of Covid-19 and the council’s extraordinary response has seen hundreds of people re-housed since March 2020 at significant cost to the council, only part of which will be met though central government grant.

72. As part of a managed and balanced funding approach, it has been possible in the short-term, to mitigate some of this pressure by capitalising a higher amount of eligible works expenditure (where it meets capital accounting criteria). However, this is not a long-term sustainable solution and urgently requires review and prioritisation of the council’s investment needs over an extended timeframe to ensure on-going affordability.

73. As mentioned above, there are a number of budget pressures within the Resident Services division, most significant being the extensive use of estate voids to meet increased demand from residents affected by the pandemic, including new temporary placements, rough sleepers and existing clients rehoused from shared hostel accommodation. Going forward, hostels are to be decommissioned with a consequent reduction in available stock for homeless clients and from a financial perspective, the loss of rental income to the HRA. The impact of which has been factored into budget setting for 2021-22. Whilst estate management services such as cleaning and grounds maintenance have seen some diminution in provision due to the pandemic, other estate running costs such as PPE, estate deep cleans, lighting and pest control have been

higher than budgeted and will be reviewed to determine a revised baseline as to their adequacy during the year.

74. Given the self-financing nature of the HRA, rental and other income streams are of paramount importance for the sustainability of the business plan. Gross rent debit and void loss are key budget indicators and were around 0.5% lower than target, which is better than early projections given the closure of the council's hostels as stated above. This has been mitigated through the greater use of estate voids, lower RTB activity and new properties coming on-stream as part of the council's new homes programme. Whilst the pandemic has inevitably had an adverse impact on rent collection performance, it is not as bad as first feared with collection running at 97.4% around two points lower than usual. However, it remains to be seen what the longer-term impact of the pandemic has on the wider economic climate and on resident's ability to pay their rent and service charges. Notwithstanding the cash-flow implications that this has, there is an expectation that a sizable proportion of income deferred will be recovered, albeit over an extended timeframe. The HRA has and continues to maintain a prudent level of provision to meet collection losses/write-offs.

75. Homeowner service charges represent the second largest income stream to the HRA and reflect the proportionate costs associated with managing and maintaining properties sold under the 'Right to Buy. These costs are fully rechargeable under the terms of their lease in order to prevent cross-subsidy from tenants. Early forecasts for 2020-21 were necessarily cautious, but revenue service charge billing is proportionally higher than budget this year due largely to the actualisation of previous year's estimated bills that include higher utility and communal maintenance costs. Capital works undertaken as part of the housing investment programme are also rechargeable but unlike annual service charges, the value of works billed can fluctuate widely from year to year depending on the scale and type of activity undertaken. The budget is maintained at an indicative level in order to average out fluctuations over a longer timeframe. For 2020-21, billing is also higher than budget which has contributed to the more favourable outturn position. Conversely, forecast billing for 2021-22 is expected to be adversely impacted by the disruption caused to the capital works programme by the pandemic and be below the budget target.

76. Central Support Services comprises non-operational service budgets such as departmental and corporate overheads, arrears/bad debt provisions, revenue support for the capital programme and debt financing. Whilst it remains an ambition to pay down HRA debt, unlike the general fund, there is no requirement to make a minimum revenue provision (MRP), which has and continues to provide the necessary flexibility to mitigate exceptional and inherent budget pressures elsewhere across the account. This has been particularly important over the last few years, as the council has successfully navigated the water refunds issue, the enforced rent reduction policy and other significant

budget pressures without any noticeable impact in service provision.

77. In 2020-21, the council needed to borrow £56.1m to fund the investment programme and this requirement will increase significantly over the medium-term to meet the critical investment needs of the housing stock, including building and fire safety, the heat network, carbon reduction and the new homes programme. Therefore, what budget flexibility currently exists will be quickly eroded and necessitate a more sustainable approach to service spending to offset the higher financing costs, which represent a fixed cost and first call on revenue resources. For reference, borrowing remains subject to the provisions of the Local Government Act 2003 which requires authorities to have due regard to the CIPFA's 'Prudential Code', when determining how much it can prudently afford to borrow.

78. 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). Earmarked reserves have for some time been below the optimal level considered prudent given the size of the council's HRA and HIP and whilst it has been possible to increase reserves to £28.8m this year, the challenge remains to build a greater level of sustainability going forward.

Collection fund

79. 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.

80. Monies received into the Collection Fund are distributed between the council and its preceptors based on their respective shares. Whilst the Collection Fund is a single entity, for reporting purposes it is split between Council Tax and Business Rates.

81. These accounting arrangements have had an exceptional outcome in 2020-21 due to the circumstances relating to the pandemic. The financial down turn has caused collection rates to be substantially lower than those that were predicted. In addition, after the estimated receipts for 2020-21 were fixed, the Government introduced emergency rate reliefs for particular business sectors. In the cases of both reduced collection rates and emergency rate reliefs, the Government has implemented grant schemes to compensate authorities for the lost income.

82. Regulations require any deficit in 2020-21 to be spread over three years.

83. The in-year deficit on the Business Rates collection fund for 2020-21 is £140.3m with the Councils share being £42.1m. The deficit, after taking into account additional Section 31 grant, will be spread across the three years 2021-22, 2022-23 and 2023-24. Under the governments Tax Income Guarantee (TIG) methodology, the council will receive compensation of £9.1m.

84. The in-year deficit on the Council Tax collection fund for 2020-21 is £5.3m with the councils share being £4.1m. The deficit will be spread across the three years 2021-22, 2022-23 and 2023-24. Under the governments Tax Income Guarantee (TIG) methodology, the council will receive compensation of £1.9m.

Earmarked Reserves

85. 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.

86. The outturn position on earmarked reserves has been greatly inflated due to the carry forward into 2021-22 of £54m of specific COVID-19 funding set aside to meet costs that will be defrayed in 2021-22 and future years and resources to support recovery.

	Opening Balance £'000	**Movement £'000**	**Closing Balance £'000**
Covid-19 reserves	-	53,425	53,425

87. Included within these resources are:

    - £49.3m of specific COVID-19 funding that must be set aside to meet costs that will be defrayed in 2021-22 and future years. These resources are not available to support the provision of services;

    - £2.2m for Welfare Support. Evidence from past economic crises suggest there will be increased pressures on a range of council services, including welfare support;

    - £1.5m for measures to support recovery including £0.5m for tackling health inequalities and £0.5m for town centres and high

streets.

88. As indicated in the table below, the net movement on non Covid-19 related reserves was £4.114m:

	Opening Balance £'000	Movement £'000	Closing Balance £'000
Corporate projects and priorities	19,541	3,262	22,803
Service improvements and reviews	19,350	10,794	30,144
Capital programme reserves	23,247	1,250	24,497
Strategic Financial Risk Reserves	50,506	3,818	54,324
Technical and smoothing reserves	34,430	(15,010)	19,420
Total earmarked reserves	**147,074**	**4,114**	**151,188**

89. 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. There were no budgeted contributions from reserves in 2020-21, however £5m has been earmarked to meet the budgeted contribution in 2021-22 and a further £2.5m to help mitigate the forecast deficit in 2022-23.

90. In addition resources have been earmarked to mitigate and manage anticipated funding shocks arising from funding reforms, and, in particular the planned business rate reset. These reserves would be needed to ensure a smooth transition over the forthcoming medium term financial planning period.

91. Other notable sums that have been earmarked during 2020-21 include:

- Replenishing the Southwark Pioneers Fund (£1.9m) and Southwark Emergency Support Scheme (SESS) (£0.9m) from emergency Covid funding;

- £1.7m increase in the Southwark Scholars Scheme to release revenue provision (as agreed as part of 2021-22 budget setting);

- £4.8m to ensure resilience in Adult Social Care budgets pending the government's proposals for reform of Social Care and £1.4m for Children's and Adults transformation.

92. It is clear that reserves will come under severe pressure during 2021-22 and the medium term as they are deployed to meet Covid-19 and other anticipated pressures.

93. The total movement in earmarked reserves are detailed in Appendix D.

General Fund Balance

94. Unallocated reserves are a key indicator of an authority's ability to cope with financial shocks. The CIPFA Financial Resilience Index places significant emphasis on this as an indicator of 'high risk'. Building financial resilience is imperative as we navigate our path to recovery and ensure that the council is well placed to meet future financial challenges.

95. The balance on the General Fund has been maintained at £21m in closing the 2020-21 accounts, in line with the policy to maintain a minimum balance equivalent to 2.5% of gross revenue expenditure.

Treasury management

96. As at 31 March 2021 the outstanding debt held by the council was £883m (£812m as at 31 March 2020), an in year increase of £71m.

97. 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. Whilst this policy continues, since 2017-18, it has also been necessary to undertake new external borrowing in order to maintain target cash balances.

98. In accordance with the approved treasury management strategy, the council borrowed £65m from the Public Works Loans Board (part of HM Treasury) during 2020-21, with maturity terms ranging from 45 to 49 years at an average interest rate of 1.9%. 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.

99. At 31 March 2021 the council had short term loans from other local authorities of £197m, an increase of £17m from the position at 31 March 2020. Local authority to local authority lending is common practice for short term lending since interest rates remain cheaper than those offered by the PWLB and lenders like the security of investing 'within the local authority sector'.

100. The council maintains sizable investment balances, representing income received in advance of expenditure plus balances and reserves held. Investments as at 31 March 2021 were £146m (£132m at 31 March 2020).

101. 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.

102. The rate of return for council treasury management assets for the 2020-21 financial year was 0.56%.

103. 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. Benchmark return was 0.11%. Whilst absolute returns were low, the council portfolio performed considerably better than the benchmark.

104. 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

105. This report monitors expenditure on council services, compared to the planned general fund budget agreed in February 2020, and HRA budget agreed in January 2020. 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 2020-21 – revenue budget: Council Assembly 27 February 2020.	160 Tooley Street PO Box 64529 London SE1P 5LX	Rob Woollatt 020 7525 0614
Link: https://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=132&MId=6377&Ver=4		
Housing Revenue Account: Final Rent-Setting and Budget report 2020-21: Cabinet 21 January 2020	160 Tooley Street PO Box 64529 London SE1P 5LX	Ian Young 020 7525 7849

Background Papers	Held At	Contact
Link: https://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=6418&Ver=4		

APPENDICES

No.	Title
Appendix A	Interdepartmental movements to be approved for month 5 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 2020-21

AUDIT TRAIL

Cabinet member	Councillor Rebecca Lury, Finance, Performance and Democracy	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report author	Rob Woollatt, Interim Departmental Finance Manager	
Version	Final	
Dated	4 June 2021	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments included**
Director of Law and Governance	Yes	Yes
Strategic Director of Finance and Governance	N/a	N/a
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		4 June 2021