

Cabinet

Tuesday 12 December 2017

4.00 pm

Ground Floor Meeting Room G02A - 160 Tooley Street, London
SE1 2QH

Supplemental Agenda No.2

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Date: 7 December 2017

Item No. 7.	Classification: Open	Date: 12 December 2017	Meeting Name: Cabinet
Report title:		Deputation requests	
Ward(s) or groups affected:		All	
From:		Proper Constitutional Officer	

RECOMMENDATION

1. That cabinet considers whether or not to hear deputations from:
 - Traders at the Elephant and Castle Shopping Centre
 - Rotherhithe Area Housing Forum.

BACKGROUND INFORMATION

2. When considering whether to hear the deputation request, cabinet can decide
 - To receive the deputation at this meeting or a future meeting; or
 - That the deputation not be received; or
 - To refer the deputation to the most appropriate committee/sub-committee.
3. A deputation shall consist of no more than six people, including its spokesperson. Only one member of the deputation shall be allowed to address the meeting for no longer than five minutes. After this time cabinet members may ask questions of the deputation for up to five minutes. At the conclusion of the questions, the deputation will be shown to the public area where they may listen to the remainder of the open section of the meeting.

KEY ISSUES FOR CONSIDERATION

4. The deadline for receipt of deputation requests for this cabinet meeting was midnight 6 December 2017. The requests were received in line with this constitutional deadline.

Deputation requests

Traders at the Elephant and Castle Shopping Centre

5. A deputation request has been submitted from the traders at the Elephant and Castle Shopping Centre and their supporting groups such as Latin Elephant to discuss the progress in support for traders during the redevelopment of the shopping centre, and any arising issues.

Rotherhithe Area Housing Forum

6. The deputation would like address cabinet in respect of two items on the agenda as follows:

- Item 14: Housing Revenue Account - Indicative Rent Setting and Budget Report 2018-19

The deputation wish to “call upon the cabinet to write to Sajid Javid, Secretary of State for Communities and Local Government, about the 1% rent reduction causing an estimated loss of at least £62M by 2020 requesting that Alok Sharma, Minister of State for Housing and Planning, provide Government grants to carry out necessary fire safety works.”

- Item 24: Land at Bush Road, Rotherhithe

The deputation request “that cabinet withdraw item 24 which agrees to compulsorily purchase a large part of the Haddonfield Estate communal grounds & garden. The deputation request that cabinet agree additional consultation be carried out before this project is taken any further.”

Community impact statement

7. The Southwark Constitution allows for deputations to be made by groups of people resident or working in the borough.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Cabinet procedure rule 2.11 on deputations:	160 Tooley Street London SE1 2QH	Paula Thornton 020 7525 4395
Link: (copy and paste into browser) http://moderngov.southwark.gov.uk/documents/s63344/Cabinet%20procedure%20rules_July%202015.pdf		

APPENDICES

No.	Title
None	

AUDIT TRAIL

Lead Officer	Everton Roberts, Principal Constitutional Officer		
Report Author	Paula Thornton, Constitutional Officer		
Version	Final		
Dated	6 December 2017		
Key Decision?	No		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title	Comments sought	Comments included	
Director of Law and Democracy	No	No	
Strategic Director of Finance and Governance	No	No	
Cabinet Member	No	No	
Date final report sent to Constitutional Team		6 December 2017	

Item No. 28.	Classification: Open	Date: 12 December 2017	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy 2018-19	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Fiona Colley, Finance, Modernisation and Performance	

FOREWORD - COUNCILLOR FIONA COLLEY, CABINET MEMBER FOR FINANCE, MODERNISATION AND PERFORMANCE

This report sets out in detail the council's budget position for next year and our proposals to date for balancing the deficit.

Yet again Southwark faces enormous funding cuts with a loss of £12m of government funding and specific grants. These funding cuts come at a time of continuing demands and pressures on our services, particularly social care, children's services, education, homelessness and welfare support.

Whilst we are seeing a welcome growth in the Improved Better Care Fund of £10.9m, this only partially funds the growing demands for adult social care and as previously announced we will need to raise a further Adult Social Care precept of 3% to raise a further £2.7m to support the care needs of older and disabled people. Even this combined £13.6m is insufficient to cover the growing needs of vulnerable adults and the council will need to find an additional £400k from our general budgets, collect a further £800k from client contributions and crucially save a further £4.6m by being more efficient in the way we deliver services. It is thanks to the focus and hard work of our officers and the Budget Recovery Board that we are able to set out these savings with confidence and go into 2018-19 proposing a sustainable budget for Adult Social Care that is £14m larger than last year.

We also face significant challenges in Children's Services and Education. Children's Services provide vital support for vulnerable children in our borough and we face great pressures in terms of the cost of placements, particularly residential care for looked after children. Thanks again to the work of our Budget Recovery Board we are able to propose £1.6m of efficiency savings in this area, but to make the budget sustainable we will also inject a further £3.4m for a net growth in the Children's Services budget of £1.7m.

In Education we are being hit on all sides, with the complete withdrawal by government of the Education Support Grant, cuts and restrictions to schools funding via the Dedicated Schools Grant, cuts to pupil premium for looked after children and growing numbers of children with special educational needs. The services the council provides to schools are vital components of the success we have seen reported in today's school standards report and we are determined to continue to offer these services. To do that we are proposing to increase our general fund contribution to education services by £1.3m.

Another area of notable budget pressure is the indirect cost of austerity: the continuing high levels of homelessness, the ineffectiveness of the Home Office in dealing with immigration applications and of course the roll out of Universal Credit. For our 2018-19 budget we are allowing for a further £1.6m of costs to the council to support our residents and to cover the loss of income to the council.

Local government pay is now the lowest in the public sector with the average local government worker having experienced a 21% real terms pay cut since 2010. Whilst the government has indicated that the 1% pay cap is no longer in force, they have not provided any resources to local authorities to help us give our staff the pay rise that they deserve. The budget presented today reflects the 2% 2018-19 pay award recently offered by the LGA Employers Side – this results in a £4m budget pressure in Southwark.

All these pressures, alongside other growing costs such as pay, inflation and IT, mean that as well as having to cope with £12m of cuts, we also need to fund £38.7m of additional commitments.

Yet again this year the good news for Southwark is that our continuing growth in homes and in our local economy is providing us with amazing growth in income. We are currently estimating an additional £16.4m of resources available thanks to this growth and the success of our Exchequer Services team in collecting more income than we had previously anticipated.

The report also sets out the opportunity that the proposed London Business Rate Pooling Pilot may bring to Southwark – although it is important to note that this pilot will replace government funding and brings with it new uncertainties and risks. Whilst some estimates have been provided, the formula for distributing the funds between boroughs and the GLA is not as yet finalised and we will not know how much additional business rate income the pilot will bring until September 2019. Cabinet is asked to delegate authority to enter into the pilot as set out in recommendation 14.

We have also set out in this report £18.7m of savings, a combination of efficiency savings (£11.5m), additional income from fees and charges (£6.8m) and also savings which will impact on services (£0.4m). These proposals will be consulted on with staff, affected residents and other stakeholders and partners.

However, despite this additional income and the savings proposed a budget gap of £5.6m remains and of course, unlike government, the council is legally required to set a balanced budget. So officers have been asked to continue to work to explore whether any further business rate income can be prudently included in the budget and to look again for any further income and savings across departments. Cabinet will need to consider these alongside the option of a council tax increase which could raise up to £1.8m (1.99% increase) when we consider the next iteration of the budget in January.

RECOMMENDATIONS

That cabinet:

1. Note that the government's budget statement was presented by the Chancellor of the Exchequer on 22 November, key headlines being set out in this report, including the government's agreement for a London Wide Business Rate pool. (paragraphs 105 to 112)
2. Note, as reported to cabinet in July 2017 and recognising the continued uncertainty for local government funding, that the intention remains for the council to prepare a balanced one year 2018-19 budget for approval by cabinet in advance of council assembly in February 2018. (paragraph 21)

3. Note the current budget options proposed to help achieve a balanced budget 2018-19. (Appendices C to F)
4. Note that this budget also proposes to use the flexibility offered by the government to support social care through an increase in the Adult Social Care precept, equivalent to 3% of council tax, on the basis that these additional funds will be used exclusively for adult social care (ASC). (paragraph 48 to 49)
5. Note the current budget options proposed include an increase in the Children's and Adults' Services budgets of £17.2m (funded in part by £12.584m Better Care Fund and £2.7m increase in the ASC precept) which is fully passported to Adult Social Care.
6. Note that the general fund budget proposals for 2018-19 contained within this report also include:
 - Estimated grant resources likely to be available arising from the provisional settlement expected in mid December (Appendix A), a reduction of some £12.0m from 2017-18 (excluding Better Care Fund);
 - Improved Better Care Fund resources totalling £12.584m (including the supplementary allocation of £4.497m announced in the spring 2016 budget);
 - Further resources from the adult social care precept of £2.7m, again passported in full to adult social care for 2018-19;
 - Retained business rates growth of £17.173m (paragraph 55 to 60), an increase of £8.473m over 2017-18 arising from proceeds generated by continued regeneration in the borough; plus an estimated surplus brought forward of £2.987m;
 - Estimated council tax revenue of £101.5m (of which £2.7m is represented by the additional ASC precept); estimated collection fund surplus of £5.750m in part attributable to a review of the provision for bad debt;
 - Planned contingency to be maintained at a level of £4m to mitigate underlying budget risks. (paragraph 95).
7. Note that the following savings, commitments and pay and price pressures have been proposed to help ensure the delivery of a balanced budget in 2018-19 (Appendices C – F):
 - Efficiency savings of £11.522m;
 - Income generation of £6.806m;
 - Savings impacting on services of £0.399m;
 - Commitments of £31.171m
 - Pay Awards (assumed 2%) of £4m;
 - Contractual inflation of £3.5m.
8. Note that, in order to ensure that the base budget is on a secure financial footing a number of commitments are proposed for 2018-19 totalling £31.171m, including:
 - £19.426m for ASC which are funded in the main from the £12.584m from the Better Care Fund and £2.700m through the Adult Social Care Precept;
 - £5.833m for Children's Social Care and Education Services;
 - £0.715m to further support spending pressures on No Recourse to Public Funds (NRPF) and Temporary Accommodation;
 - £2.202m for Corporate Facilities Management and ICT in support of the council's modernisation agenda.

9. Note the current pay offer of 2% for local government employees has been incorporated into these budget options, however there is continued uncertainty regarding pay negotiations that will need to be further reviewed by cabinet in advance of setting the 2018-19 budget.
10. Note the updated budget gap for 2018-19 of £5.597m and notes that officers will complete further work to present a fully balanced budget position for cabinet on 23 January 2018.
11. Note the Departmental Narratives (Appendix B) and the equality analyses provided for the budget proposals.
12. Note the consultation that took place prior to agreeing the indicative budget options for 2017-18 and 2018-19 and that further consultation will be undertaken for new budget options where necessary or appropriate. (paragraph 96).
13. Note that the further report to cabinet on 23 January 2018 will be considered by overview and scrutiny committee on 30 January 2018 and that any recommendations arising will be incorporated into the final report to cabinet on 6 February 2018 for recommendation to council assembly on 21 February 2018 (paragraph 98).
14. Note the proposals regarding pooling of London Business Rates (paragraphs 105 to 112) and to agree the following, based on advice received from London Councils' legal advisers in respect of these pooling arrangements:
 - 14.1 Establishment of Governance Arrangements: that the Cabinet resolves to:
 - approve and accept the designation by the Secretary of State as an authority within the London Business Rates Pilot Pool pursuant to 34(7)(1) of Schedule 7B Local Government Finance Act 1988;
 - note that the council intends to participate in the London Business Rates Pilot Pool with effect from 1 April 2018 [to 31 March 2019];
 - delegate the authority's administrative functions as a billing authority pursuant to the Non-Domestic Rating (Rates Retention) Regulations 2013 to the City of London Corporation acting as the Lead Authority;
 - authorise the Lead Authority to sub-contract certain ancillary administrative functions to the GLA with regard to the financial transactions (payment of tariffs and top-ups) within the Pool, as the Lead Authority considers expedient.
 - 14.2 Entry into the Memorandum of Understanding: that Cabinet resolves to:
 - delegate authority to the section 151 officer in consultation with the Cabinet Member for Finance, Modernise and Performance to agree the operational details of the pooling arrangements with the participating authorities;
 - authorise the section 151 officer, in consultation with the Head of Legal Services, to make any amendments as may be required by the Secretary of State, and to enter into the final Memorandum of Understanding on behalf of the authority.
 - 14.3 Operation of the Pool: that Cabinet resolves:

- to authorise the Leader, in consultation with the Cabinet Member for Finance, Modernise and Performance and the section 151 officer, to represent the authority in relation to consultations regarding the London Business Rates Pilot Pool consultative as may be undertaken by the Lead Authority pursuant to the Memorandum of Understanding;
- to delegate to the Cabinet Member for Finance, Modernise and Performance the authority to consider such consultative reports as the Lead Authority may circulate and to respond on behalf of the authority with regard to any recommendations and in particular, proposals for projects to be approved for funding from the Strategic Investment Pot.

BACKGROUND AND PURPOSE

15. In September 2016, the cabinet approved the Fairer Future Medium Term Financial Strategy (FFMTFS) and Integrated Efficiency Plan noting the relationship to the Council Plan and the new theme to be fit for the future. The council accepted the four year finance settlement in line with the Local Government Finance Final Settlement (February 2016) and 2018-19 is the third of these four years. The offer covers the revenue support grant and indicates that tariffs and top-ups in 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities.
16. Despite this four year settlement, there remains continued uncertainty with regard to a number of elements of government funding. These include the New Homes Bonus, Public Health grant and most importantly Better Care and Improved Better Care funding. In addition, price, inflation and demand pressures need continual review to ensure that budgets set each year are sustainable.
17. The government has expressed a continued commitment to give local authorities greater control over the money they raise locally. Since 2013-14, when the new funding arrangement commenced, the council's reliance on local taxation as an income source has increased, with council tax and business rates now representing over 37% of funding estimated for 2018-19. Therefore, a key part of the budget process is for officers to reassess the estimated income from council tax (driven in the main by the number of new homes, council tax banding of these homes, the council tax relief scheme) and Business Rates (driven by the rateable value, appeals and businesses coming into/out of the rating lists).
18. In addition, the government has agreed to a London-wide Business Rate pool with effect from April 2018. This will not impact on the available resources in 2018-19, and is discussed in more detail in paragraphs 105 to 112 (see also background papers – Appendices G1, G2).
19. At cabinet on 18 July 2017 the financial remit was considered which included known estimated resources available at that time, and assumptions regarding the costs of pay awards and inflation. This report concluded with a budget gap of between £16.440m and £19.894m, dependent on the ability of the council to access, in full, the supplementary Improved Better Care Fund (announced spring 2017). Officers were asked to prepare indicative savings and commitments for 2018-19 in order to balance the budget.
20. This report provides an update on the work undertaken to both reflect the latest information on available resources, updated estimates on council tax and business rates and to consider budget savings and commitments proposed for 2018-19.

21. As set out in July 2017, the budget will be prepared on a one year basis for 2018-19, recognising that the settlement is indicative and a range of other significant uncertainties relating to the council's financial position. A one year budget is considered by the section 151 officer to be the most appropriate strategy at this time given these uncertainties that include adult social care and children's services cost and demand pressures and government funding sources and any conditions attached to these. This includes the ring fencing of the ASC precept.
22. The agreement of our CCG partners to the utilisation of the Improved Better Care Fund in full has gone some way to mitigate these budget pressures in adult social care and at month 4 a budget adverse variance was reported of £4.229m. Management action is ongoing to control these pressures and progress continues to be monitored via the Budget Recovery Board. Indications at this time are that measures have been effective in containing the overspend at this level although this position is sensitive and requires continual review.
23. From April 2018, the Homelessness Reduction Act comes into force which places a series of new responsibilities on local authorities to prevent homelessness. The government will provide £72.7m to local authorities to meet the costs of the new burdens associated with the additional duties contained within the Act over the course of the Spending Review. The adequacy of this funding will need to be carefully assessed as it is unlikely to be sufficient to carry out the new responsibilities in full.

Updated Financial Remit

24. In accordance with instructions from the July 2017 cabinet, this report provides updated budget proposals for 2018-19. These proposals reduce significantly the budget gap to £5.597m. However, the remaining gap still presents a major challenge, not least in the context of the savings that the council has had to make throughout the austerity period since 2010 and the increased ring fencing of a large element of resources available for adult social care.
25. Further work is being undertaken by officers to present a fully balanced 2018-19 budget for the 23 January 2018 cabinet meeting in advance of February council assembly. A summary of the 2018-19 proposed budget can be found at Appendix A.
26. The indicative budgets were set at an assumed level of government funding as set out in the February 2016 four year settlement. The council accepted the government's offer of a four year funding settlement for 2016-17 to 2019-20 and received confirmation of this from the government on 16 November 2016.
27. This report outlines all major variations from the 2017-18 budgets. It itemises changes in resources available (e.g. government grant and Council Tax income) and provides a high level summary of efficiencies and improved use of resources, income generation and savings that impact on service levels. It also itemises new and emerging growth and commitments that may arise from issues such as price, demand pressures and costs arising from the delivery of council plan priorities.
28. Separate schedules are provided that give details of each element of these variations. Responsibility for each element is retained by the cabinet member responsible for the portfolio and operationally managed by the strategic director for that service (Appendices C, D, E and F).
29. The Policy and Resources Strategy 2018-19 underpins the work of all council departments, ensuring financial sustainability and the best possible level of service for

residents. The council remains committed to promoting efficiency as the key driver to reducing costs and minimising the impact of budget decisions on front line services. The Fairer Future promises commit to *spending every penny as if it were our own*. This promise is reinforced with the Fairer Future Budget Principles. Inevitably, as total resources available continue to reduce, demands increase for services and planned efficiency improvements are delivered, protection of these valued front line services becomes increasingly difficult.

November 2017 Budget Statement

30. On 22 November 2017, the Chancellor of the Exchequer delivered the Budget. As announced last year, this is now the single government fiscal event, with no spring budget. This included a number of policy announcements, the key headlines are set out below (source: London Councils' on the day briefing):

- **Council Tax** – power to raise empty homes premium will be doubled from 50% to 100%, this is expected to be implementable from April 2019.
- **Housing investment** – an additional £15.3 billion of new investment will be made available to support the delivery of 300,000 additional homes by the mid-2020s nationally.
- **HRA borrowing cap** – will be lifted for areas in highest need, but not until 2019-20 and local authorities will have to bid for it (this will be limited to £1 billion nationally).
- **Grenfell Tower** - £28 million additional to RBKC to support victims including new mental health services, regeneration support for the Lancaster West estate, and a new community space.
- **NHS** – additional £2.8 billion will be made available in the next three years – £335 million immediately to help the NHS to increase capacity over winter.
- **London business rates retention pilot** – the government has agreed a pilot of 100% business rates retention in London in 2018-19.
- **Business Rates RPI to CPI indexation** – will happen in April 2018 (two years early) costing £770 million in those two years. Local government will be fully compensated, but it is not yet clear how.
- **Business rates revaluations** – will move to three-yearly revaluations following the next revaluation, currently due in 2022. A consultation on implementation is due in the spring.

31. Furthermore, it is noted that budget did not consider the following key areas of interest for all councils:

- **Children's Services** – there were no additional resources released to address the growing crisis in children's services funding.
- **Public Sector Pay cap** was not lifted.
- **Adult Social Care** – The adult social care green paper has been deferred until the summer of 2018.
- **Fire Safety** – there was no commitment to fund additional fire safety costs – simply reiteration that councils should contact DCLG if they cannot afford to undertake essential work.

32. In addition to the policy announcements, the Chancellor also provided the usual updates on the public finances. The overall economic outlook was forecast to be persistently low growth in productivity but with the expectation that inflation levels would reduce from current levels. At this stage, it is too early to confirm what the exact

impact on local government will be and more details are likely to emerge over time. These may be made clearer as part of the provisional settlement to be published for consultation at some time in December 2017. More likely, the next major event setting out future implications for local government will form part of the next Comprehensive Spending Review, although the timing of this is not set.

33. In particular, it is expected that the provisional settlement will provide further detail with regard to the size and distribution of key future funding sources that include public health grant, better care fund (improved and supplementary) and new homes bonus. In the absence of this detail for 2018-19 and beyond, this report has made best estimates of these resources likely to be available to the council. Furthermore, the settlement will be adjusted for the London Pooling Pilot with reduced Revenue Support Grant (RSG) and increased reliance on business rates.

Provisional Local Government Settlement 2018-19

34. This budget is prepared on the basis of the final provisional settlement received on 20 February 2017 and updated estimated council tax and New Homes Bonus income. The overall changes in funding are set out below.

Settlement Funding Assessment (SFA)

35. The Settlement Funding Assessment (SFA) comprises the core funding sources for authorities defined as the Revenue Support Grant, retained business rates and business rate top up. The SFA is 4.4% lower than in 2017-18, amounting to £158.670m for 2018-19. By 2019-20 it is projected the SFA will have reduced by 8.7% over the two year period to £151.5m.

Improved Better Care Fund (IBCF)

36. The Better Care Fund was established in 2014-15, with the aim of supporting closer working between Local Authorities and the CCG. The council invoices the CCG for its share of the pooled fund which is offset against appropriate expenditure.
37. The Improved Better Care Fund totals £12.584m for 2018-19; this is made up of two parts.
 - The Improved Better Care Fund (IBCF) that was included as part of the 2016-17 settlement of £8.088m for 2018-19. This was for the utilisation of local authorities for adult social care.
 - Following national pressure on adult funding care crisis, supplementary Improved Better Care Fund was announced in the Spring 2017. This equates to funding for Southwark of £4.497m in 2018-19. This grant is allocated on the basis of 10% of the Relative Needs Formula used for the 2017-18 Adult Social Care Support Grant and the remainder using the existing IBCF allocation. The utilisation of this grant was agreed with the Health and Well-Being board for adult social care funding pressures.

New Homes Bonus (NHB)

38. New Homes Bonus (NHB) was introduced in 2011 to provide a clear incentive for local authorities to encourage housing growth in their areas. It rewards local councils for each additional home added to the council tax base, including newly built properties and conversions as well as long term empty properties brought back into use, after deducting demolitions. Following a review of the funding “sharpening the incentive”

the grant reduced in 2017-18. In 2018-19, the grant will reduce further, as the payment will be based on four years' growth from 2018-19 onwards. A 0.4% baseline was also introduced in 2017-18 so that local authorities would need to achieve tax base growth of greater than 0.4% before they receive any NHB funding. Southwark's tax base growth is expected to be in excess of this baseline by 2%, generating much-needed additional NHB funding.

39. The total forecast NHB funding for 2018-19 is £11.372m based on the 2017-18 baseline. This is a provisional forecast, the funding pot is limited and therefore the final allocation is subject to the final settlement released mid-December.

DCLG Core Spending Power

40. In accordance with the DCLG final provisional local government settlement 2017-18, Southwark's reduction in core spending power between 2017-18 and 2018-19 is calculated as -0.5%. By comparing the components of this spending powers change calculation (see table below), it is clear that there is an increasing reliance on locally raised council tax to fund local authorities' budgets.
41. The core spending power calculation does not include any inflationary cost pressures, assumptions regarding demand pressures and calls on this funding or reductions in grants such as Public Health. This means that the reduction in core spending power is understated, with inflation and pay award pressures amounting to £6m for Southwark.

	Change in SFA	Change in council tax	Change in relevant grants (iBCF, NHB and adult social care grant)*	Change in spending power
Southwark	-4.4%	8.0%	-6.3%	-0.5%

*DCLG spending power calculations exclude Public Health and Education Support Grant.

Public Health Grant

42. Alongside the settlement, the government published the Public Health Grant allocations for 2017-18. Southwark's allocation of £28.194m in 2017-18 is estimated to decrease by 2.6%, in line with previous years reductions, to £27.469m for 2018-19. From 2013-14, when Public Health responsibilities transferred to local authorities, to 2018-19 grant funding is anticipated to reduce by an equivalent of 12% with no inflationary increases from 2015-16 onwards. Southwark has the fourth lowest per head public grant allocation of the inner London boroughs.

Adult Social Care Grant (2017-18 only)

43. The changes to the New Homes Bonus Scheme in 2017-18 allowed the government to remove £241m from the scheme and divert this funding to the Adult Social Care Support Grant, of which Southwark received £1.6m. This grant was for 2017-18 only and no such grant exists for 2018-19.

Education Support Grant (ESG)

44. The education services transitional grant will cease in 2018-19, leading to a loss of funding of £0.7m from 2017-18. To mitigate this loss, the council has built in a budget commitment to support education department functions for an equivalent amount.

Local Taxation

Council Tax

45. The council is committed to the fairer future promise to “keep council tax low”. The Southwark element of council tax was frozen from 2008-09 until last year when financial pressures and the cumulative impact of reduced government funding meant that it was considered no longer sustainable to hold this position.
46. The authority has been able to maintain the seventh lowest level of council tax in London in 2017-18, despite having incurred the largest reduction in government grants. Throughout this period, the government applied a cap on any council tax increase of 2% per annum and required a local referendum for any increases at or above this level. This level has not been exceeded by Southwark to date and the cap remains in place for 2018-19, albeit increased to 5% to reflect the additional adult social care precept.
47. The council tax has remained below the charge it would have been if CPI had been applied each year since 2010-11. Further, council Tax Relief Scheme continues to provide support for our financially vulnerable residents.

ASC precept

48. In 2016-17, and in line with government guidance, the council applied a 2% precept to help fund adult social care. Of the 33 London boroughs, 26 took advantage of this precept. For 2017-18, government extended the adult social care precept to allow for 6% over 2017-20, with no more than 3% in each of the first two years. This precept was applied in 2017-18 providing a contribution towards the significant financial pressures within the Adult Social Care budget.
49. Within this report, it is recommended that a 3% precept again be applied for 2018-19, in light of the substantial pressures on adult social care service (see paragraphs 61 to 68). The approach for the council tax base to be a driver to fund Adult Social Care costs unfairly impacts on local authorities with high adult social care needs and a low tax base.

Southwark Element of the Council Tax

50. Ten of the thirteen inner London Boroughs increased their council tax in 2017-18, 26 out of 33 across London, including Southwark. This is indicative of the cumulative impact the financial stress across local authorities in London.
51. In the context of pressures on council finances, the reducing levels of reserves and the continued year on year reductions in spending power, council tax remains a key source of income for the council. An increase of 1% in council tax amounts to £0.9m income. This is one of the options that it will be necessary to consider to close the budget gap to protect services.

Council Tax Collection

52. As reported elsewhere on this agenda the council tax base is growing in the borough – a direct reflection of the regeneration and investment in new homes.
53. This report recommends that the collection rate is maintained at 97.2%, reflecting current performance and in consideration of the increased collection risk as universal credit is rolled out.
54. The collection fund forecast outturn position is a surplus of £5.750m and this has been accounted for in the council tax calculations for 2018-19.

Business Rates Baseline

55. The government agenda is for local authorities to move towards self-sufficiency and away from dependence on central government. As a step towards this reform, in 2013-14, government changed the funding system to increase reliance on local taxation. Revenue support grant (RSG) allocations reduce over the period 2013-20, whilst the level of retained business rates increases. A tariff and top up system is in place; Southwark is a top up authority which means that we receive a fixed top up to RSG funding, in addition we retain 30% of our growth business rate receipts above the target set (GLA retains 20%; central government 50%). This approach reduces the level of funding certainty as local authorities may collect more or less than the target level of business rates.
56. In 2017-18, business rates revaluation was carried out and baselines were adjusted so that the authority's retained income is the same after revaluation as immediately before.
57. The 2018-19 budget includes a forecast assumption that the council's Business Rate Retention income will exceed the baseline funding level by £17.173m (i.e. in total the retained business rates total of £93.870m; consisting of the baseline of £76.697m and £17.173m in excess of this baseline). This is after appropriate provisions have been made for appeals. Furthermore, it is estimated that £2.987m of Business Rate collection fund surplus will be available to support the budget. This is an increase in our retained business rates attributable to estimated increase in buildings coming into the rating list, most significantly London Bridge station.
58. Although in the autumn 2017 budget, the legislation to support a move to 100% business rates was not progressed, the government continues to be committed to reform an ongoing move to self-sufficiency agenda. As reported, the government has agreed for a London Wide Business Rate Pool Pilot with effect from April 2018.
59. This ongoing move to self-sufficient local government demonstrates the importance of Southwark's capital investment programme within the borough, either as the lead authority or with partners. Regeneration is the key to ensuring sustainable budget sources as we move closer to 100% business rate retention in the future as well as increasing opportunities across the borough for quality of life, jobs and environmental improvements.
60. In the chancellor's budget on 22 November, he stated an end to "staircase tax" for business rates. The "staircase tax" refers to a quirk in the rating system which reduces the discount available for occupying multiple floors within a building if the staircase

between those floors is not exclusively for the use of the occupier. The council has provided for this risk within the business rate appeals provision. However, the implication of this will need to be fully considered as more details are released.

Children's and Adults' Services

61. At the end of 2016-17, pressures on Children's and Adults' social care lead to an overall adverse variance of £14.887m after the utilisation of £11.450m of reserves, inclusive of the application of the 2016-17 Adult Social Care 2% precept. This was preceded by a cost pressure in 2015-16 of £18.7m which had been met through the use of reserves.
62. The government's autumn 2017 budget recognised the continuing nationwide budgetary pressures in adult social care by introducing the powers for councils to apply a 3% council tax adult social care precept, and provided a one-off adults' social care grant in 2017-18 (although this grant was funded through a reduction in New Homes Bonus). In 2017-18 the council agreed to increase the Children's and Adults' Services budgets by £5.345m, funded in part by the application of the adult social care precept of 3%. This increase was in the context of a grant reduction of £15m.
63. The service pressures due to the level of demand and complexity of need continued to be reflected in the cost pressures being experienced across London and the country. In the spring of 2017, the government responded to the crisis in Adult Social Care funding through announcing the supplementary Improved Better Care Fund (IBCF). Southwark's allocations totalled £7.417m in 2017-18, reducing to £4.497m in 2018-19. As set out in the 19 September Cabinet report – Revenue Monitoring Report (month 4), the health and wellbeing board agreed to the application of the supplementary IBCF in full to support the continuing adults' social care budget pressures in 2017-18. Subsequently, the application of 2018-19 supplementary IBCF to the council's adults' social care services was agreed by the CCG's Integrated Governance and Performance Committee on 28 September for 2018-19. As reported to cabinet in September, following the use of the 2017-18 IBCF, the service is currently reporting an adverse budget variance of £4.229m.
64. In 2018-19, the council is proposing to utilise powers for the third year in applying the Adult Social Care precept of 3% in 2018-19, generating £2.7m of resources to be allocated to contribute to those services supporting our more vulnerable adult residents. Also, reflected in the budget is the 2018-19 Improved Better Care Fund of £12.584m. This growth is being used to quality care to meet increasing demand for homecare, nursing care and supported living.
65. In total this ensures that Adult Social Care budgets are on a more sustainable footing moving into 2018-19 with an increased budget of £14.049m.
66. The allocation of IBCF and the Adult Social Care precept has alleviated budget pressures for Adult Social Care somewhat, bringing into focus the Children's and Education Services pressures. This was recently recognised by London Councils where data gathered from all 33 London Boroughs indicated 25 of them overspending on Children's Social Care (average of 9.6%) and budget pressures in areas across London for children with high needs and transport costs. These pressures, alongside changes to the Dedicated Schools Grant framework, place Southwark budgets under significant pressure in 2018-19. These budget proposals provide for an increase in Children's and Education budgets totalling £3.087m. This is intended to address cost pressures within the Children's and Education Services and place these services on a more sustainable financial footing.

67. These proposals increase the Children's and Adults' Social Care budgets by £17.136m in total 2018-19. The Section 151 Officer's view is that this strategy is necessary to ensure that these demand-led services supporting our most vulnerable residents are placed on a secure financial footing as the environment of reducing government grants and reduced level of reserves continues.
68. An executive board (budget recovery board) headed by the chief executive has been established to provide oversight over the significant budget reductions and demand pressures experienced by the Children's and Adults' department. The board continues to meet and an update on progress will continue to be reported to cabinet through the budget monitoring reports.

Updated financial remit

69. Through the council's budget cycle, savings and income generation options are presented for consideration to close the budget gap which, should these proposals be agreed, closes the gap to £5.597m.
70. The 2018-19 proposals for each Directorate are summarised in the table below and detailed in Appendices C, D, E and F.

	Commitments £000	Efficiencies £000	Income £000	Savings £000	Net impact £000
Adults Social Care	19,426	(4,577)	(800)	-	14,049
Children's Services	3,366	(1,590)	-	-	1,776
Education	2,467	(735)	(421)	-	1,311
Children's and Adults' Services Total	25,259	(6,902)	(1,221)	-	17,136
Environment and Social Regeneration and Public Health	250	(2,680)	(2,780)	-	(5,210)
Housing and Modernisation	3,137	(260)	-	(399)	2,478
Chief Executive's	50	(330)	(445)	-	(725)
Finance and Governance	150	(1,350)	(360)	-	(1,560)
Corporate	2,325	-	(2,000)	-	325
Total	31,171	(11,522)	(6,806)	(399)	12,444

*Commitments within Adult Social Care total £19.426m, of which £15.284m is funded from Improved Better Care Fund and Adult Social Care Precept monies.

Pay Award

71. The current budget plans for 2018-19 are based on a projected 1% pay rise for all staff. This is within the existing public sector pay cap. The chancellor's budget on 22 November did not reference any change to this cap. Significant work is currently underway both nationally and within London to reach agreement on pay awards moving forwards. In part, negotiations will be considering the arguments that local authority pay has been disproportionately suppressed as a consequence of the pay cap

and that this situation needs rebalancing. Further there are concerns to ensure that the lower graded staff are adequately paid and that pay differentials remain appropriate. The position will continue to be monitored and a further update will be included within the report to cabinet in January, including any relevant financial implications.

Inflation

72. Consumer Price Index (CPI) 12 month rate for October is 3%, unchanged from September 2017. This compares to 0.9% for the same period last year. This budgetary pressure is recognised in the budget with a £3.5m allocation for contractual inflationary pressures in 2018-19.

Efficiencies and Improved Use of Resources

73. The fairer future promises contain a commitment to keep council tax low by delivering value for money across all of our services. In part, this is met through ensuring that the council is focussed on meeting the budget gap with proposed efficiency savings. The fact that efficiency savings of £11.522m represent almost two thirds of the total budget proposals is evidence of this commitment to residents (detailed in Appendix C).
74. The major efficiencies within Adults' Social Care relate to modernisation of integrated pathways and review of care packages for people with disabilities to align to the Care Act national eligibility level and through reorganisation of Adult Social Care teams to support the modernisation of the service.
75. Notable efficiencies across Children's Services relate to the part year effect of restructuring children's social care service delivery including delayering of management and the effect of the completed restructuring of business support functions for children's social care.
76. Efficiencies through the pan-London e-service, integrated sexual health tariff and more efficient methods of service delivery will deliver efficiencies within Public Health totalling £0.665m.

Income Generation

77. As the council looks for ways to protect front line services, consideration is given to maximising the council's income generation by seeking income streams in line with council policies and priorities. The council will seek to generate additional income by reviewing fees, charges and contributions and seeking further opportunities to provide commercial services. This may include introducing charges for some discretionary services and ensuring that we maximise the recovery of our costs. The schedules at Appendix D set out a number of proposals totalling £6.806m generating additional income.
78. This income falls into four broad groups:
 - increase in fees and charges £2.1m
 - increase in contributions for care £0.8m
 - commercial rents of £2.0m and £0.4m, and
 - increasing income arising from the leisure contract, totalling £1.0m
 - a small amount of recharging of costs, as appropriate.

79. A further schedule of proposed fees and charges will be brought forward as part of the planned January 2018 policy and resources report to cabinet.
80. Income receivable from the council's commercial property portfolio is a vital source of income to support council services. In this period of decreasing government funding for council services, the council has purchased commercial properties to generate much needed additional income into the general fund revenue budget and help support the delivery of our highly valued public services.

Savings Impacting on Service Delivery

81. Wherever possible, the aim is to continue to protect front line services from saving reductions. However, the extent of the government austerity measures means that after careful consideration, it is inevitable that some service reductions will be required to balance the budget. The schedules at Appendix E propose savings of £0.399m with potential to impact on service delivery.
82. Comprehensive equalities analysis of the impact of these savings will be considered as part of the proposal considerations.

Commitments

83. The commitments within Children's and Adults' services are funded in part from the Improved Better Care Fund allocations of £12.584m and Adults' Social Care's additional funds raised through the application of the adult social care precept of £2.7m. The latter has been committed and ring-fenced for adult social care to ensure that services support our most vulnerable residents to lead and enjoy independent lives.
84. The specific commitments within Children's Services and Education total £5.833m. The majority of the commitments relate to structural finance for staffing and placements. Other notable commitments relate to additional SEN home to school transport costs due to increases in number of children with special educational needs and to mitigate losses of government Education Support Grant (ESG) transitional grant funding that previously supported Education department functions.
85. For some, these commitments include unavoidable service related costs including IT and facilities management that enable improved and basic management of the council estate allowing for modernisation and service improvement to ensure the council is "fit for the future".
86. No Recourse to Public Funds (£215k commitment) and Temporary Accommodation debt arising from universal credit issues (commitment of £500k) continue to be areas of financial pressure. Subject to the month 8 budget monitoring report, commitments are proposed here to ensure these areas of budget risks are sustainable in 2018-19.
87. Furthermore, as identified in the month 4 capital reports, the council has a projected financing gap of £183.585m in 2017-18 and £171.839m in 2018-19 across both the General Fund and Housing Revenue Account. It is envisaged the council will need to additionally borrow to finance the capital programme moving forwards. To mitigate the associated costs of borrowing a commitment of £1.000m has been built into the 2018-19 budget.
88. A commitment is proposed to support the council plan promises: to ensure that young people have the best start in life through ensuring a top quality playground in every

local area; and fairer future promise for an age friendly borough through the ongoing implementation of the Southwark ethical care charter.

89. Furthermore, the commitments include council-wide cost pressures relating to national legislative or regulatory changes such as the apprenticeship levy and the business rate revaluation.
90. A detailed list of all commitments can be found in Appendix F. The overarching theme of these commitments is to ensure that services budgets are sustainable, particularly in the context of the reduced availability of reserves to support budget pressures.

Use of Reserves and Balances

91. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. These reserves are maintained to fund:
 - invest to save opportunities, which form part of the modernisation agenda and are expected to deliver future ongoing revenue savings;
 - investment in regeneration and development where spend may be subject to unpredictable market and other factors;
 - exceptional items or pressures which are difficult to predict and which are not included in revenue budgets or within the capital programme.
92. 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..
93. 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. In previous years, this judgment has been facilitated by the availability of unused contingency funds as budgets have met their targets. The budget proposals for 2018-19 do not include a planned release of reserve. The position will be kept under review, and at this time it is thought that the lack of availability of similar resources will present a challenge in 2018-19.
94. The final budget report to cabinet will provide a detailed update on the current level of reserves and balances, to include comparisons with other London local authorities,

Planned Corporate Contingency

95. It is proposed that the planned corporate contingency of £4m be maintained to support emerging budget pressures during the year. In the current and previous years, this contingency has been essential to manage in-year demand and cost pressures.

Consultation

96. High level consultation was conducted on the three year budget proposals for 2016-17 to 2018-19. The consultation responses received were consistent with prior years' consultations, and were used to inform the budget proposals. A substantial majority of those who responded to this consultation agreed that the council should continue to focus on being more efficient, protecting frontline services and directing resources to those most in need and this is reflected in the budget proposals.

97. Since then consultation on the Voluntary and Community strategy was conducted to ensure that all sections of the voluntary and community sector could contribute to the development of the strategy, and a series of four open invitation listening events was held which attracted over 200 people. The listening events took place in an atmosphere of goodwill. There was also recognition of the need to find new ways of making the most of diminishing budgetary resources. There has also been consultation on the development of the policy and policy drafts through the Health and Wellbeing Board, Children's and Adults' Board, the Forum for Equalities and Human Rights, the council's departmental commissioning network and the council/VCS Liaison Group.

Next Steps

98. The next main governance steps to establishing the 2018-19 general fund revenue budget are outlined in the table below:

Date	Meeting	Report	Purpose
23/01/2018	Cabinet	P&R strategy	Select proposed solutions for meeting the budget challenge
30/01/2018	Overview and Scrutiny	P&R strategy	Comment on and make recommendations in respect of the cabinet's proposed 2018-19 budget
06/02/2018	Cabinet	P&R strategy	Recommend a balanced budget for 2018-19 to Council Assembly
21/02/2018	Council Assembly	P&R strategy	Council Tax setting and approve a balanced budget for 2018-19

Community impact statement

99. The council works in accordance with the single public sector equality duty contained within section 149 of the Equality Act 2010. This means the council must have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, and advance equality of opportunity and foster good relations between different groups.
100. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the budget for 2018-19 and for previous years, each department will undertake equality analysis/screening on its budget proposals ahead of the final decisions being taken. Where screenings identify potential impacts more detailed analysis is being carried out.
101. Undertaking equality analysis helps the council to understand the potential effects that the budget proposals may have on different groups. The analysis also considers if there may be any unintended consequences and how any of these issues can be mitigated. Analysis is also undertaken to consider any cross-cutting and organisation-wide impacts.
102. For many services the budget proposals will include efficiencies which have staffing implications. As specific proposals are brought forward, and at each stage of implementation thereafter, the different impacts on different categories of staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.

103. Equality analysis will continue through the cycle of planning and implementation of these budget proposals. In line with our Public Sector Equality Duty, any changes to services arising from these proposals will be implemented in such a way so as to not impact disproportionately on any specific section or group in our community. Where necessary, consultation will be undertaken alongside mitigating actions where necessary. In line with the process across the council, information on the equality analysis will be shared with the relevant cabinet members so it can be considered when decisions are taken. The equality analyses will be collated across the council to look for any cumulative impacts.
104. To date no cumulative impacts have been identified through the analysis. However, this process will be completed in time to be reported on in the final budget report in January 2018.

Business Rates London Wide Pool

105. On 10 November, the Chair of London Councils wrote to all leaders of London councils to confirm in principle the agreement for a devolution deal for London Councils (background papers Appendix G1). This agreement involves London authorities retaining all business rate growth above the baseline target set by central government. This is over and above the amount retained by each local authority. The letter states that the government has indicated support for the pilot proposed subject to robust governance arrangements and “a significant share of the additional resources to promoting future economic growth”. On 22 November, the chancellor confirmed this would proceed. The arrangement is for a two year pilot, starting from 2018-19.
106. A founding principle of the London business rates pilot pool is that no local authority participating in the pool will be worse off than they would otherwise have been under the current scheme. This is underpinned in the government’s “no detriment” guarantee which ensures the pool as a whole cannot be worse off than participating authorities would have been if they had not entered the pool.
107. The London Councils final Business Rate Pooling Prospectus (background papers Appendix G2) explains that the reconciliation of available funds to distribute will occur in September 2019. As set out in the Prospectus, the first call on any additional resources generated would be used to ensure that each borough and the GLA receives at least the same amount as it would have without entering the pool.
108. It is proposed that any funds in excess of this first call will be distributed on a formula based of four components:
- incentivising growth (by allowing those boroughs where growth occurs to keep some proportion of the additional resources retained as a result of the pool) – 15%
 - recognising the contribution of all boroughs (through a per capita allocation) – 35%
 - recognising need (through the needs assessment formula) – 35%
 - facilitating collective investment (through an investment pot designed to promote economic growth and lever additional investment funding from other sources) – 15%
109. Although the first year of the pilot relates to business rates to be generated during 2018-19, as stated above, the available distribution will not be known until September 2019. The relevant extract from the Final Prospectus explains: “*However, it would not be until the outturn position is known (the NNDR3 form) that actual reconciliation would be made and the final growth/decline for the pool as a whole, and individual pool*

members, would be known. This will be in September 2019 after accounts have been audited for the financial year 2018-19” (paragraph 30, Appendix G2). Therefore any additional pooled business rate retention distributed to Southwark will not form part of the 2018-19 budget setting process and benefits will accrue in 2019-20. The section 151 officer considers this to be the most appropriate and prudent strategy.

110. The detail of the pilot arrangements will need to be kept under close scrutiny, not least with regard to the government’s “no detriment” guarantee. For example, while the public health grant and improved better care fund would not be considered as part of the pooling arrangement in 2018-19, the letter from the Chair of London Councils indicates that these could be rolled into the arrangements in 2019-20.
111. London Councils require each local authority to give approval to enter into the pilot arrangement. The arrangements specifics continue to develop for formal agreement. Nonetheless, in order to proceed, decisions need to be made by mid-January in order for the final settlement to be released in February.
112. London Councils has sought advice on the legal arrangements of the pool structure, and the favoured approach is to proceed on the basis of a Memorandum of Understanding (MOU). A copy of this memorandum of association was received on 5 December and has been included in Appendix G3. The guidance from London Councils’ legal advisers sets out the required decisions to proceed with the pooling arrangements as follows:
 - a resolution to participate in the pool and accept the Secretary of State's designations of the pool;
 - delegation of administrative functions by your Executive [cabinet] to the lead authority;
 - a decision on the MOU to be agreed between the members of the pool – including distribution, and the basis of the strategic investment pot (SIP).

These decisions are reflected in recommendations 14.1 to 14.3 in this report. Further reports will be submitted to Cabinet or Council Assembly as appropriate as the final agreement with London Councils and government progresses. In the meantime, this report seeks agreement to delegate any decisions necessary relating to this process to the Leader of the Council with agreement from the Cabinet Member for Finance Modernisation and Performance and the Section 151 Officer.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

113. The constitution determines that cabinet consider decisions regarding the strategic aspects of the regulation and control of the council's finances. The council has a legal obligation to set a balanced budget on an annual basis as prescribed in the Local Government and Finance Act 1992 and associated Regulations. The issues contained in this report will assist in the future discharge of that obligation.
114. The council is required under section 149 of the Equality Act 2010 to have due regard to the need to:
 - Eliminate unlawful discrimination harassment and victimisation
 - Advance equality of opportunity between people who share protected characteristics and those who do not

- Foster good relations between people who share protected characteristics and those who do not.
115. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.
116. Equality analysis is the mechanism by which the council considers these effects. The report sets out how it is proposed equality analysis will be undertaken in relation to the budget proposals.
117. It is essential that cabinet give due regard to the council's duty under the Equality Act 2010 and the implications for protected groups in the context of that duty in relation to this decision and future decisions on the budget proposals.

REASONS FOR URGENCY

118. The council is committed to publishing budget proposals at the earliest possible opportunity to ensure they are available to the public for comments and questions. Presenting this report to cabinet on 12 December 2017 gives the opportunity for debate prior to presentation of budget figures to cabinet on 23 January 2017. Under the council's constitution, there is a requirement for the overview and scrutiny committee to review and challenge budget proposals and this is due to take place on 30 January 2018.

REASONS FOR LATENESS

119. Due to the anticipation of additional information affecting the budget report, the report was delayed to consider this impact. Further, extra time has been required formulate budget options that minimise the impact on Southwark residents. New information received this week has included the London Pooling Business Rate memorandum of understanding between the council, City of London Corporation and the Greater London Authority (GLA) and the National Employers pay offer of 2% both of which have been incorporated into this report.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources Strategy: 2017-18 and 2018-19 Updated Financial Remit	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
Link: (copy and paste into browser) http://moderngov.southwark.gov.uk/documents/s69811/Report%20Policy%20and%20Resources%20Strategy%202017-18%20and%202018-19%20Updated%20Financial%20Remit.pdf		
Council's Fairer Future Budget Principles approved by cabinet (September 2015).	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
Link: (copy and paste into browser) http://moderngov.southwark.gov.uk/documents/s56454/Report%20and%20appendices%202016-17%20PR%20Scene%20setting.pdf		

APPENDICES

No:	Title
Appendix A	Indicative Budget Proposals 2018-19
Appendix B	Departmental Narratives 2018-19
Appendix C	Proposed Efficiencies and Improved Use of Resources 2018-19
Appendix D	Proposed Income Generation 2018-19
Appendix E	Proposed Savings Impacting on Service Delivery 2018-19
Appendix F	Proposed Commitments 2018-19
Appendix G1 Appendix G2 Appendix G3	London Business Rate Pooling Pilot – Letter from Claire Kober London Business Rate Pooling Pilot – London Councils Final Prospectus London Business Rate Pooling Pilot – Memorandum of Understanding

AUDIT TRAIL

Cabinet member	Councillor Fiona Colley, Finance, Modernisation and Performance		
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance		
Report author	Jennifer Seeley, Director of Finance		
Version	Final		
Dated	7 December 2017		
Key Decision?	Yes		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title	Comments Sought	Comments included	
Director of Law and Democracy	Yes	Yes	
Strategic Director of Finance and Governance	N/a	N/a	
Cabinet Member		Yes	
Date final report sent to constitutional team		7 December 2017	

APPENDIX A - INDICATIVE BUDGET PROPOSALS 2018-19

	2017-18 Budget £m	2018-19 Budget £m
Resources		
Retained Business Rates	-74.306	-76.697
Business rates top-up	-33.890	-34.990
Revenue Support grant	-57.780	-46.983
Total Settlement Funding Assessment (DCLG)	-165.976	-158.670
Public Health Grant	-28.194	-27.469
Autumn statement measures grant	-2.320	-2.320
ESG	-0.700	
NEW - Adult Social Care Support Grant (one year only)	-1.577	
New Homes Bonus	-13.053	-11.372
Specific grants	-45.844	-41.161
Improved Better Care Fund (see note 1)	-1.658	-8.088
NEW - Supplementary IBCF (March 2017)		-4.497
Improved Better Care Fund	-1.658	-12.584
Total Government Funding	-213.478	-212.415
Business Rate Retention growth	-8.700	-17.173
Business Rate Retention collection fund surplus	-3.900	-2.987
Council Tax baseline	-93.700	-98.800
Southwark Council tax - 2018-19 - 0%		
ASC Council Tax precept - 2018-19 - 3%		-2.700
Council Tax Surplus / deficit	-2.000	-5.750
Total revenue from council tax	-108.300	-127.410
Total funding before contribution from balances	-321.778	-339.825
Current contribution from balances	-3.700	
A. Total Resources	-325.478	-339.825
Base budget	329.336	325.478
Inflation		
Employees - 2% pay award increase in 2018-19		4.000
Contractual inflation		3.500
Commitments & Contingency:		
Growth and Commitments	22.600	31.171
B. Budget before savings and efficiencies	351.936	364.149
Net Shortfall before Savings and efficiencies (Current year A+B)	26.458	24.324
Savings		
Effective use of resources and efficiencies	-18.897	-11.522
Income Fees and Charges	-2.480	-6.806
Other Savings	-5.081	-0.399
C. Total Savings	-26.458	-18.727
D. Total budget (Current Year B + C)	325.478	345.422
E. Funding Shortfall / (Surplus)	0.000	5.597
F. Total Resources less total budget (A-D)	0.000	0.000

Note 1: The 2017/18 supplementary iBCF of £7.5m was announced after council approval of the budget in February 2017. Subsequently, a commitment was built into Adult Social Care to match this funding.

APPENDIX B

DEPARTMENTAL NARRATIVES

CHIEF EXECUTIVE

Overview

- A.1. The Chief Executive's department comprises the Regeneration, Planning and External Affairs divisions along with the Chief Executive's Office.
- A.2. The department leads on the council's delivery of regeneration and building a strong local economy, which is bringing about thousands of new homes, jobs and opportunities across the borough, making our neighbourhoods places in which people are proud to live and work. The department also includes the council's emergency planning and resilience section that is responsible for ensuring the Council meets its civil protection duties and legal obligations under the Civil Contingencies Act.
- A.3. Over the period from 2014-15 to 2017-18 the Chief Executive's department has delivered savings at the maximum end of savings targets year on year, equating to approximately £5.5m, and continually reducing costs, posts and streamlining operations through reorganisation and redesign of services in order to achieve more with less.
- A.4. The total general fund net revenue budget for the department for 2017-18 is £5.164m. Savings proposed for 2018-19 financial year are £0.775m, or the maximum 15% of departmental budgets. These will again be achieved through more efficient and smarter ways of working including realignment of staff resources, management reconfiguration, better use of resources and by raising income.
- A.5. Some £0.330m savings will be delivered through realignment of staffing resources, removing vacant posts from the structure and continuing to ensure that organisational capacity is best targeted to priority delivery. By reviewing commercial rents to renew and replace leases and to reduce running costs, £0.395m will be achieved in raised income. A further £0.050m income will be raised through additional Community Infrastructure Levy (CIL) service charge income.
- A.6. A commitment of £0.050m is proposed to ensure the delivery capacity within External Affairs is sufficiently aligned with planned resources. In line with previous years, the whole department will continue to review its financial strategy so that it supports activities that take best account of future expectations and ongoing delivery of Council Plan targets.

Equalities Assessment

- A.7. In line with our Public Sector Equality Duty, equality analysis is undertaken on budget proposals as relevant ahead of final decisions being taken. This helps to understand the potential effects that budget proposals may have on different groups and whether there may be unintended consequences and how such issues can be mitigated. At this stage, the proposals for the department relate to income generation and realignment of structure affecting posts that are vacant. As specific proposals are developed, and at each stage of implementation thereafter, the different impacts will be assessed as appropriate in accordance with the council's reorganisation, redeployment and redundancy procedures.

CHILDREN'S AND ADULTS' SERVICES

- B.1. As reported to Cabinet in September 2017, Children's and Adults' services are experiencing significant pressures on their revenue budgets. These pressures are created by a combination of demand and cost pressures and severe reductions in government grant for these statutory responsibilities as well as to the council as a whole. Nationally, pressures on social care linked to pressures in the NHS are recognised, but these pressures far exceed the resources announced in the government settlement. In total, the pressures in 2017-18 represent £11.7m. Southwark's Health and Wellbeing Board approved the application of the Improved Better Care Fund to community and social care services, and in 2017-18 this is £7.471m.
- B.2. It should be noted that significant management action has been taken and controls are in place. A budget recovery board is overseeing the management actions.
- B.3. The indicative budget to be agreed at Council Assembly in February 2018 proposes Adult Social Care efficiencies and income generation for 2018-19 at £5.4m and commitments of £19.4m resulting in a proposed net impact of a budget increase of £14.0m for 2018-19. This demonstrates the investment of the increased Improved Better Care Fund (£10.9m) to homecare pressures, nursing care home pressures, and transformation work to improve the health, wellbeing and resilience of vulnerable residents. It also reflects the allocation of new resources for Adult Social Care, including the Adult Social Care Precept (£2.7m), investment in the development of an all age disabilities pathway (£3.8m) and funding the full-year cost of the implementation of the Southwark Ethical Care Charter (SECC) in Care At Home contracts (£2.0m).
- B.4. There are considerable pressures in Children's Services and this is despite protection for Children's Services budgets in 2017-18. Rising demand including protecting children from sexual exploitation, a sharp reduction in secure care places provided by government and pressures such as unaccompanied asylum seeking children have all contributed to the forecast overspend. In 2018-19, it is proposed that Children's Services have savings and efficiencies totalling £1.6m and commitments of £3.4m resulting in a proposed net impact of a budget increase of £1.8m.
- B.5. In Education, reduced grant and funding continue to impact upon the budget, as well as the increasing demand for statutory SEN education and home to school transport. In 2018-19 for Education there are savings and efficiencies of £0.735m and further income generation and grants of £0.421m. There are commitments totalling £2.467m meaning a net increase in budget of £1.3m, including an investment of £0.6m in the School Improvement Service to enable a gradual move to a traded service with schools over three years.
- B.6. With regard to the Dedicated Schools Grant (DSG), which funds schools, special needs education, early years and some central education functions, the final grant for 2018-19 for the Schools Block is expected in December 2017. There have been modest increases to both schools and high needs funding which was slightly improved from the previous position under the National Funding Formula indicative budgets which identified reductions, although inflation and demand pressures are greater than these increases. There continue to be pressures on the Schools Block as the government requires that growing free schools are advance rather than lag funded which is a significant cost to the DSG and schools.
- B.7. There are significant pressures on the high needs block in 2017-18 due to demand and cost pressures across settings and there is insufficient funding from government to recognise this. Whilst the Schools Forum has agreed to a 0.5% transfer from the

schools block to the high needs block, given the anticipated deficit position at the 2017-18 year end it is likely that significant savings will need to be made on the high needs block and that there will also be a further impact upon schools budgets in 2018-19, although flexibilities for additional block transfers are being limited and centrally controlled by the government.

- B.8. With regard to the early years block the government is reducing the central expenditure limit, thereby limiting local flexibility. In 2018-19 there will be a further move towards equalising rates between settings under the Early Years Single Funding Formula. Whilst additional funding for the extension of the offer is being received the increase in funding rates is insufficient to meet higher costs.

Equalities Analysis

- B.9. Initial equalities analysis has been undertaken for each proposal. Consultations have been and will be undertaken for proposals relating to service changes where appropriate. Impact is mitigated by alternative offers of services, support or personal budgets as per service user choice in line with Care Act eligibility and national legislative thresholds and government guidance; other services are discretionary and universal.
- B.10. In line with our Public Sector Equality Duty, any changes to services arising from these proposals will be implemented in such a way so as to not impact disproportionately on any specific section or group in our community. The equality analysis is under way and will be collated to look for any cumulative impacts. In line with the process across the council, information on equality analysis will be shared with decision-makers for consideration before any decisions are taken.
- B.11. Southwark Council's Fairer Future Promises are reflected in the proposals set forth as is a shift upstream to prevention and early help, recognising the evidence base and the outcomes that can be achieved by offering our residents good universal services.

ENVIRONMENT AND SOCIAL REGENERATION

Overview

- C.1. The Environment and Social Regeneration department delivers services that make a real difference to the everyday lives of all residents and visitors. The majority of our operations are frontline services: they physically improve the environment; they provide opportunities for health and enjoyment, support knowledge and learning or help improve safety and confidence. The department comprises three directorates, Environment, Leisure and Public Health.
- C.2. The department aims to make Southwark's neighbourhoods great places to live, places that are clean, safe and vibrant and where activities and opportunities are accessible to all. We work with our partners to improve health and wellbeing for all our residents. The department's approach to achieving savings aims to develop income opportunities and protect frontline services, and are aligned to the budget principles and the fairer future promises.
- C.3. The net budget for environment and Social Regeneration in 2017-18 is £66m. The department over the last six years has achieved savings of £25.6m. The savings options would be delivered alongside the considerable capital spend across the department.
- C.4. For the forthcoming year, 2018-19, the department has identified a number of savings options amounting to £5.460m made up:
- Efficiencies and Improved Use of Resources £2.680m
 - Income Generation £2.780m

Efficiencies and Improved Use of Resources

- C.5. The department has sought efficiency savings through intelligent procurement decisions, further streamlining of back office and senior staff and further modernisation of services. For example, the successful re-procurement of the leisure management contract will generate £0.350m. Additional savings of £0.700m are expected in the re-procurement of services in sexual health and substance misuse in the public health grant. Reviews of management structures in parks and leisure and sustainability will generate £0.200m, and the library service will be reviewed to deliver £0.300m of general fund savings and reduce its call on the public health grant by £0.100m. These savings will be achieved while keeping all our libraries open. The department will also ensure that predicted surpluses on the parking account are invested in maintaining high quality transport infrastructure, reducing the call on the general fund for these services by £0.450m.

Income Generation

- C.6. The council, like a number of other councils, is adopting a more commercial approach to its activities and is proposing to generate additional income of £2.78m in 2018-19.
- C.7. The department will seek to expand its income streams in a variety of ways. For example, a successful re-procurement of the park café and ice cream concessions will bring in £0.200m. The full effect of the re-procurement of the leisure contract in 2016 is beginning to be realised with an estimated increase in income of £1.0m for 2018-19 being proposed. As the department progresses in licensing private rented sector

landlords through its selective licencing schemes, that is predicted to generate a further £0.450m, while protecting private rented sector tenants in the borough and tackling anti-social behaviour. Meeting the predicted resident demand for controlled parking zones will generate £0.500m. We will ensure that fees for our services are comparable with other boroughs in a number of areas such as burials and we are increasing the services we sell such as commercial waste and the expertise of our traded services teams (£0.160m).

Commitment

- C.8. The department is proposing a commitment of £0.250m to support the expansion of playground provision arising from the Top Quality Play commitment.

FINANCE AND GOVERNANCE

Overview

- D.1. The Finance and Governance Department includes the Director's office which provides strategic leadership for the department and s151 responsibilities; Exchequer Services which encompasses revenues and benefits and housing rent collection, as well as the financial transaction processing teams; the Law and Democracy division responsible for electoral, constitutional and legal services; Professional Financial Services (including finance, audit and procurement teams); and the Financial and Information Governance Team.
- D.2. In supporting the Fairer Future promises of the council, the department's vision is to "make a positive difference everywhere we engage" and to be "efficient and effective in all that we do". Specifically, Finance and Governance endeavours to help the council to "manage every penny as carefully as local families look after their own household budgets". This budget proposes efficiency savings and income generation of £1.710m (11.6% reduction on budget adjusted for recharges) and commitments of £0.150m for a total budget of £18.779m. This follows savings proposals achieved in 2016-17 of £1.950m.

Efficiencies and Improved Use of Resources

- D.3. The efficiency savings across the department are mainly made up of staffing-related savings totalling £1.120m which reflects the fact that over 70% of the overall expenditure budget is staffing costs. Savings from staffing costs will be achieved through increased efficiency, changing what we do and how we work, to become an organisation that is fit for the future.
- D.4. In addition to the staffing related savings, £0.050m of the savings proposed is related to efficiencies from modernising council and committee meetings.
- D.5. A further proposal is the alignment of the hardship and emergency support budget to reflect overall service demand. Resources will remain available to fund the current scheme until March 2019; this equates to a budget saving of £0.180m. The total expenditure on SESS and Hardship over the last four years (2013-14 to current year inclusive) is £2.930m.

Income Generation

- D.6. The income generation proposals for the department comprise £0.300m for Exchequer Services relating to the recovery of housing benefits overpayments and debt recovery charges and £0.060m for Law and Democracy relating to legal income and recharges.

Commitment

- D.7. Law and Democracy is proposing a commitment of £0.150m to create a specific reserve to fund the cost of administering local elections every four years.

Equality Analysis

- D.8. As specific proposals are brought forward, and at each stage of implementation thereafter, the impacts on different categories of staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.

- D.9. Equality analysis has been an integral part of the setup arrangements of the Enforcement Agency Service prior to being introduced.

HOUSING AND MODERNISATION

Overview

- E.1. Housing and Modernisation (H&M) delivers a diverse range of services funded from both the general fund and the ring-fenced housing revenue account (HRA) for landlord services. In delivering the council's vision, as outlined in the Fairer Future Promises, the department aims to maximise investment in its housing stock, build new council homes at council rents and improve performance in all core service areas. We aspire to work closely with residents to deliver consistently high quality services, achieve better value for money and continue to support the most vulnerable residents, particularly those in temporary housing need.
- E.2. In developing budget proposals the department is committed to protecting frontline service provision as far as possible. The drive towards greater operational efficiency through joint working, rationalisation/integration and moving towards more cost effective customer transaction routes is integral to this. For 2018-19 savings of £0.659m have been identified comprising efficiencies of £0.260m and £0.399m that impact on service delivery to varying degrees. General volume/activity driven commitments total £1.465m plus a further £1.672m for the new IT Shared Service.

Asset Management

- E.3. Services comprise aids and adaptations, handypersons and private sector housing renewal and empty homes. Rationalisation of management across these functions will deliver savings of £0.030m without impacting service delivery.

Communities

- E.4. The division is responsible for consultation and community engagement with council tenants, homeowners and residents, the civic office, the voluntary and community sector (VCS), community safety, Prevent and child sexual exploitation and No Recourse to Public Funds (NRPF).
- E.5. NRPF represents a significant and persistent pressure on council resources. Substantial progress has been made in stabilising new acceptance rates and reducing long term caseload. Costs are also reducing compared to previous years but not at a rate sufficient to remain within the approved budget.
- E.6. The ability to discharge our duty relies on the Home Office determining a client's status as to whether they have leave to remain, recourse to public funds or no barrier to return. Whilst cases are proactively escalated for more rapid decision making, the process is protracted and not directly within the council's control. Volatility of demand and cost/availability of temporary accommodation remains a risk and notwithstanding the improvements achieved to date, projections indicate a further commitment of £0.215m is required in 2018-19 to ensure the budget is at a more sustainable level going forward.
- E.7. Voluntary sector budgets have to some extent been protected from the same level of funding cuts as council services. Savings have focussed on achieving efficiencies and better value for money from commissioning services and through the restructuring of the communities division. However, to ensure funding can be maintained, albeit at a more sustainable level, it is proposed to make further savings in grant funding and commissioning and a further £0.260m is proposed for 2018-19. Joint working continues across the council to consolidate the commissioning of services including with the

Clinical Commissioning Group (CCG). This provides a real opportunity to streamline service provision, ensure consistency across the piece and deliver significant economies going forward.

Resident Services

- E.8. Services comprise travellers' sites and supported housing management, which has shared funding arrangements with the HRA. Realignment of the budgets across the division will deliver savings of £0.074m without impacting service delivery.

Modernisation

- E.9. The Modernisation division incorporates Information Technology and Digital Services (IT&DS), Human Resources (HR), Corporate Facilities Management (CFM) and Organisation Transformation (OT). These services are of a corporate nature and underpin the modernise agenda.
- E.10. On 1 November 2017 the council formalised a three-way shared ICT service with the London Boroughs of Brent (host authority) and Lewisham. The provision of a modern, secure and resilient IT platform is critical to transforming where and how staff work in order to better serve our customers through the implementation of the workforce, IT and workplace strategies agreed by cabinet in November 2016. However, in order to realise material service benefits and even greater efficiency savings over the medium term, sustained capital investment and a revenue commitment of £1.672m is required to align the base budget for 2018-19.
- E.11. CFM is subject to a number of budget pressures particularly in relation to procurement, contract management and development of the council accommodation strategy, requiring on-going external professional support. The 2016 rationalisation of multiple service providers to just two overarching contracts for the running of the council's key operational buildings has provided a more streamlined, efficient and critically compliant FM service. A recent strategic service review has identified proposals for a future operating model, clear vision and strategy for the CFM service of 2020 and identified opportunities to address current and future budget pressures, and it is proposed to re-examine the procurement programme to see whether it would be feasible to accelerate the process.
- E.12. Aligned with this is the development of the corporate accommodation strategy, which seeks to rationalise the wider operational estate, maximise the utilisation of buildings in conjunction with targeted capital investment to reduce future running costs and identify surplus assets for disposal to support the capital programme. For 2018-19 it is essential that the service is financially stable and the budget is able to support the business plan, requiring a net commitment of £0.530m.
- E.13. Reorganisation and rationalisation of the HR and OT services during 2018-19 will deliver savings of £0.156m without impacting service delivery. Conversely, a commitment of £0.220m is required to establish the base budget for former Corporate Programme Unit staff that transferred to CFM and have now moved across to OT during the current year. CPU staff costs were previously funded from corporate reserves.

Customer Experience

- E.14. The division is responsible for a diverse range of functions including the customer service centre (CSC), customer resolution, concessionary travel, registrars and

citizenship, coroners and mortuary services and housing solutions/temporary accommodation.

- E.15. Savings totalling £0.139m are proposed by moving non-emergency services from the CSC to on-line provision only. The nature of these savings away from face to face and telephone contact to digital provision are essential to mitigate the service impact in more acute areas of the council's budget. For 2018-19, following a detailed review, the level of HRA versus GF activity has reached a critical tipping point that warrants switching primary accountability to the HRA. This has no budgetary impact on either fund for 2018-19.
- E.16. The merger of the housing solutions and temporary accommodation services and move to a unified council-wide temporary accommodation procurement approach has delivered operational cost reductions, albeit not necessarily against budget. Notwithstanding Southwark's continuing success in homeless prevention, the council faces significant budgetary pressure through increasing demand, restricted housing supply, legislative obligations and new burdens arising from the Homelessness Reduction Act 2017. Whilst grant funding is available in the short term, there is no certainty about resources beyond 2019-20. In addition, the impact of universal credit is having a detrimental effect on income collection to the point that a budget commitment (£1m profiled over two years) is required to mitigate the impact. *(Note. In November the Chancellor announced changes in relation to Universal Credit from April 2018, which may impact on this position).*

Equalities Assessment Summary

- E.17. The department undertakes equality analysis/screening on its budget proposals ahead of final decisions being taken. This helps to understand the potential effects that the budget proposals may have on different groups and whether there may be unintended consequences and how such issues can be mitigated. Analysis is also undertaken to consider any cross-cutting and organisation-wide impacts and continues through the cycle of planning and implementation of these proposals
- E.18. In line with our Public Sector Equality Duty, any changes to services arising from these proposals will be implemented in such a way so as to not impact disproportionately on any specific section or group in our community. Where necessary, consultation will be undertaken alongside mitigating actions where necessary. In line with the process across the council, information on the equality analysis will be shared with the relevant cabinet members so it can be considered when decisions are taken. To date no cumulative impacts have been identified through the analysis.

CORPORATE

Overview

- E.19. The Corporate budgets include technical accounting budgets such as Minimum Revenue Provision (MRP), treasury income and costs, pension related costs and budgets which impact across the wider council such as the apprenticeship levy and contributions towards the Regeneration and Modernisation reserves. The £4m contingency budget also sits within corporate to support the wider budget risks.

Income Generation

- F.1. During 2017-18 cabinet agreed to the purchase of strategic commercial properties which are expected to increase the commercial rental income by £2.000m to support the council budget.

Commitments

- F.2. Corporate commitments in the main arise as a result of government legislation such as apprenticeship levy, the second year impact of the revaluation of business rates on council owned buildings and the increasing cost of concessionary fares.
- F.3. As indicated in the capital monitoring report (Cabinet September), the council is expecting to need to start to borrow in order to fund the council ongoing capital investment programme. A commitment is included to reflect the potential interest and minimum revenue costs of this for 2018-19.

Equality Analysis

- F.4. There are no equality analysis implications for these proposals.

Appendix C: Proposed Efficiencies and Improved Use of Resources 2018-19

	2018-19
	£000
Children's and Adults' Services	(6,902)
Housing and Modernisation	(260)
Environment and Social Regeneration	(2,680)
Finance and Governance	(1,350)
Chief Executive's	(330)
Corporate	-
	<u>(11,522)</u>
Adults' Social Care	(4,577)
Children's Services	(1,590)
Education	(735)
Total Children's and Adults' Services	<u>(6,902)</u>
Public Health	<u>(800)</u>

Department	Division	Reference	Cabinet Member	Description	2018-19
					£000
Chief Executive's	Planning	101	Cllr Mark Williams	Continued rationalisation of the planning organisational structure in line with natural turnover of staff and changing demands for the service	(50)
Chief Executive's	Regeneration	102	Cllr Fiona Colley	Realignment of staffing resources to organisational structure and related budgets (Property Services)	(44)
Chief Executive's	Regeneration	103	Cllr Mark Williams	Realignment of staffing resources to organisational structure and related budgets (Regeneration North, Regeneration South, Southwark Schools for the Future/Capital)	(236)
Children's and Adults' Services	Adults' Social Care	104	Cllr Richard Livingstone	End of Adult Social Care Support Grant which was one-off funding in 2017-18	(1,577)
Children's and Adults' Services	Adults' Social Care	105	Cllr Richard Livingstone	Modernisation of integrated pathways and review of care packages for people with disabilities to align to Care Act national eligibility criteria	(1,000)
Children's and Adults' Services	Adults' Social Care	106	Cllr Richard Livingstone	Reorganisation of Adult Social Care teams to support modernisation of the service (undertaken in 2017-18)	(2,000)
Children's and Adults' Services	Children's Services	107	Cllr Victoria Mills	Part year effect (net of costs) of restructuring Children's Social Care service management	(500)
Children's and Adults' Services	Children's Services	108	Cllr Victoria Mills	Restructuring of business support functions for children's social care (undertaken 2017-18)	(500)
Children's and Adults' Services	Children's Services	109	Cllr Victoria Mills	Reduction in external legal costs	(50)
Children's and Adults' Services	Children's Services	110	Cllr Victoria Mills	Termination of lease at Sunshine House - Children with Disabilities (CWD) team and service moved to council building in 2017-18	(140)
Children's and Adults' Services	Children's Services	111	Cllr Victoria Mills	2017-18 notice to South London and Maudsley (SLaM) NHS Trust following loss of government CAMHS grant to LA, resulting in redesign of service with CCG and SLaM from 2018-19	(400)
Children's and Adults' Services	Education	112	Cllr Victoria Mills	Uncommitted commissioning budgets released as fixed term Southwark Information, Advice and Support roles come to an end as planned	(172)
Children's and Adults' Services	Education	113	Cllr Victoria Mills	De-delegation of Dedicated Schools Grant, subject to approval, in contribution to school improvement	(100)
Children's and Adults' Services	Education	114	Cllr Victoria Mills	Structural review of department to take account of changes in government funding and increased academy numbers, net of specific funding and buyback arrangements	(150)
Children's and Adults' Services	Education	115	Cllr Victoria Mills	Capitalisation of management costs for Schools capital programme, SEN capital programme and Further Education and Apprenticeships capital programme (Passmore)	(150)

Department	Division	Reference	Cabinet Member	Description	2018-19
					£000
Children's and Adults' Services	Education	116	Cllr Victoria Mills	Realignment of day nursery funding from core in line with Dedicated Schools Grant and re-shape of services	(43)
Children's and Adults' Services	Education	117	Cllr Victoria Mills	Realignment of Children's Centres budgets in recognition of actual spend	(120)
Environment and Social Regeneration	Culture	118	Cllr Johnson Situ	Complete a total review of the library service to streamline and modernise service provision without closing libraries	(300)
Environment and Social Regeneration	Energy and Sustainability	119	Cllr Ian Wingfield	Review divisional management and staffing structure	(50)
Environment and Social Regeneration	Parks and Leisure	120	Cllr Barrie Hargrove	Review use of existing capital budget contribution in line with new contractual arrangements for leisure facilities maintenance	(100)
Environment and Social Regeneration	Parks and Leisure	121	Cllr Barrie Hargrove	Revenue savings from Leisure Management contract and contract income forecast for year two	(350)
Environment and Social Regeneration	Parks and Leisure	122	Cllr Barrie Hargrove	Consolidate sports centre management across the borough to improve outcomes and professional development	(80)
Environment and Social Regeneration	Parks and Leisure	123	Cllr Barrie Hargrove	Review new parks and leisure management structure	(150)
Environment and Social Regeneration	Parks and Leisure	124	Cllr Barrie Hargrove	Review of Grounds Maintenance contract across parks to introduce new work practices and reduce specification in some areas	(200)
Environment and Social Regeneration	Public Health	125	Cllr Maisie Anderson	Substance Misuse – Reduction in spend through re-procurement of services	(35)
Environment and Social Regeneration	Public Health	126	Cllr Maisie Anderson	Sexual Health – Reduction in spend through more efficient methods of service delivery	(665)
Environment and Social Regeneration	Public Health	127	Cllr Maisie Anderson	Realign the Public Health budget contribution to library services	(100)
Environment and Social Regeneration	Regulatory Services	128	Cllr Ian Wingfield	Reinvest parking surplus in legislatively prescribed transport-related activities (Bridge Structures, Traffic Management, Asset Management etc.)	(450)
Environment and Social Regeneration	Waste and Cleansing	129	Cllr Ian Wingfield	Reduced costs arising from changes to opening hours and introduction of van booking and restricted use at the Household Waste Reuse and Recycling Centre	(200)
Finance and Governance	Director's Office	130	Cllr Fiona Colley	Alignment of hardship and emergency support budget to reflect overall service demand; resources remain available to fund the current scheme until March 2019	(180)
Finance and Governance	Exchequer Services	131	Cllr Fiona Colley	Housing Benefits processing – implementation of Universal Credit reduces the volume of staff required for processing Housing Benefit	(80)
Finance and Governance	Exchequer Services	132	Cllr Fiona Colley	Debt reduction and income collection efficiencies following realignment of services with housing functions (including shared processes)	(400)
Finance and Governance	Exchequer Services	133	Cllr Fiona Colley	Continued digitisation of customer services leading to a reduction in calls into Exchequer Services call centre	(50)
Finance and Governance	Finance and Information Governance	134	Cllr Fiona Colley	Reduction of one post within Risk and Insurance which is currently held vacant	(30)
Finance and Governance	Law and Democracy	135	Cllr Peter John	Rationalisation of staffing resources across Law and Democracy Division	(30)

Department	Division	Reference	Cabinet Member	Description	2018-19
					£000
Finance and Governance	Law and Democracy	136	Cllr Peter John	Modernisation of council meetings, increase use of digital approaches for constitution and elections teams – reducing paper and equipment costs	(50)
Finance and Governance	Professional Finance Services	137	Cllr Fiona Colley	Deletion of vacant grade 15 and vacant grade 9 posts in the anti-fraud team. Statutory role of the Chief Audit Executive role to be carried out by BDO (our internal auditor contractors)	(130)
Finance and Governance	Professional Finance Services/ Finance and Information Governance	138	Cllr Fiona Colley	Review of all Professional Finance Service (PFS) functions across the Procurement and Finance Teams as the final stage of the PFS transformation.	(380)
Finance and Governance	Professional Finance Services	139	Cllr Fiona Colley	Remaining saving from prior year for deletion of anti fraud grade 10 post (from 1 October 2017)	(20)
Housing and Modernisation	Asset Management	140	Cllr Stephanie Cryan	Rationalisation of the newly combined Specialist Housing Service comprising Adaptations, Handypersons, Private Sector Renewal and Empty Homes	(30)
Housing and Modernisation	Modernise OT	141	Cllr Fiona Colley	Residual savings arising from prior year rationalisation	(137)
Housing and Modernisation	Modernise HR	142	Cllr Fiona Colley	Further efficiencies in Human Resources services	(19)
Housing and Modernisation	Resident Services	143	Cllr Stephanie Cryan	Realign Travellers income budget including void and arrears provisions	(50)
Housing and Modernisation	Resident Services	144	Cllr Stephanie Cryan	Sustain – realignment of budget following restructure	(24)
Total					(11,522)

Appendix D: Proposed Income Generation 2018-19

	2018-19
	£000
Children's and Adults' Services	(1,221)
Housing and Modernisation	-
Environment and Social Regeneration	(2,780)
Finance and Governance	(360)
Chief Executive's	(445)
Corporate	(2,000)
	<u>(6,806)</u>
Adults' Social Care	(800)
Children's Services	-
Education	(421)
Total Children's and Adults' Services	<u>(1,221)</u>
Public Health	-

Department	Division	Reference	Cabinet Member	Description	2018-19
					£000
Chief Executive's	Planning	201	Cllr Mark Williams	Additional Community Infrastructure Levy (CIL) service charge income arising from continuing stream of developments	(50)
Chief Executive's	Regeneration	202	Cllr Fiona Colley	Ongoing review of commercial rents to renew and replace leases and to reduce running costs	(395)
Children's and Adults' Services	Adults' Social Care	203	Cllr Richard Livingstone	Increased client contribution income following the continuation of the Fairer Contributions Policy in line with the Care Act	(800)
Children's and Adults' Services	Education	204	Cllr Victoria Mills	Additional buy back income for Educational Psychology non-statutory services for schools to help offset loss of SEND grant funding	(34)
Children's and Adults' Services	Education	205	Cllr Victoria Mills	A general uplift in rates charged to schools for buy back services	(60)
Children's and Adults' Services	Education	206	Cllr Victoria Mills	Full cost recovery of academy conversion	(45)
Children's and Adults' Services	Education	207	Cllr Victoria Mills	Further development of traded services income subject to final negotiation with school	(180)
Children's and Adults' Services	Education	208	Cllr Victoria Mills	Additional school improvement grant for 2018-19	(102)
Corporate	Corporate	209	Cllr Fiona Colley	Commercial Rents	(2,000)
Environment and Social Regeneration	Culture	210	Cllr Johnson Situ	Increased income from libraries	(50)
Environment and Social Regeneration	Parks and Leisure	211	Cllr Barrie Hargrove	Extra income from café and ice cream concessions procurement	(200)
Environment and Social Regeneration	Parks and Leisure	212	Cllr Barrie Hargrove	Income from better use of parks buildings	(60)
Environment and Social Regeneration	Parks and Leisure	213	Cllr Ian Wingfield	Marina fees reviewed and increased except for the berthing fees for current resident berth holders where the agreed reducing discount is applied	(60)
Environment and Social Regeneration	Parks and Leisure	214	Cllr Barrie Hargrove	Revenue savings from Leisure Management contract and contract income forecast for year two	(1,000)

Department	Division	Reference	Cabinet Member	Description	2018-19
					£000
Environment and Social Regeneration	Parks and Leisure	215	Cllr Ian Wingfield	Cemeteries – move to inner London average for burial fees including exclusive right of burial and interment fees and introduce new fee for oversized graves or coffins	(150)
Environment and Social Regeneration	Regulatory Services	216	Cllr Barrie Hargrove	Extend selective licensing scheme to include approximately 20,000 more dwellings	(450)
Environment and Social Regeneration	Regulatory Services	217	Cllr Ian Wingfield	Additional income from highway licensing and management fees arising from major regeneration projects	(50)
Environment and Social Regeneration	Regulatory Services	218	Cllr Ian Wingfield	Introduction of Community Parking Zones (CPZs) in response to predicted demand	(500)
Environment and Social Regeneration	Regulatory Services	219	Cllr Ian Wingfield	Bring car club permit costs to Inner London Average	(100)
Environment and Social Regeneration	Traded Services	220	Cllr Fiona Colley	Sell services to other council departments and the external market	(100)
Environment and Social Regeneration	Waste and Cleansing	221	Cllr Ian Wingfield	Increase income from expansion of commercial waste service in response to demand	(60)
Finance and Governance	Exchequer Services	222	Cllr Fiona Colley	An increase to the original income generation proposal – create internal enforcement agents for debt recovery	(200)
Finance and Governance	Exchequer Services	223	Cllr Fiona Colley	An increase to the original income generation proposal – housing benefit overpayment recovery – increase income on debt recovery (subject to future government welfare benefit changes including universal credit)	(100)
Finance and Governance	Law and Democracy	224	Cllr Peter John	Review of external fees and charges including from litigation and income from major projects	(50)
Finance and Governance	Law and Democracy	225	Cllr Peter John	Provision of improved governance and support arrangements for appropriate committees	(10)
Total					(6,806)

Appendix E: Proposed Savings Impacting on Service Delivery 2018-19

	2018-19
	£000
Children's and Adults' Services	-
Housing and Modernisation	(399)
Environment and Social Regeneration	-
Finance and Governance	-
Chief Executive's	-
Corporate	-
	<u>(399)</u>
Adults' Social Care	-
Children's Services	-
Education	-
Total Children's and Adults' Services	<u>-</u>
Public Health	<u>-</u>

Department	Division	Reference	Cabinet Member	Description	2018-19
					£000
Housing and Modernisation	Communities	301	Cllr Barrie Hargrove	Review and realignment of community budgets	(260)
Housing and Modernisation	Customer Experience	302	Cllr Fiona Colley	Move to online only provision for some appropriate non-emergency services – Customer Services	(139)
Total					(399)

Appendix F: Proposed Commitments 2018-19

	2018-19
	£000
Children's and Adults' Services	25,259
Housing and Modernisation	3,137
Environment and Social Regeneration	250
Finance and Governance	150
Chief Executive's	50
Corporate	2,325
	<u>31,171</u>
Adults' Social Care	19,426
Children's Services	3,366
Education	2,467
Total Children's and Adults' Services	<u>25,259</u>
Public Health	<u>-</u>

Department	Division	Reference	Cabinet Member	Description	2018-19
					£000
Chief Executive's	External Affairs	401	Cllr Peter John	Realignment of current budget to implement External Affairs strategy	50
Children's and Adults' Services	Adults' Social Care	402	Cllr Richard Livingstone	Support the total commitment of homecare for our most vulnerable residents, including the Southwark Ethical Care Charter, <i>funded partly through additional resources made available through the Improved Better Care Fund</i>	10,302
Children's and Adults' Services	Adults' Social Care	403	Cllr Richard Livingstone	Support the total commitment of nursing care placements <i>funded through additional resources made available through the Improved Better Care Fund</i>	2,374
Children's and Adults' Services	Adults' Social Care	404	Cllr Richard Livingstone	Support the total commitment of supported living placements <i>funded through additional resources made available through the Adult Social Care precept</i>	2,700
Children's and Adults' Services	Adults' Social Care	405	Cllr Richard Livingstone	Development of all age disability pathway to modernise services for children with disabilities	3,800
Children's and Adults' Services	Adults' Social Care	406	Cllr Richard Livingstone	Transformation fund to improve the health, wellbeing and resilience of vulnerable service users <i>funded through additional resources made available through the Improved Better Care Fund</i>	250
Children's and Adults' Services	Children's Services	407	Cllr Victoria Mills	Ensuring that the Children's Services staffing budgets are on a sustainable financial footing	2,000
Children's and Adults' Services	Children's Services	408	Cllr Victoria Mills	Ensuring that the Children's Services placements budgets are on a sustainable financial footing	1,200
Children's and Adults' Services	Children's Services	409	Cllr Victoria Mills	Additional resources required to sustain early help service at current levels. This follows the loss of Dedicated Schools Grant (DSG) for early help/early years as government regulations have reduced the central retention limit on early years block. This assumes that Schools Forum will continue to make DSG contributions to the current costs of the service, subject to agreement by Schools Forum in December 2017	166

Department	Division	Reference	Cabinet Member	Description	2018-19
					£000
Children's and Adults' Services	Education	410	Cllr Victoria Mills	Special Educational Needs (SEN) Home to School Transport additional costs due to increase in number of children with special educational needs (net)	714
Children's and Adults' Services	Education	411	Cllr Victoria Mills	Loss of government Education Services Grant (ESG) that previously supported Education department functions	711
Children's and Adults' Services	Education	412	Cllr Victoria Mills	School improvement service – loss of available Dedicated Schools Grant and Education Services Grant	588
Children's and Adults' Services	Education	413	Cllr Victoria Mills	Net reduction in pupil premium funding available to provide the virtual school for looked after children	180
Children's and Adults' Services	Education	414	Cllr Victoria Mills	Loss of government Special Educational Needs and Disability (SEND) grant funding that previously supported SEND reform implementation	274
Corporate	Corporate	415	Cllr Fiona Colley	Estimated cost of Business Rate revaluation on council administrative and operational buildings, subject to appeal	250
Corporate	Corporate	416	Cllr Fiona Colley	Council tax scheme to support care leavers	75
Corporate	Strategic Finance	417	Cllr Fiona Colley	Apprenticeship Levy	100
Corporate	Strategic Finance	418	Cllr Fiona Colley	Concessionary Fares	100
Corporate	Strategic Finance	419	Cllr Fiona Colley	Minimum Revenue Provision (MRP) associated with commercial purchases	200
Corporate	Strategic Finance	420	Cllr Fiona Colley	Costs associated with capital programme financing	1,000
Corporate	Strategic Finance	421	Cllr Fiona Colley	Reduction in Housing Benefit and Council Tax Benefit related administration grants	600
Environment and Social Regeneration	Parks and Leisure	422	Cllr Barrie Hargrove	Revenue to support expansion of playground provision arising from Parks and Top Quality Play commitment	250
Finance and Governance	Law and Democracy	423	Cllr Peter John	Elections budget shortfall	150
Housing and Modernisation	CFM (Modernise)	424	Cllr Fiona Colley	Budget commitment necessary to realign and stabilise the Corporate Facilities Management service	530
Housing and Modernisation	Communities	425	Cllr Fiona Colley	No recourse to public funds – demand-led cost pressure	215
Housing and Modernisation	Customer Experience	426	Cllr Stephanie Cryan	Temporary Accommodation – detrimental impact of Universal Credit on income collection and arrears and impact of statutory obligations	500
Housing and Modernisation	ICT (Modernise)	427	Cllr Fiona Colley	Establish business as usual (BAU) budget for shared service with Brent and Lewisham	1,672
Housing and Modernisation	OT (Modernise)	428	Cllr Fiona Colley	Budget commitment to support incorporation of former Corporate Programmes Unit into OT that was previously funded from reserves	220
Total					31,171

Borough Leaders
cc Borough Chief Executives
Borough Treasurers

Contact: Barbara Salmon
Direct line: 020 7934 9509
Fax:
Email: barbara.salmon@londoncouncils.gov.uk

Date: 10th November 2017

Dear Leader

London Business Rates Pilot Pool 2018/19

I am writing to update you on the above topic.

At Leaders' Committee in October we supported, in principle, the establishment of a London Business Rates Pilot Pool for 2018/19.

The elected officers of London Councils – Teresa O'Neill, Ruth Dombey, Peter John, Catherine McGuinness and myself – were charged with taking the in principle agreement forward to arrive at a core proposition for the operation of the pool and to continue discussions with both the Mayor and ministers on this.

The elected officers discussed this both later in October and earlier this month and a number of you will have been consulted about the work we were doing via the party groups.

Whilst, of course, formal decisions will need to be taken by individual councils in the coming months, it has been very important to establish a high level of confidence that the in principle agreement will translate into full participation by the Mayor, all boroughs and the City of London Corporation in order that we are able to offer the Government the assurance it would require to factor such an agreement in to its preparations for announcing the Provisional Local Government Finance Settlement in the coming weeks.

As you are aware, the Government has indicated support for developing a 100% business rate retention pilot pool in London for 2018/19, subject to London establishing robust governance arrangements for dedicating a significant share of the additional resources to promoting future economic growth.

Following our discussions, I can now confirm that we will be seeking an agreement with Government that would cover the following areas:

- **Pool principles:** as set out in the updated draft prospectus circulated in September and reported to Leaders' Committee in October¹, the pool would be voluntary, but include all London authorities; London would retain a greater share of business rates in exchange for Revenue Support Grant; a "no detriment guarantee" would ensure that the pool could not be worse off than the participating authorities would have been collectively if they had not entered the pilot pool; no "new burdens" would be transferred to London and participation in the pilot would not affect the development or implementation of the Fair Funding review (currently anticipated in 2020/21). Public Health and Improved Better Care Fund grants would not be rolled in initially, but we would work towards including them if all parties were to agree to continue a pilot into 2019/20.
- **Distribution:** All authorities would receive at least as much from the pool as they would have under the existing 50% retention scheme. Any additional net benefits of the pool – currently estimated to be approximately £240 million in 2018/18 – would be distributed on the following basis:
 - 15% to reward growth
 - 35% to reflect population
 - 35% to reflect Settlement Funding Assessment
 - 15% set aside for a "Strategic Investment Pot" (see below)

The resources not top-sliced for the investment pot would be shared between the GLA and the boroughs in the ratio 36:64, in accordance with the principle previously agreed by London Councils and Mayor in our joint business rate devolution proposals to Government in September 2016. An indication of the sort of potential outcomes that could be realised based on the current estimate of an aggregate net additional benefit of £240 million in 2018/19, is set out in Annex 1 to this letter.

- **Governance of the strategic investment pot:** The pot would be dedicated to projects that contribute to the sustainable growth of London's economy, and which attract match funding from other private or public sources. Following legal advice, decisions would be taken formally by a lead authority in consultation with all member authorities, reflecting the principles set out in our draft prospectus and reported to Leaders' Committee in October. It is envisaged that decisions would be taken bi-annually to coincide with meetings of the Congress of Leaders and the Mayor.
- **Evaluation:** Government has indicated that it would undertake a qualitative evaluation the progress of any pilot agreed, based on the current research programme for the existing business rate retention pilots, with additional focus on the governance and scale of resources dedicated to strategic investment. It is anticipated that the combination of the GLA share and the Strategic Investment Pot (including the match funding it will attract) will make up approximately 50% of the net additional benefits arising from the pilot pool. We understand that the scale of the resource dedicated to strategic investment would be a particularly important issue in discussions with Government, which has indicated a desire to see a significant share of the resources available applied for this purpose.

Next steps

If a final agreement is achieved, the Government would prepare a "designation order" establishing a London pilot pool and would reflect this in the Provisional Local Government Finance Settlement in December. If any authority were then to decide to opt out within the following 28 days – that is, by mid-January – the pool would not proceed.

¹ <http://www.londoncouncils.gov.uk/node/32689>

As set out in the draft prospectus, we would also require an agreement between the boroughs, City of London and the Mayor of London by which London Government collectively decides how to operate the pool and distribute the financial benefits.

Each authority would need to take the relevant decisions through its own constitutional decision-making arrangements. London Councils has engaged legal advisers to prepare the necessary documentation and provide support to boroughs in managing this process between now and mid-January. We will write to Chief Executives shortly with more information on this.

In the meantime, I would like to thank you for your support in helping us reach a collective position that has brought us this far, and look forward to being able to confirm a successful completion of the discussions with Government in the coming weeks.

I am copying this letter to Chief Executives and Borough Treasurers.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Claire Kober', with a stylized flourish at the end.

Cllr Claire Kober
Chair

Annex 1

2018/19 Business Rate Retention Pilot Pool:

Distribution of 2018/19 benefits based on current estimate of aggregate net additional benefit

	15:35:35:15
	£m
Barking & Dagenham	2.8
Barnet	3.7
Bexley	2.8
Brent	4.9
Bromley	2.9
Camden	5.7
City of London	8.2
Croydon	4.3
Ealing	4.4
Enfield	4.2
Greenwich	3.9
Hackney	4.6
Hammersmith & Fulham	2.6
Haringey	3.7
Harrow	2.4
Havering	2.5
Hillingdon	5.4
Hounslow	3.4
Islington	3.8
Kensington & Chelsea	2.2
Kingston upon Thames	1.7
Lambeth	5.3
Lewisham	4.3
Merton	2.4
Newham	6.2
Redbridge	3.2
Richmond upon Thames	1.7
Southwark	6.0
Sutton	2.1
Tower Hamlets	8.0
Waltham Forest	3.4
Wandsworth	3.9
Westminster	3.8
London Boroughs	130.4
GLA	73.9
London subtotal	204.3
Investment pot	36.0
London Total	240.3

London Business Rates Pilot Pool 2018-19

Final Prospectus – November 2017

APPENDIX G2

Introduction

1. Earlier draft versions of this prospectus were circulated to Leaders in July and September asking all boroughs, the City of London and the GLA to consider the issues involved in establishing a pilot pool ahead of the Leaders' Committee and Congress of Leaders and the Mayor on 10 October.
2. At that meeting Leaders' Committee and the Mayor agreed in principle to pool business rates in a London pilot of 100% retention in 2018-19. Leaders' Committee delegated authority to the 5 elected officers of London Councils (the Chair, Deputy Chair, and three Vice Chairs) to take the in principle agreement forward to arrive at a core proposition for the operation of the pool and to continue discussions with both the Mayor and ministers on this. The elected officers discussed this in October and agreed a final distribution option on 1 November following discussions via the party groups, which was subsequently taken forward.
3. The Government formally confirmed its commitment to establishing a 100% business rate retention pilot in London in April 2018 in the Autumn Budget. This was agreed by a memorandum of understanding (MOU) signed by the Chair of London Councils, the Mayor of London, the Minister for London and the Secretary of State for Communities and Local Government.
4. This final prospectus sets out how the London Business Rates pilot pool will work in practice, were the 32 boroughs, the City of London Corporation and the Mayor of London to form a pool in 2018-19.

Pilot principles

5. The MOU between London Government and the Government on the London 100% business rates retention pilot agrees that:
 - The 100% business rates retention pilot in London will be voluntary, but will be a pool comprising all 32 London boroughs, the Corporation of the City of London and the Greater London Authority.
 - From 1 April 2018 the London authorities will retain 100% of their non-domestic rating income¹. London will not retain 100% of total rates collected, as it will continue to pay an aggregate tariff to government. The overall level of collected rates that will be retained is around 64% after the tariff is paid.
 - London authorities will also receive section 31 grants in respect of Government changes to the business rates system which reduce the level of business rates income. Section 31 grant will amount to 100% of the value of the lost income. Tariffs and top-ups will be adjusted to ensure cost neutrality.
 - The London pool will retain 100% of any growth in business rate income above baselines, and will pay no levy on that growth.

¹ As defined by DCLG.

- In moving to 100% rates retention, the Department for Communities and Local Government will no longer pay Revenue Support Grant (RSG) to the London authorities in 2018/19. Funding baselines will be increased by the equivalent amount to reflect this transfer of RSG, which overall amounts to £775 million in 2018/19 (the full boroughs breakdown can be found at Appendix A).
- London authorities will not be subject to more onerous rules or constraints under the 100% rates retention pilot, than they would have been if they had remained subject to the existing “67% scheme” in place in 2017/18.
- No “new burdens” will be transferred to London and participation in the pilot will not affect the development or implementation of the Fair Funding Review.
- In the event that London’s business rates income fell, the pool will have a higher “safety net” threshold – 97% rather than 92.5% of the overall baseline funding level – than in the existing system, reflecting the greater reliance local authorities will have on business rates within the pilot.
- The piloted approach is to be without detriment to the resources that would have been available collectively to the 34 London authorities under the current local government finance regime, over the four year settlement period². This “no detriment” guarantee will ensure that the pool, as a whole, cannot be worse off than the participating authorities would have been collectively if they had not entered the pilot pool. In the unlikely event of this arising (the current forecast is for collected rates to 6% above baselines), the government would intervene to provide additional resources.

Pooling principles

6. The MOU with the Government establishes the terms of the 100% retention pilot, but the London business rates pool must be set up following the same process as all other business rates pools. Following legal advice, the detailed pooling agreement that establishes the terms by which the pool will operate will be by an MOU between the 34 pooling authorities – as is the case for the vast majority of business rates pools.
7. The key principles that underpin the London pooling agreement are that:
 - **The pool in 2018-19 would not bind boroughs or the Mayor indefinitely** – the founding agreement includes notice provisions for authorities to withdraw provided notice is given by 31 August each year. Were the pool to continue beyond 2018/19, unanimous agreement would be required to reconfirm a pool from 2020/21 onwards (the expected year in which funding baselines will be update as a result of the Fair Funding Review).
 - **No authority can be worse off as a result of participating** - where authorities anticipate a decline in business rates, the first call on any additional resources generated by the pool would be used to ensure each borough and the GLA receives at least the same amount as it would have without entering the pool (this would include the equivalent of a safety net payment were it eligible for one individually under the

² This includes current 67% scheme growth retained under the retention pilot, and reflects Enterprise Zones and “designated areas” where the designations made by the Secretary of State came into force on or before 1 April 2018, along with other special arrangements, such as the statutory provision to reflect the unique circumstances of the City of London Corporation.

current 67% system). Where authorities expect to grow, they will continue to retain at least as much of that income as they would under the current system, plus a potential share of the aggregate benefits of pooling assuming the pools grows (see paragraphs 14 and 18). Where the pool overall has less income than would have been available collectively under the 67% system, the funding provided by the Government as part of the “no detriment” guarantee would be used to ensure that no individual authority is worse off than it would have been otherwise. Existing Enterprise Zones and “designated areas”, along with other special arrangements, such as the statutory provision to reflect the unique circumstances of the City of London Corporation, will be taken into account in calculating the level of resources below which the guarantee would operate. For boroughs in an existing pool, DCLG have also indicated that the basis of comparison would include the income due from that pool³.

- **All members will receive some share of any net benefits arising from the pilot pool** – recognising that growing London’s economy is a collective endeavour in which all boroughs make some contribution to the success of the whole, all members of the pool will receive at least some financial benefit, were the pool to generate additional resources.

Lead authority

8. As in other existing pools, it is a statutory requirement that a “lead authority” acts as the accountable body to government and is responsible for the administration of the pooled fund. The City of London has agreed to be the lead authority for the London business rates pool.
9. The lead authority’s standard responsibilities will include, but not be limited, to:
 - all accounting for the finances of the pool including payments to and from the Government;
 - management of the pool’s collection fund;
 - all audit requirements in relation to the pool;
 - production of an annual report of the pool’s activity following final allocation of funds for the year;
 - the administration of the dissolution of the pool;
 - all communications with the DCLG including year-end reconciliations; and
 - the collation and submission of information required for planning and monitoring purposes.
10. It will be for the Lead Authority for the pool to determine the distribution of revenues between members of the pool and also pay the net tariff payment to the Government during the year. In practice, this will mean some authorities will receive net payments from the pool in instalments during the 2018-19 financial year and others will make net payments into the pool depending on their top up and tariff positions and estimated business rates income. These transfers through the pool will also incorporate the GLA’s share.
11. Under a delegation arrangement, the GLA will manage treasury management issues and monetary transfers between billing authorities on behalf of the lead authority. This reflects the

³ Of the 33 London authorities in 2017-18 this includes Barking & Dagenham, Havering and Croydon

fact that the GLA already has the systems in place to manage payment flows to and from billing authorities for business rates retention as well as council tax and the BRS.

12. It is likely that the resources required to perform this function would be 1 FTE post, which would likely be a senior accountant with considerable experience and understanding of collection fund accounting and the business rates retention scheme.
13. In the case of the London pilot pool, the lead authority will have an additional role in formally taking decisions over the allocation of the Strategic Investment Pot following consultation with all participating authorities (as described in paragraphs 21 to 23 below).

Distributing the benefits of pooling

14. The net financial benefit of pooling consists of retaining 100% of growth (rather than 67% across London under the current scheme), and in not paying a levy on that growth (which tariff authorities and tariff pools currently pay). The principle would mean that *any aggregate growth* in the pool overall – because of the increased retention level – would generate additional resources to share, with each pooling member to benefit to some extent.
15. The net financial benefit to participating in the pool in 2018-19 is currently estimated to be in the region of £240 million, based on London Councils' modelling using boroughs' own forecasts. A more accurate forecast will be expected in February 2018 following the completion of individual forecasts for 2018-19.
16. The pooling agreement sets out the principles and method for distributing any net financial benefits that may be generated. The principles are based on four objectives agreed by Leaders and the Mayor:
 - **incentivising growth** (by allowing those boroughs where growth occurs to keep some proportion of the additional resources retained as a result of the pool)
 - **recognising the contribution of all boroughs** (through a per capita allocation)
 - **recognising need** (through the needs assessment formula); and
 - **facilitating collective investment** (through an investment pot designed to promote economic growth and lever additional investment funding from other sources).
17. The final agreed distribution method recognises all four of these objectives with 15% of any net financial benefit set aside as a "Strategic Investment Pot" (see paragraphs 19 to 23 below); and the resources not top-sliced for the investment pot being shared between the GLA and the 33 billing authorities (the 32 boroughs and the Corporation of London) in the ratio 36:64, in accordance with the principle previously agreed by London Councils and the GLA in the joint business rate devolution proposals to Government in September 2016. Estimated boroughs shares of the estimated £240 million net benefit to the pool and the above distribution weightings are set out in Appendix B.
18. The Mayor of London has committed that the GLA's share of any additional net financial benefit from the pilot will be spent on strategic investment projects. It is therefore anticipated that approximately 50% of net additional benefits arising from the pilot pool will be spent on strategic investment projects. Decisions on the allocation of the GLA's share will be made by

the Mayor of London. Examples of the kinds of projects the Mayor will seek to support with the GLA's share include supporting the delivery of housing through infrastructure investment and the provision of skills and training to further support housing delivery.

Strategic investment pot and pool governance

19. The joint Strategic Investment Pot (SIP) - representing 15% of the total additional net benefit - will be spent on projects that meet each of the following requirements:
 - contribute to the sustainable growth of London's economy and an increase in business rates income either directly or as a result of the wider economic benefits anticipated;
 - leverage additional investment funding from other private or public sources; and
 - have broad support across London government in accordance with the proposed governance process.
20. For these purposes, "strategic investment" is defined as projects that will contribute to the sustainable growth of London's economy which lead to an increase in London's overall business rate income.
21. Following legal advice regarding the form of the governance mechanism for taking decisions regarding the SIP, decisions will be taken formally by the City of London - as the lead authority - in consultation with all member authorities, reflecting voting principles designed to protect Mayoral, borough and sub-regional interests⁴, previously endorsed by Leaders and the Mayor in the London Finance Commission (both 2013 and 2017), and set out in London Government's detailed proposition on 100% business rates in September 2016. These are that:
 - both the Mayor and a clear majority of the boroughs would have to agree;
 - a majority would be defined as two-thirds of the 33 billing authorities (the 32 boroughs and the City of London), subject to the caveat that where all boroughs in a given sub-region disagreed, the decision would not be approved; and
 - if no decisions on allocation can be reached, the available resources would be rolled forward within the pot for future consideration at the next decision making round.
22. The lead authority will oversee the methodology for the allocation of resources and prepare reports on proposals for the SIP, supported by London Councils and the GLA, in accordance with the agreed criteria. Decisions on allocating the strategic investment pot will be taken bi-annually with the lead authority reporting back on decisions, following consultation with all participating authorities, at each meeting of the Congress of Leaders and the Mayor of London.
23. The Lead Authority will prepare reports with proposed recommendations as to SIP allocations and shall circulate the reports to the Participating Authorities for consultation in advance of Congress meetings and each Participating Authority will decide, in accordance with its own governance process and scheme of delegation, whether that Participating Authority wishes to

⁴ For these purposes, the sub-regions would be defined as the Central, West, South and Local London sub-regions as defined for devolved employment support arrangements and illustrated in the map at Appendix C. If in the future, boroughs wished to change the initial groupings that could be achieved by agreement of the pool member authorities.

recommend to the lead authority that a strategic investment project is supported or rejected and if rejected together with its reasons for such recommendation.

Future of the pilot

24. The Government will undertake a qualitative evaluation of the progress of the pilot based on the current research programme for the existing business rate retention pilots, with additional focus on the governance mechanism and decision making process, and the scale of resources dedicated to strategic investment.
25. The MOU between London Government and the Government only commits to the pilot operating for one year. However, subject to the evaluation of the pilot, it also commits the Government to working with London authorities to explore: future options for grants including, but not limited to, Public Health Grant and the Improved Better Care Fund; the potential for transferring properties on the central list in London to the local list where appropriate; and legislative changes needed to develop a Joint Committee model for future governance of a London pool.

Designated areas

26. Enterprise Zones and “designated areas” effectively hypothecate future business rate revenues to support investment. Under current arrangements, these are subject to agreement between the government and the boroughs directly involved, in consultation with the GLA, whose revenues are also affected.
27. The Government is not actively encouraging further such arrangements. However, if, during the lifetime of a pilot pool, new “designated areas” or Enterprise Zones were to be created, this could – depending on the nature of the individual scheme – impact on the potential future revenues of all members of the pool and will need to be considered in establishing the pool and framework.
28. It is not proposed that consideration or decision-making in respect of new designated areas be a matter for the pool. However, depending on the nature of individual schemes, such decisions would have to be taken by the relevant local authority after appropriate consultation with those affected.

Accounting and reporting

29. In order that a the lead authority can fulfil its functions and meet its obligations as the accountable body, each member authority will need to provide timely information to the lead authority as well as making timely payments to an agreed schedule.
30. Forecast (NNDR1) and outturn (NNDR3) figures will still be required as per the existing NDR Regulations 2013, in order to enable budget processes to be complete and for the schedule of payments from the lead authority and to government to be determined during the course of the year. The pool would use NNDR1 returns to establish the schedule of payments to be made to the lead authority and for the calculation of any notional levy savings to be made. However, it would not be until the outturn position is known (the NNDR3 form) that actual reconciliation would be made and the final growth/decline for the pool as a whole, and

individual pool members, would be known. This will be in September 2019 after accounts have been audited for the financial year 2018-19.

31. The forecast NDR income figures in the NNDR1 forms determine the growth/decline for that year and it is this figure that would determine the amount to be shared between pool members or between local authorities and central government in the current system.
32. Variances against forecast in the non-domestic rating income are reflected in the forecast surplus or deficit of the collection fund at the start of the following year (information which is collected as part of NNDR1). Appeals provisions impact each year on the calculation of the NNDR income figure: a higher provision in a year, everything else being equal, reduces the NNDR income figure determining growth/decline for that year.
33. A separate pooled collection fund would be required to be established that would sit with the lead authority. A key issue will be the treatment of Collection Fund surpluses and appeals provisions within the pool. The key principle pooling authorities would have to agree is that the benefits (or costs) of actions undertaken by the authorities prior to entering the pool should remain with the authority so that no authority can be worse off than they would have been under the 67% scheme. So – for example – if a provision established in 2013-14 proves not to be necessary and is released during 2018-19, the authority should receive at least as much as it would have under the existing 67% scheme, plus its share of any additional retained revenues.
34. The pool's collection fund account would have to continue beyond the life of the pool until all appeals relating to the pool period were resolved. Provisions released after the operation of the pilot would be distributed on the basis of the pool's founding agreement – i.e. the authority where the provisions originated would receive at least as much as it would under the 67% retention system, with any additional resources being shared according to the pool's agreed distribution mechanism. There would therefore be no "gaming" benefits to individual authorities of setting higher (or lower) provisions. The lead authority would be responsible for administering this.
35. Further work is being undertaken to set out how the accounting and reporting requirements would work in practice, which may require an additional "London pool" form to be administered by the lead authority. This will be confirmed following the Provisional Local Government Finance Settlement in December.

Next steps - Local decisions required to establish the pool

36. Establishing a pilot pool will require two separate decisions to be made by each participating authority:
 - the agreement to accept the designation order by government to form the pool; and
 - agreement between the boroughs, the City of London and the GLA by which London Government collectively decides how to operate the pool and distribute the financial benefits (the pooling MOU).
37. With regard to the former, the Government has prepared a draft "designation order" establishing a London pilot pool that will be sent out by DCLG alongside in the Provisional

Local Government Finance Settlement in December (a draft of the designation order letter will be circulated alongside this final prospectus). If any authority decides to opt out within the following 28 days – that is, by 28 days after the Provisional Local Government Finance Settlement – the pool would not proceed.

38. The pooling agreement MOU between the 34 London authorities will be circulated by Friday 1 December, to be signed by each Leader of the 32 London boroughs, the Chairman of the Policy and Resources Committee of the City of London and the Mayor of London, and.
39. Each authority will need to take the relevant decisions regarding the pooling agreement and designation order, through its own constitutional decision-making arrangements in time for the resulting business rate and funding baselines to be incorporated within the Final Local Government Finance Report in February.
40. In order to facilitate and support authorities in taking these decisions, advice on the legal framework and governance options for the pool has been circulated to Chief Executives and Finance Directors, along with other supporting material to help facilitate those local decisions including:
 - draft resolutions to support boroughs in drafting any cabinet/committee/council reports
 - an FAQs document to answer any legal queries in relation to the pool
 - a further legal note on executive decisions
 - this final prospectus.
41. The timeline to make the pool operational is as follows:
 - Government publishing draft baseline figures in the provisional settlement (Mid-December).
 - Boroughs taking formal decisions to participate in the pool and the framework for its operation within 28 days of the Provisional Settlement (by mid-January 2018).
 - Final baselines published in final LGF Settlement (February 2018).
 - Pool goes live (April 1 2018).

Appendix A – Revenue Support Grant amounts to be rolled in to the funding baselines as part of the London 100% BRR pilot

The amount of Revenue Support Grant (RSG) to be ‘rolled-in’ to 100% rates retention for 2018/19 for each authority is set out below. This is in addition to the sums rolled in in 2017-18 in respect of the Transport for London investment grant and the Greater London Authority’s RSG under the GLA’s partial pilot.

	Amount (£m) for 2018/19
Barking & Dagenham	23.3
Barnet	14.9
Bexley	8.5
Brent	33.7
Bromley	4.3
Camden	31.9
City of London	7.5
Croydon	23.3
Ealing	26.2
Enfield	25.7
Greenwich	33.3
Hackney	45.0
Hammersmith & Fulham	23.4
Haringey	30.2
Harrow	7.3
Havering	6.8
Hillingdon	13.1
Hounslow	15.7
Islington	32.6
Kensington & Chelsea	16.3
Kingston upon Thames	1.5
Lambeth	42.8
Lewisham	36.9
Merton	10.1
Newham	46.4
Redbridge	16.8
Richmond upon Thames	0.0
Southwark	47.0
Sutton	11.8
Tower Hamlets	43.8
Waltham Forest	26.1
Wandsworth	30.2
Westminster	38.1

NB: Provisional baselines and tariffs and top-ups will be circulated following the Provisional Local Government Finance Settlement in December.

Appendix B – Forecast shares of net financial benefit in 2018/19 based on £240 million estimate

The figures below represent the estimated shares of the overall net financial benefit currently forecast from the London pool in 2018/19 (£240m), applying the distribution methodology set out in paragraph 17, which applies the following weightings (15% incentives; 35% population; 35% SFA; 15% Strategic Investment Pot).

Table B1 - Breakdown of estimated total net benefit

	£m	%
<i>Incentives pot (boroughs' share)</i>	23.0	9.6%
<i>SFA pot (boroughs' share)</i>	53.7	22.3%
<i>Population pot (boroughs' share)</i>	53.7	22.3%
London Boroughs total	130.3	54.2%
GLA total	73.9	30.8%
Boroughs/GLA total	204.3	85.0%
Strategic Investment Pot	36.0	15.0%
London Total	240.3	100.0%

Note: The GLA's total is comprised of 36% of each of the incentives, SFA and population pots

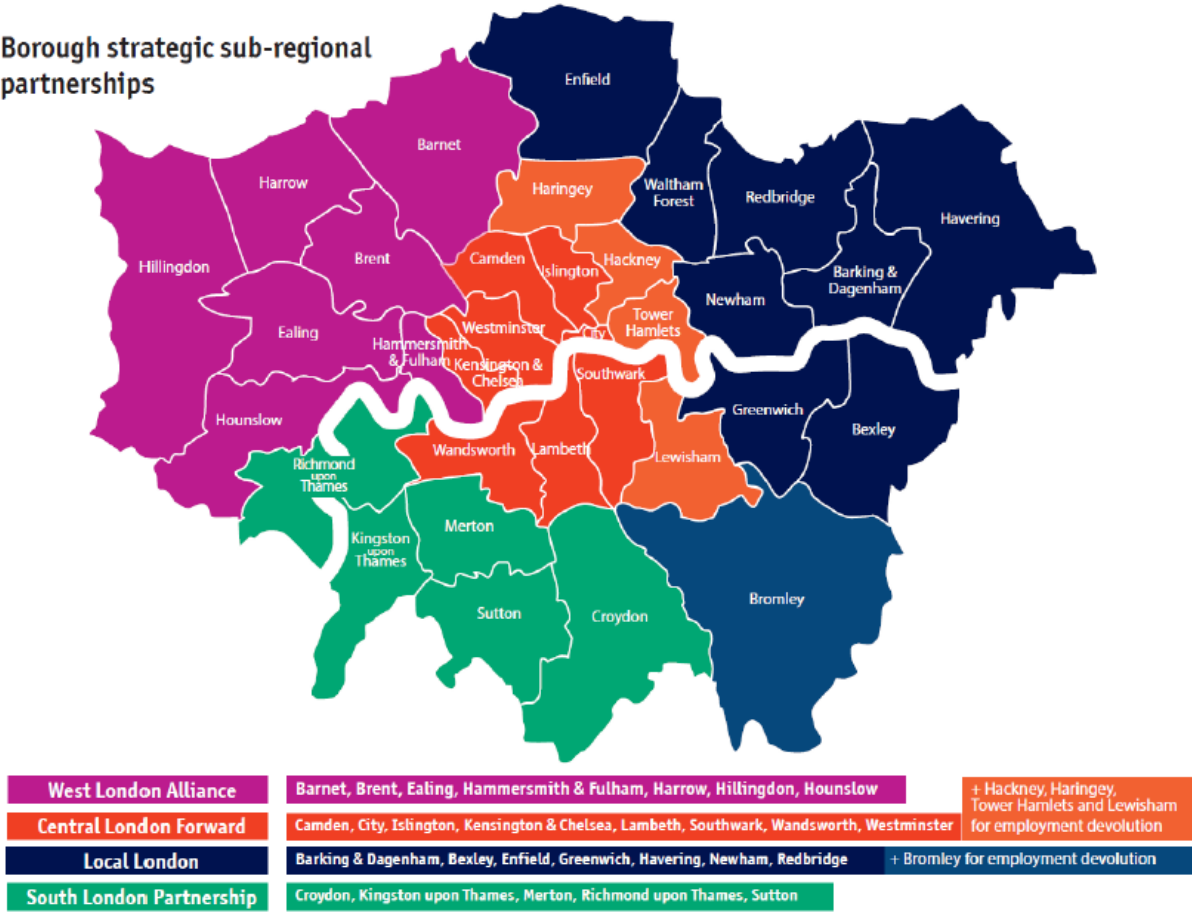
Table B2 – Borough breakdown of estimated net benefit in 2018/19

	£m
Barking & Dagenham	2.8
Barnet	3.7
Bexley	2.8
Brent	4.9
Bromley	2.9
Camden	5.7
City of London	8.2
Croydon	4.3
Ealing	4.4
Enfield	4.2
Greenwich	3.9
Hackney	4.6
Hammersmith & Fulham	2.6
Haringey	3.7
Harrow	2.4
Havering	2.5
Hillingdon	5.4
Hounslow	3.4
Islington	3.8
Kensington & Chelsea	2.2
Kingston upon Thames	1.7
Lambeth	5.3
Lewisham	4.3
Merton	2.4
Newham	6.2
Redbridge	3.2
Richmond upon Thames	1.7

Southwark	6.0
Sutton	2.1
Tower Hamlets	8.0
Waltham Forest	3.4
Wandsworth	3.9
Westminster	3.8
London Boroughs total	130.3
GLA total	73.9
Boroughs/GLA total	204.3
Strategic Investment Pot	36.0
London Boroughs total	240.3

Note: These figures should be treated with caution and are only indicative. They are based on modelling which uses boroughs' own estimates from a survey of London Treasurers in May 2017. Where boroughs did not respond, the 2017-18 forecast figures were used.

Appendix C - Illustrative sub-regional groupings for the purposes of the “sub-regional veto” in respective of Strategic Investment Pot decisions





dated

2017

APPENDIX G3

**The Greater London Authority
and
The London Boroughs
and
COLC
(together the Participating Authorities)**

Memorandum of understanding
in relation to London Business Rates Pool

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London Business Rates Pool

Memorandum of Understanding

THE GREATER LONDON AUTHORITY and THE LONDON BOROUGHS and COLC

(together the "Participating Authorities")

1 Legal Effect and Definitions

- 1.1 This Memorandum of Understanding is produced as a Statement of Intent by the Participating Authorities and shall not be legally binding.

COLC means the City of London Corporation, acting by the Common Council in its capacity as a local authority and billing authority;

DCLG means the Department for Communities and Local Government;

Designation Order means the designation order made by the Secretary of State for Communities and Local Government pursuant to his/her powers under Schedule 7B, Paragraph 34 of the LGFA 1988 a draft of which is annexed at Appendix 1;

Government means Her Majesty's Government of the United Kingdom;

Lead Authority and Accountable Body means the City of London Corporation acting in its capacity as a local authority and a Participating Authority who shall act as the Accountable Body and lead in managing the Pool's resources, day-to-day financial management of the Pool and the financial interactions with the Government in relation to the Pool and shall constitute the key contact between the Government and the Pool;

Leaders mean the leaders (including elected Mayors where applicable) of the Participating Authorities or, in the case of the COLC, the Chairman of the Policy and Resources Committee of the Common Council;

LGFA 1988 means the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 2012);

London Boroughs means the 32 London Boroughs as set out at Appendix 2;

London Local Authorities means the London Boroughs and the City of London Corporation in its capacity as a local authority;

NDR Levy Regulations means Non-Domestic Rating (Levy and Safety Net) Regulations 2013 (SI 2013/737) (as amended);

NDRR Retention Regulations means Non-Domestic Rating (Rates Retention) Regulations 2013 (SI 2013/452) (as amended);

ONS means Office for National Statistics;

Participating Authorities means the London Boroughs, the City of London Corporation (**COLC**) acting in its capacity as a local authority and the Greater London Authority (**GLA**) and **Participating Authority** shall be construed accordingly;

Pool means the London business rates pool for 2018-19 between the Participating Authorities in accordance with this Memorandum of Understanding;

Section 31 Grant means grant paid by a Minister of the Crown to a local authority in England in accordance with section 31 of the Local Government Act 2003;

Strategic Investment Pot (SIP) means the funds made available for strategic investment pursuant to top slicing in accordance with paragraph 6.1.3 which shall be used by the Participating Authorities following the Lead Authority's approval to fund projects that will deliver economic growth for London;

Strategic Investment Projects means projects which are potentially eligible for strategic investment from the SIP.

2 **Background**

- 2.1 This Memorandum of Understanding (**MOU**) between the Participating Authorities sets out the terms by which the Participating Authorities have collectively agreed to operate the Pool and distribute the financial benefits.
- 2.2 The Participating Authorities agree to act collaboratively and to co-operate with each other in utmost good faith.
- 2.3 Autumn Budget 2017 confirmed government commitment to the London Business Rates retention pilot for 2018/19. This was formally confirmed in a Memorandum of Understanding on the London 100% business rates retention pilot 2018/19 signed by the Mayor, the Chair of London Councils, the Minister for London and Secretary of State for Communities and Local Government.

- 2.4 The Government has prepared the attached draft Designation Order establishing the Pool and shall reflect this in the Provisional Local Government Finance Settlement in December 2017.
- 2.5 The Government is committed to giving the Participating Authorities greater control over the revenues they raise. Subject to the evaluation of the Pilot, the Government will work with London Local Authorities and the GLA to explore the options for grants including, but not limited to: Public Health Grant and the Improved Better Care Fund being transferred to the Pool; the potential for transferring properties in London on the central list to the local list where appropriate; and legislative changes needed to develop a joint committee model for future governance of a London pool.
- 2.6 The Government shall undertake a qualitative evaluation of the progress of the Pool based on the current research programme for the existing business rate retention pilots, with additional focus on the governance mechanism and decision-making process, and the scale of resources dedicated to strategic investment.
- 2.7 Subject to an evaluation of the governance mechanism for the Pool (see paragraph 7), the Government shall explore legislative changes needed to develop a joint committee model in future.

3 Aim/Rationale of the Pool

- 3.1 The Pool will aim to improve the well-being of the communities the Participating Authorities serve in London. By working together they can retain a greater proportion of business rate growth within London, providing opportunities to further economic growth as well as building financial resilience.

4 Principles of the Pilot Pool

- 4.1 The Participating Authorities hereby confirm their agreement to participate in compliance with this MOU and confirm that they have resolved or intend to duly and properly resolve to accept the Designation Order in satisfaction of Schedule 7B, Paragraph 34(2) of LGFA 1988.
- 4.2 From 1 April 2018 the Participating Authorities shall retain 100% of their non-domestic rating income¹. The Participating Authorities shall also receive Section 31 Grant from the Government in respect of changes to the business rates system. Section 31 Grant shall amount to 100% of the value of the lost income.

¹ As defined in the Non-Domestic Rating (Rates Retention) Regulations 2013 (SI2013/452) (as amended).

- 4.3 In moving to 100% rates retention, the DCLG shall not pay Revenue Support Grant (**RSG**) to the London Local Authorities in 2018/19. The equivalent value of the notional RSG in 2018/19 is set out in Appendix 3. Tariffs and top-ups will be adjusted accordingly to reflect both the 100% retention of rating income and higher funding baselines.
- 4.4 The Participating Authorities shall not be subject to more onerous rules or constraints under the 100% rates retention Pilot, than they would have been if they had remained subject to the 67% retention scheme in place in 2017-18 (which reflects the incremental impact of the GLA's partial pilot as a result of the rolling in of the GLA's RSG and the Transport for London investment grant). No "new burdens" will be transferred to the Participating Authorities and participation in the Pilot will not affect the development or implementation of the Fair Funding Review.
- 4.5 Levy and safety net payments due from/to the Pool shall be calculated in accordance with the NDR Levy Regulations, as if the Participating Authorities were not 100% pilots, but instead were operating under the 50% rates retention scheme adjusted for the GLA's partial pilot for 2017-18 which is continuing as part of the Pool and increased the locally retained share to 67%.
- 4.6 However, notwithstanding the calculation of levy and safety net payments under the NDR Levy Regulations, the Government shall calculate levy and safety net payments due from/to the Pool on the basis that it has a "zero levy rate" and "safety net threshold" of 97%, and that the Participating Authorities will be retaining 100% of London's business rates income. The difference between any sums due under this calculation and the levy/safety net due shall be paid to the Pool via a Section 31 Grant.
- 4.7 This Pool shall be without detriment to the resources that would have been available collectively to the Participating Authorities under the current local government finance regime, over the four year settlement period. This includes current 67% scheme growth, and reflects Enterprise Zones and "designated areas" where the designations made by the Secretary of State came into force on or before 1 April 2018, along with other special arrangements, such as the statutory provision to reflect the unique circumstances of the COLC, as currently contained in Part II of Schedule 7 to the Local Government Finance Act 1988 and paragraph 1(2) of Schedule 1 to the Non-Domestic Rating (Rates Retention) Regulations 2013.

5 **Term of MOU**

- 5.1 This MOU comes into effect from 1st April 2018 and shall continue to be in place unless terminated in accordance with paragraph 5.2 and 11 below ("Dissolution of the Pool").

- 5.2 Were the Pilot to be revoked or the Government to decide that the Pilot should cease after one year, then the Pool shall lapse at the end of that year and shall be dissolved in accordance with the provisions contained in paragraph 11 below. However, were the Pilot to be continued, the Pool shall continue up to 31st March 2020 unless otherwise agreed by all the Participating Authorities or unless any Participating Authority should choose to leave the Pool in accordance with paragraph 11.2 below.

6 **Distribution of any financial benefit**

- 6.1 This MOU shall constitute the framework agreement for the operation of the Pool in which:
- 6.1.1 each of the Participating Authorities shall receive at least as much from the Pool as they would have individually under the previously applicable 67% retention scheme;
 - 6.1.2 the distribution of net additional benefit through growth in business rates collected in London will, subject to paragraph 6.1.3, be allocated to Participating Authorities on the basis of the following proportions:
 - (a) 15% to incentivise growth by allowing the Participating Authorities where growth occurs to keep a proportion of the additional resources retained as a result of the Pool;
 - (b) 35% to reflect the Settlement Funding Assessment;
 - (c) 35% according to each Participating Authority's per capita formulation as calculated by the ONS projection for the relevant year (starting with 2018); and
 - (d) 15% for the SIP (see paragraph 10 below).
 - 6.1.3 the GLA shall be allocated 36% of each of the sums falling within the sub-paragraphs (a) to (c) above, in order to ensure that such resources as are not top-sliced for the SIP shall be shared between the GLA and the London Local Authorities in the ratio 36:64, in accordance with the principle previously agreed by London Councils and the GLA in the joint business rate devolution proposals to the Government in September 2016².

² <http://www.londoncouncils.gov.uk/node/30451>.

7 Governance

- 7.1 The Participating Authorities have resolved to delegate administrative functions in respect of their powers as billing authorities³ under the NDRR Retention Regulations to COLC acting as the Lead Authority and pursuant to s101 Local Government Act 1972 or Section 9EA(1) of the Local Government Act 2000 where the authorities operate executive arrangements to COLC as the Lead Authority and Accountable Body.
- 7.2 The GLA has resolved to delegate administrative functions as a major precepting authority under s.39(1)(aa) of the Local Government Finance Act 1992 to COLC.

8 Lead Authority

- 8.1 COLC shall act as the accountable body to Government and administer the Pool and provide a secretariat with the assistance of the GLA and London Councils for assessing the Participating Authorities' applications for the SIP against the criteria set out in 10.3.
- 8.2 The GLA shall provide transactional support to the COLC, including treasury management issues and making any monetary transfers between billing authorities in respect of the Pool on behalf of the Lead Authority including any sums due to the GLA. These monetary transfers between participating authorities will be collected or paid by the GLA on the basis of a schedule of payments which will be determined by the COLC in agreement with the Pool, reflecting the Government's payment requirements. This reflects the fact that the GLA already has the systems in place to manage payment flows to and from billing authorities for the existing business rate retention scheme. The GLA shall also transfer any sums required to COLC based on the schedule of instalments agreed with DCLG so that COLC as Lead Authority can pay the net tariff payment payable by the Pool as approved in the Local Government Finance Settlement. COLC shall also transfer any sums it receives from DCLG in safety net payments to the GLA so that it can distribute this to eligible authorities if applicable.
- 8.3 The Lead Authority's standard responsibilities shall include but not be limited to:
- 8.3.1 all accounting for the finances of the Pool and the SIP including payments to and from the Government;
 - 8.3.2 management of the Pool's collection fund;

³ Paragraph 45 (Interpretation) of Schedule 7B defines a "relevant authority" as a billing authority in England, or a major precepting authority in England. The list of billing authorities at Schedule 5, Part 1 of the Non-domestic Rating (Rates Retention) Regulations 2013/452 includes the GLA and the London Boroughs³ as billing authorities and the GLA is also a precepting authority pursuant to section 39 (1) of the Local Government Finance Act 1992.

- 8.3.3 receiving payments from Participating Authorities and making payments to central government on behalf of Participating Authorities on time;
- 8.3.4 maintaining a cash account on behalf of the Pool and paying interest on any credit balances;
- 8.3.5 liaising with and completing all formal Pool returns to central government;
- 8.3.6 administering the schedule of payments between Pool members in respect of the financial transactions that form part of the Pool's resources;
- 8.3.7 providing the information required by Participating Authorities in preparing their annual statement of accounts in relation to the activities and resources of the Pool;
- 8.3.8 leading on reporting to understand the Pool's position during and at the end of the financial year;
- 8.3.9 responsibility for the net tariff payment to central government as well as the internal tariff and top up payments to the Pool Authorities;
- 8.3.10 all audit requirements in relation to the Pool;
- 8.3.11 production of an annual report of the Pool's activity following final allocation of funds for the year;
- 8.3.12 the administration of the dissolution of the Pool;
- 8.3.13 all communications with the DCLG including year-end reconciliations;
- 8.3.14 the collation and submission of information required for planning and monitoring purposes.

8.4 The Lead Authority's role in relation to the SIP shall include but not be limited to:

- 8.4.1 maintenance and support of the Pool's governance arrangements and the methodology for the allocation of resources;
- 8.4.2 assessment and preparation of reports on applications for the SIP supported by London Councils and the GLA in accordance with the agreed criteria.

8.5 The Lead Authority shall prepare reports with proposed recommendations as to SIP allocations and shall circulate the reports to the Participating Authorities for consultation 6 weeks in advance of Congress meetings and each Participating Authority shall decide in

accordance with its own governance process and scheme of delegation whether that Participating Authority wishes to recommend to the Lead Authority that a Strategic Investment Project is supported or rejected and if rejected together with its reasons for such recommendation. The Lead Authority shall pay due regard to the Participating Authorities' responses and may only decide to approve any Strategic Investment Project which meets the majority decision-making arrangements detailed below at paragraph 10.4.

- 8.6 The Lead Authority may resign from its role on 3 months' written notice to all the Participating Authorities (or longer if required by the Government or where another Participating Authority is neither ready nor willing to assume the role of Lead Authority).

9 **Participating Authorities' responsibilities**

- 9.1 The Lead Authority on behalf of the Pool will need full and accurate information from the Participating Authorities in order to enable the Lead Authority to make payments to Government and to and from the Participating Authorities. Therefore, all Participating Authorities commit to providing timely information to the Lead Authority.

- 9.2 Each Participating Authority shall make or receive payments to or from the Lead Authority based on the schedule of payments dates referred to in paragraph 8.2.

10 **Strategic investment**

- 10.1 The GLA commits that the GLA's share of any net financial benefit as calculated using the formula at paragraph 6.1.2 shall be spent on strategic investment.

- 10.2 The combination of the GLA share and the SIP shall as a result of the formula set out in paragraph 6.1.2 make up approximately 50% of the net additional benefits arising from the Pool.

- 10.3 The SIP shall be spent on projects that:

10.3.1 contribute to the sustainable growth of London's economy and an increase in business rates income either directly or as a result of the wider economic benefits anticipated;

10.3.2 leverage additional investment funding from other private or public sources; and

10.3.3 have broad support across London government in accordance with the proposed governance process (see paragraph 10.4 below).

- 10.4 The COLC as Lead Authority shall decide which projects shall be allocated SIP funding following consultation with the GLA and the London Boroughs, reflecting decision-making

principles designed to protect Mayoral, borough and sub-regional⁴ interests, previously endorsed by Leaders and the Mayor of London. These are that:

- 10.4.1 both the GLA and the majority of the London Local Authorities shall have agreed to recommend a Strategic Investment Project for approval; and
 - 10.4.2 for these purposes the "majority" shall constitute two-thirds of the London Local Authorities save that where all Participating Authorities in a single sub-region disagree the decision shall not be deemed agreed;
 - 10.4.3 if no majority consensus on allocation of the SIP to Strategic Investment Projects can be agreed to enable the Lead Authority to make a decision then the available resources in the SIP shall be rolled forward for future consideration until the resources are spent.
- 10.5 The COLC decisions on Strategic Investment Project allocation shall be taken twice a year to ensure that reports back on Strategic Investment Project allocation decisions coincide with meetings of the Congress of Leaders and the Mayor of London.
- 10.6 Each Participating Authority agrees that it shall ensure that any Strategic Investment Project which it proposes to implement shall be within its powers as a local authority, compliant with public procurement and state aid law, the public sector equality duty and all other legal requirements and proper accounting practices.

11 **Dissolution of the Pool**

- 11.1 The Pilot is presumed to operate for 2018-19 only in respect of which the Government will make the Designation Order. Were the Pilot to continue, the Pool will be assumed to continue but any Participating Authority may give notice to leave during the operation of the Pool in accordance with paragraph 5.2 above.
- 11.2 Any Participating Authority seeking to leave the Pool should inform DCLG and all other Participating Authorities as soon as possible. In the event of one or more Participating Authorities leaving the Pool, this Pool would cease to operate at the end of 31st March of that year. Once the Pool has been established, any Participating Authority leaving the Pool must notify the other Participating Authorities by 30th September in any year, to allow the remaining Participating Authorities time to seek designation of a new pool for the following year.

⁴ London Councils' map of sub-regions is annexed at Appendix 4. For these purposes, the sub-regions are defined as the Central, West, South and Local London sub-regions as defined for devolved employment support arrangements. If in the future, boroughs wished to change the initial groupings that could be achieved by agreement of the Pool member authorities.

- 11.3 The Lead Authority shall make the necessary calculations and submit the required returns associated with the dissolving of the Pool and shall deal with all outstanding applications in relation to the Pool's SIP following dissolution of the Pool in accordance with paragraph 11.2 above.
- 11.4 In the event that the Pool is dissolved in accordance with paragraph 11.2, the Lead Authority shall distribute to the Participating Authorities any resources held on behalf of the Pool in accordance with the distribution formula set out at paragraph 6.1.2 above, subject to holding back funds required for the resolution of any outstanding appeals relating to the period of the Pool's operation.
- 11.5 COLC shall continue to act as Lead Authority for as long there are any outstanding Pool responsibilities.
- 11.6 The remaining Participating Authorities of the Pool may choose to form a new pool and, if they wish, include new members for the following year (subject to a new designation order being made by The Secretary of State for Communities and Local Government).
- 12 **Signatories for and on behalf of the Participating Authorities below in their official capacity**

Greater London Authority	Mayor of London.....
The Common Council of the City of London	Chairman Policy and Resources

The London Boroughs of:

Barking & Dagenham	Leader.....
Barnet	Leader.....
Bexley	Leader.....
Brent	Leader.....

Bromley	Leader.....
Camden	Leader.....
Croydon	Leader.....
Ealing	Leader.....
Enfield	Leader.....
Greenwich	Leader.....
Hackney	Mayor.....
Hammersmith & Fulham	Leader.....
Haringey	Leader.....
Harrow	Leader.....
Havering	Leader.....
Hillingdon	Leader.....
Hounslow	Leader.....
Islington	Leader.....
Kensington & Chelsea	Leader.....
Kingston upon Thames	Leader.....
Lambeth	Leader.....
Lewisham	Mayor.....
Merton	Leader.....

Newham	Mayor.....
Redbridge	Leader.....
Richmond upon Thames	Leader.....
Southwark	Leader.....
Sutton	Leader.....
Tower Hamlets	Mayor.....
Waltham Forest	Leader.....
Wandsworth	Leader.....
Westminster	Leader.....

Appendix 1

Draft Designation Order



Department for
Communities and
Local Government

Dear ----,

Further to the announcement in the Budget that the Greater London Authority, the Common Council of the City of London and the 32 London Boroughs are to pilot 100% business rates retention in 2018-19, in accordance with paragraph 34(1) of Schedule 7B to the Local Government Finance Act 1988 (the "1988 Act"), the Secretary of State herewith designates the following authorities as a pool for the purpose of the relevant provisions of the 1988 Act:

- The Greater London Authority
- The Common Council of the City of London; and

The London Boroughs of:

- Barking and Dagenham
- Barnet
- Bexley
- Brent
- Bromley
- Camden
- Croydon
- Ealing
- Enfield
- Greenwich
- Hackney
- Hammersmith and Fulham
- Haringey
- Harrow
- Havering
- Hillingdon
- Hounslow
- Islington

- Kensington and Chelsea
- Kingston upon Thames
- Lambeth
- Lewisham
- Merton
- Newham
- Redbridge
- Richmond upon Thames
- Southwark
- Sutton
- Tower Hamlets
- Waltham Forest
- Wandsworth
- Westminster

All members of the Pilot pool have agreed to this designation.

The designation has effect for the year beginning 1st April 2018 and for each subsequent year, unless revoked.

This designation is made subject to the conditions below.

1. The authorities to which this designation relates must appoint a lead authority to exercise the following functions:
 - To make and receive, on behalf of the Pilot pool members, payments in respect of any top ups and tariffs, levy and safety net and safety net on account payments to and from the Department.
 - To make and receive payments between members of the Pilot pool as determined by the governance agreements.
 - Administration (including the operation of the dissolution arrangements) of the Pilot pool, in accordance with the governance arrangements.
2. If this designation is revoked, the authorities covered by this designation must take the following step before the revocation takes effect:
 - Comply with the dissolution arrangements established in the Pilot pool's governance agreement.

Local authorities in the Pilot pool will have 28 days beginning with the date on which the draft Local Government Finance Report is published to consider if they wish to continue to be designated as a Pilot pool. Provided that no authority within the Pilot pool requests the Secretary of State to make a revocation during that period, the Pilot pool will come into effect on 1 April 2018, meaning that all local authorities covered by the designation will remain in the Pilot pool for the full financial year.

If a member of the Pilot pool decides it no longer wishes to be designated as part of a Pilot pool for 2018-19 it must notify DCLG using the e-mail address in the following paragraph. If a local authority

exercises this option to request revocation of the designation before the date of publication of the Provisional Local Government Finance Settlement 2018-19, the rest of the Pilot pool cannot continue. The Secretary of State will then revoke this designation and the local authorities identified as part of this Pilot pool will revert to being considered as individual authorities for the purposes of the business rates retention scheme.

As a consequence of the designation of the London Boroughs of Barking and Dagenham, Croydon and Havering in the above Pool, in accordance with paragraph 34(3) of Schedule 7B to the Local Government Finance Act 1988, the Secretary of State herewith revokes the designations under which, the London Boroughs of Barking and Dagenham, and Havering were part of the South Essex/East London Business Rates Pool and the London Borough of Croydon was part of the Surrey-Croydon Business rates Pool. Accordingly, the following pools will cease to exist from the end of the current financial year.

South Essex / East London Business Rates Pool

- Thurrock
- Basildon
- Havering
- Barking and Dagenham

Surrey – Croydon Pool Business Rates Pool

- Surrey
- Spelthorne
- Elmbridge
- Croydon
- Guildford
- Mole Valley
- Surrey Heath

If there are any questions about the content of this letter and the enclosed designation please contact Mark Barnett on 0303 444 4217 or at Mark.Barnett@Communities.gsi.gov.uk, as soon as possible.

Signed by authority of the Secretary of State for Communities and Local Government:

Alex Skinner

A member of the Senior Civil Service in the Department for Communities and Local Government

-- December 2017

Appendix 2

London Boroughs

Barking & Dagenham

Barnet

Bexley

Brent

Bromley

Camden

Croydon

Ealing

Enfield

Greenwich

Hackney

Hammersmith & Fulham

Haringey

Harrow

Havering

Hillingdon

Hounslow

Islington

Kensington & Chelsea

Kingston upon Thames

Lambeth

Lewisham

Merton

Newham

Redbridge

Richmond upon Thames

Southwark

Sutton

Tower Hamlets

Waltham Forest

Wandsworth

Westminster

FINAL DRAFT

Appendix 3

Notional RSG

The amount of former notional revenue support grant to each constituent authority to be "rolled-in" to 100% rates retention for 2018/19 shall be:

Former RSG Amount	Amount (£m) for 2018/19
Barking & Dagenham	23.3
Barnet	14.9
Bexley	8.5
Brent	33.7
Bromley	4.3
Camden	31.9
City of London	7.5
Croydon	23.3
Ealing	26.2
Enfield	25.7
Greenwich	33.3
Hackney	45.0
Hammersmith & Fulham	23.4
Haringey	30.2
Harrow	7.3
Havering	6.8
Hillingdon	13.1
Hounslow	15.7
Islington	32.6
Kensington & Chelsea	16.3

Kingston upon Thames	1.5
Lambeth	42.8
Lewisham	36.9
Merton	10.1
Newham	46.4
Redbridge	16.8
Richmond upon Thames	0.0
Southwark	47.0
Sutton	11.8
Tower Hamlets	43.8
Waltham Forest	26.1
Wandsworth	30.2
Westminster	38.1

Appendix 4

Illustrative sub-regional groupings for the purposes of the "sub-regional veto" in respect of Strategic Investment Pot decisions

Borough strategic sub-regional partnerships



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Victoria Mills	1	Eleanor Kelly	1
Other Councillors		Deborah Collins	1
Jasmine Ali	1	Gerri Scott	1
Tom Flynn	1	Duncan Whitfield	1
Maria Linforth-Hall	1	David Quirke-Thornton	1
Rosie Shimell	1	Officers	
Michael Mitchell	1	Doreen Forrester-Brown	1
Ben Johnson	1	Jennifer Seeley	1
Electronic Versions (no hard copy)		Norman Coombe	1
Councillor Peter John OBE		Kevin Fenton (1st floor, hub 1)	1
Fiona Colley		Others	
Stephanie Cryan		Louise Neilan	1
Maisie Anderson		Paula Thornton, Constitutional Officer	10
Barrie Hargrove		Total:	31
Richard Livingstone		Dated: 16 October 2017	
Mark Williams			
Ian Wingfield			
Johnson Situ			
Gavin Edwards			
Paul Fleming			
Jon Hartley			
Eleanor Kerslake			
Rebecca Lury			
Kieron Williams			
Group Offices			
Chris Page, Cabinet Office	1		
Steffan John, Liberal Democrat group Office	1		
Press			
Southwark News	1		
South London Press	1		