

Item No. 10.	Classification: Open	Date: 22 October 2013	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy 2014/15 to 2016/17: Scene Setting Report and Revenue Budget Options, including Budget Consultation Outcome	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance, Resources and Community Safety	

FOREWORD - COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY

In June, the cabinet received a report on the council's general revenue budget for the forthcoming year, 2014/15, identifying a budget gap of £23m as a result of government funding cuts. Subsequent decisions by government since that time have increased the size of that gap to £25.4m.

At the June meeting, cabinet agreed that the council should consult the community on what its priorities should be in addressing this gap by asking residents which areas of the council's work should be protected relative to others. This report includes the feedback from this exercise.

Cabinet is being asked to note this feedback and to agree the next steps in the budget process. This includes a recommendation to further explore some potential opportunities to make savings without directly impacting on services to bridge part of the budget gap.

RECOMMENDATIONS

That cabinet:

1. note the impact on 2014/15 resources identified by the government's consultation documents, and subsequent £2.5m increase in the budget gap for 2014/15 from £23m as notified 26 June 2013 cabinet to £25.4m.
2. note the provisional funding gap for 2015/16, subject to the funding settlement, of £40m.
3. note the available feedback from on-line consultation and community conversation events held at venues across the borough during summer and early Autumn.
4. instruct officers to explore options to address the 2014/15 budget gap including scope for additional business rates growth, improved council tax collection and recovery, use of unapplied New Homes Bonus, increased use of future NHB to support revenue, further strategic financing opportunities from the acquisition of Tooley Street, refinancing of PFI schemes, reduction in contingency and

contributions to balances, and confirming further possible government funding such as for free school meals.

5. instruct officers to continue to work on budget options for a balanced budget in 2014/15 for presentation to the cabinet in the autumn of 2013.

BACKGROUND INFORMATION

6. Indicative figures from the government for 2014/15 show that Southwark faces a further £27.5m reduction in funding.
7. On 26 June 2013, the cabinet received the Policy and Resources Strategy 2014/15: Revenue Budget - Initial Financial Remit report. This report informed the cabinet of an expected £24.5m reduction in government funding, leaving a budget gap of £23.0m.
8. This report provides updates on
 - Spending review
 - Government Consultations
 - Southwark Council provisional indicative budget 2014/15
 - Budget Consultations
 - next steps.

KEY ISSUES FOR CONSIDERATION

SPENDING REVIEW

9. On 26 June 2013, the Chancellor announced the 2013 Spending Review, and at this stage the proposals are high level and not specific to any local authority.
10. The main messages affecting local government coming from the spending review are as follows;
 - the local government resource budget will be reduced by 8.5%, (10% in real terms in 2015/16).
 - council tax freeze grant will be extended until 2015/16.
 - the government are committed to the creation of a single local growth fund (SLGF) in 2015/16.
 - an additional £4bn for social care and health integration.
 - a new fund of £330m for transforming services.

Reduction in local government resource budget

11. The government announced in the 2013 Budget speech that public spending needed to reduce by a further £11.5bn to help reduce the public deficit. This included a 10% reduction in government funding to local government in 2015/16 (in real terms).

Council tax freeze grant

12. The government will make funding available to allow authorities to freeze council tax in 2014/15 and 2015/16, at a level equivalent to a 1% increase. The threshold which would require an authority to hold a referendum if exceeded by a council tax increase has been set at 2%.

Single local growth fund (SLGF)

13. In response to Lord Heseltine's report "“No Stone Unturned: in pursuit of growth”", the government committed to the creation of a Single Local Growth Fund (SLGF) in 2015/16 and these funds will be devolved to the Local Enterprise Partnerships (LEPs) through a single pot.
14. It was subsequently announced that £400m of the £2bn would be made available through the top slicing of the New Homes Bonus grant, thus reducing local authority resources.

Health and Adult Social Care

15. The government's announcement on adult social care for 2015/16 includes three elements described below.
16. A £3.8bn pooled budget for health and social care services, shared between the NHS and local authorities, to deliver better outcomes and greater efficiencies through more integrated services. The pooled budget includes:
 - Continuation of the existing transfer from the NHS to social care as set out in the 2010 Spending Review.
 - An additional £200m in 2014/15 to accelerate the transformation process.
 - £2bn a year through the NHS to join up local health and social care services.
 - Funds for carers and people leaving hospital who need support to regain their independence.
 - £350m of capital funding for projects to improve integration locally.
17. £335m for councils to prepare for reforms to the system of care funding which will be made available to local authorities in 2015/16 so that they can prepare for reforms to the system of social care funding, including the introduction of a cap on care costs from April 2016 and a universal offer of deferred payment agreements from April 2015.
18. A new fund of £330m for Transforming Services. This will be comprised of:
 - a £200m extension of the Troubled Families programme to support an additional 400,000 families,
 - £100m to enable efficiencies in service delivery
 - a £30m revenue fund, and £45m capital fund, to drive transformational change in the Fire and Rescue Service.

GOVERNMENT CONSULTATIONS

19. On 25 July 2013, the government announced two consultations that will impact on the amount of resources local authorities will be able to use in 2014/15 and 2015/16, these are the local government finance settlement 2014/15 and 2015/16 – Technical consultation, and the New Homes Bonus and the local growth fund.

Local government finance settlement 2014/15 and 2015/16 – Technical consultation

20. This consultation seeks views on a range of detailed and technical issues concerning the 2014/15 and 2015/16 Local Government Finance Settlements.

2014/15 Local Government Finance Settlement

21. In February 2013 the government published the illustrative 2014/15 Local Government Finance Settlement alongside the 2013/14 Local Government Finance Settlement.
22. Southwark's illustrative funding for 2014/15 was given as £229.0m, a £24.4m reduction on 2013/14 funding. Indicative figures from the consultation show a further £2.5m reduction to £26.9m.
23. The three factors contributing to the additional reductions are:

	England	Southwark
	£m	£m
An increase in RPI, used to uplift retained business rates and business rates top-up	21.1	0.2
The 2013 budget	(218.9)	(2.2)
An anticipated shortfall in the resources that the government will need to fund the safety net in 2014/15.	(45.0)	(0.5)
Total additional reduction	(242.8)	(2.5)

24. In the 2013 Budget, the government announced that a further reduction of 1% overall would be made from the total of Local Government Departmental Expenditure Limit (LG DEL).
25. Further information on the impact on the safety net for NNDR, and for Revenue Spending Power, the effect on the proposals on local government funding, and the impact on Southwark are shown in Appendix A.

New Homes Bonus and the local growth fund (2015/16)

26. As explained in paragraphs 13 and 14, of the housing component of the Local Growth Fund will be £400 million, and will be derived from local pooling of the New Homes Bonus.
27. The decision has already been made by the government with regard to the use of New Homes Bonus. This consultation looks at how local pooling of the New Homes Bonus can be achieved.
28. For London authorities, the government are proposing that the pooled element of New Homes Bonus funds should be transferred to the Greater London Authority, with advice on spending being offered by the London Local Enterprise Partnership.
29. £400m represents 35% of the anticipated total 2015/16 New Homes Bonus of £1.140bn, Southwark are currently forecasting NHB receipts of £12.9m in 2015/16. If 35% of this were held back for the pool, Southwark would receive £8.4m and the remaining £4.5m would go to the GLA.

Impact of the consultations on Revenue Spending Power

30. The 2013/14 Local Government Finance Settlement published in January 2013 included indicative 2014/15 figures. These figures indicated that (excluding Public Health) Southwark would lose £20.6m (6.02%) in Revenue Spending Power against 2013/14 figures.
31. These two consultations both negatively affect Southwark's 2014/15 revenue spending power.
32. The consultation on the Local Government Finance Settlement 2014/15 and 2015/16 indicates a further £2.5m reduction (0.73%) in revenue spending power.
33. For the New Homes Bonus consultation, the 35% top slicing of New Homes Bonus, further reduces revenue spending power by £3.8m (1.12%)
34. This gives a total additional reduction of £6.3m (1.85%), increasing the reduction (excluding Public Health) against 2013/14 to £26.9m (7.87%). This is shown in the table in Appendix A.

Announcement on Free School Meals

35. The Deputy Prime Minister has said all infants at schools in England will get free school lunches from September 2014. This will apply to children in reception, Year 1 and Year 2. At the time of writing there is no clear information as to how this will be funded, although it is possible that this will be by way of a specific grant, potentially with savings requirement as the funding is passed to local councils. On the basis that this is a half year effect in 2014/15 and applies to around 50% of the children who currently receive a free healthy school meal from Southwark, a figure around £1.5m is being modelled, and best information will be reflected in the next budget report.

Latest 2014/15 – 2016/17 indicative budgets

36. An initial financial remit report was received by cabinet on 26 June 2013 showing an indicative gap of £23m. The effect of the changes discussed above are to increase this to £25.4m. This is shown in the table below.

Provisional Indicative budget for 2014/15

	2013/14	Indicative 2014/15	
		<i>as at</i>	<i>as at</i>
	£m	26/06/13 £m	22/10/13 £m
Previous year budget ¹	341.2	334.0	334.0
Inflation ²	4.0	3.8	3.8
Commitments ³	9.6	1.5	1.5
Savings ⁴	(24.9)	(1.1)	(1.1)
Social fund	(1.7)		
Net change in council tax freeze grant.	1.4	0.0	0.0
Fall out of contribution (from) / to balances	4.4	0.0	0.0
Total Budget	334.0	338.2	338.2

	2013/14	Indicative 2014/15	
		as at 26/06/13	as at 22/10/13
	£m	£m	£m
Funded by			
Start up funding allocation (SUFA)	(253.3)	(228.9)	(226.5)
Growth in NNDR ⁵	0.7	(2.0)	(2.0)
Council tax ⁶	(74.3)	(75.2)	(75.2)
Collection fund (surplus) / deficit ⁷	(0.9)	-	-
Application of growth in new homes bonus ⁸		(2.9)	(2.9)
Total Funding	(327.8)	(309.0)	(306.6)
Budget shortfall	6.2	29.2	31.6
Contribution (from) / to balances ⁹	(6.2)	(6.2)	(6.2)
Revised budget shortfall	0.0	23.0	25.4

Note 1 - 2012/13 budget (previous years budget for 2013/14) has been adjusted by £32.9m rolled in specific grants. (£341.2m = £308.2m + £33.0m)

Note 2 - Inflation Assumes a 1% pay award for 2014/15 (£1.6m), no general inflation, and a reducing level of contractual inflation of £2.2m.

Note 3 - commitments are an increase in concessionary fares at £0.5m and an increase in pension contributions of £1m

Note 4 - savings are £1.1m additional Tooley Street savings.

Note 5 - growth in retained share of NNDR of £2m

Note 6 - Assumes 0% increase in council tax, a 1% per annum increase in tax base giving £0.7m and a 0.25% increase in collection rate giving £0.2m

Note 7 - No estimate is currently available for 2013/14 collection fund (surplus) / deficit. This will be monitored through the year and reported as part of the quarterly revenue monitoring reports.

Note 8 - Application of an anticipated additional £2.9m new homes bonus in 2014/15 directly to revenue.

Note 9 – Use of £6.2m of balances

37. During the course of the summer and following the cabinet meeting of 26 June 2013 and in parallel with the consultation with the public described below, officers have been seeking to prepare proposals that will meet the budget shortfall of £23m, now £25.4m, for 2014/15. During this period officers have been made aware of interim feedback from the consultation process and have taken these issues into account together with financial performance within the current financial year across a range of services. In anticipation of being required to submit a balanced budget proposal officers have concentrated on a number of key areas. These include: scope for additional business rates growth, improved council tax collection and recovery, use of unapplied new Homes Bonus, increased use of future NHB to support revenue, further strategic financing opportunities from the acquisition of Tooley Street, refinancing of PFI schemes, and contributions to balances, reduction in contingency and further possible government funding such as for free school meals.

38. However, it is anticipated that after these measures have been explored, and in order to achieve a balanced budget, there is likely to be a remaining requirement to identify efficiencies and savings in council services, both thematically and in each department. Proposals for these will be informed by the results of the consultation process.
39. Any savings or efficiencies (other than one-off) identified in 2014/15 would impact on 2015/16 and future years.

Indicative 2015/16 Funding

40. The funding position for 2015/16 is still subject to considerable uncertainty.
41. As part of the Local Government Finance Settlement 2014/15 and 2015/16 consultation, the government published some indicative funding figures for 2015/16.
42. These indicative figures indicate that Southwark's funding will be reduced by a further £32.2m (14.2%) against indicative 2014/15 funding. This compares with a national reduction of 12.4%. Details are included in Appendix A, paragraphs 8 to 11.
43. Southwark's indicative reduction of £32.200m (14.2%) can be compared the London average of 13.8%, and other London authorities, ranging from Richmond upon Thames 8.1% to Hackney at 14.9%.
44. Southwark have the ninth highest percentage increase in London, but the second highest in cash terms, as with the percentage reductions, this ranges from Richmond upon Thames £3.611m to Hackney £32.208m.
45. It is understood that the extent of the reductions required may require fundamental changes in the management and structure of local authorities. Steps must be taken early in the new financial year in the context of spending round and funding announcements.

Budget consultation – engaging with the community

46. Following the publication of the government's spending review report in October 2010 which set out departmental spending for four years until 2014/15. Southwark began a spending challenge to cover the three year budget plan 2011/12 to 2013/14. The first Southwark Spending Challenge took place from late 2010 and early 2011, and the results of that process informed spending for three financial years from 2011/12 to 2013/14.
47. The second Southwark Spending Challenge took place over the summer and early autumn, and enabled residents to influence council spending priorities for two financial years, 2014/15 and 2015/16. It can be expected that the council will do its very best to implement spending cuts using the results of the second Spending Challenge as a guide, just as has happened previously.
48. In the challenge, people were asked to use 'protect', 'increase' and 'savings' cheques to demonstrate their preferences. Further details about the technique is given in appendix B.

49. The engagement plan included the following
- Community conversation events held at venues across the borough
 - Presentations at community councils
 - meetings with community forums and vulnerable groups.
 - meetings with the voluntary and business sectors.
 - Holding community conversations, at locations across Southwark during August
 - On-line consultation.
50. The main messages arising from the consultation results are:
- highest proportion of 'protect' cheques used for Children's services (30%).
 - significant proportion of 'protect' cheques used for Adult Services (20%) and Culture, Libraries and Leisure (14%).
 - 'increase' cheques were applied more to Children's services (23%), Adult Services (20%), and Culture, Libraries and Leisure (14%), and all of the remainder, except Central Support Services, were closer to the average.
 - 'savings' cheques were placed mainly with Central Support Services (30%), followed by Housing and Community Services (14%).
51. In addition to the direct engagement described above, the council placed an on-line consultation model on the council's website, where people could select reductions or increases in service budgets to achieve an overall reduction of 7%. Further details on the consultation given in appendix B.

Next steps

52. Further to this report, officers will consider further options and construct the basis of a balanced budget to be presented to cabinet on 19 November 2013. However it is unlikely that the provisional 2014/15 finance settlement will have been announced in time for this to be included.
53. A further report will be presented to cabinet on 28 January 2014, following agreement of the 2014/15 tax base (Council Tax and NNDR) at council assembly, and receipt of at least a provisional settlement.
54. This will be in advance of the Overview and Scrutiny Committee meeting to discuss the budget proposals in February 2014. A full report will be presented to cabinet on 11 February 2014. The budget will be proposed to council assembly on 26 February 2014.
55. A timetable of scheduled meetings leading up to council tax setting is shown below, as detailed on the forward plan.

19 November 2013	Cabinet	Draft 2014/15 budget Council Tax Reduction Scheme
10 December 2013	Cabinet	Policy and Resources Strategy 2014/15 - 2016/17: provisional settlement
20 January 2014	Overview and Scrutiny Committee	To review the budget proposals

22 January 2014	Council Assembly	2014/15 Council Tax Base and NNDR Council Tax Reduction Scheme
28 January 2014	Cabinet	Policy and Resources Strategy 2013/14-2015/16 revenue budget
February 2014	Overview and Scrutiny Committee	To review the draft revenue budget
11 February 2014	Cabinet	Policy and Resources Strategy 2013/14-2015/16 revenue budget
26 February 2014	Council Assembly	Policy and Resources Strategy 2013/14-2015/16 revenue budget
26 February 2014	Council Assembly	Setting the Council Tax 2013/14

Community impact statement

56. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the 2013/14 budget, each department will undertake equality analysis on its budget proposals.
57. Undertaking equality analysis will help the council to understand the potential effects that the budget proposals may have on different groups. The analysis will also consider if there may be any unintended consequences and about how these issues can be mitigated. Analysis will also be undertaken to consider any cross-cutting and organisation-wide impacts.
58. The equality analysis undertaken will build on previous analysis including the equality impact assessments carried out as part of 2013/14 budget setting and the equality analysis undertaken on decisions to implement the budget this year. The development of equality analysis will commence now to ensure that it informs decision making at each stage of the budget process.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Legal Services

59. 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.
60. 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 goods relations between people who share protected characteristics and those who do not.
61. Decision makers must understand the effect of policies practices and decisions on people with protected characteristics.

62. Equality impact assessments are the mechanism by which the council considers these effects. The report at paragraphs 56 to 58 sets out how it is proposed equality impact assessments will be undertaken in relation to the budget proposals.
63. 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.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources 2013/14 to 2015/16: cabinet 12/02/13	160 Tooley Street	http://moderngov.southwark.gov.uk/documents/s35390/Report%20Policy%20and%20Resources%20201314%20to%20201516.pdf
Policy and Resources Strategy 2014/15 – Revenue Budget - Initial Financial Remit: Cabinet 26/06/13	160 Tooley Street	http://moderngov.southwark.gov.uk/documents/s38822/Report%20Policy%20and%20Resources%20Strategy%20201415%20Revenue%20Budget%20-%20Initial%20Financial%20Remit.pdf

APPENDICES

No:	Title
Appendix A	Technical Analysis
Appendix B	Spending Challenge 2013 report

AUDIT TRAIL

Cabinet member	Cllr Richard Livingstone - Finance Resources and Community Safety	
Lead officer	Duncan Whitfield - Strategic Director of Finance & Corporate Services	
Report author	Jennifer Seeley - Deputy Finance Director	
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CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Cabinet Member	Yes	Yes
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