

Item No. 10.	Classification: Open	Date: 21 October 2014	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy 2015/16 to 2017/18: Scene Setting Report	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Fiona Colley, Finance, Strategy and Performance	

FOREWORD – COUNCILLOR FIONA COLLEY, CABINET MEMBER FOR FINANCE, STRATEGY AND PERFORMANCE

As we look forward to the next financial year, this report sets out the budgetary challenge ahead of us. Whilst there are many ways of measuring the scale of funding cuts we face – the government’s preferred "spending power" measure, the straight forward cut in “start up funding” from government - the figure that is most important for us is the gap between the money we would wish to spend and the money we actually expect to be able to spend next year. At £31.4m this represents a 10% budget hole we need to fill – largely by reducing council spending.

Further ahead the picture is less clear. We can be sure that whoever forms a government following next year’s election, cuts to local government funding are likely to continue, although having been amongst the hardest hit authorities since 2010 we certainly hope that the next round of cuts will not fall so disproportionately hard on the most deprived areas like Southwark. Our best estimates are those coming from London Councils and based on those we will be going out to consult on a need to reduce the council's budget by £90m over the next three years.

While the government’s austerity measures are hitting the council's budgets hard, they are resulting in a great deal of hardship for many of our residents too. Over the first few months of this financial year we have seen a 20% increase in applications to the Southwark Emergency Support Scheme. The scheme provides furniture, white goods, food bank voucher, rent deposits and emergency cash for people in desperate situations. Despite this increasing need for help, the government’s Social Fund grant, which was passed to councils to provide such emergency support, is being withdrawn! I am recommending that despite the removal of this government grant we should continue the Southwark Emergency Support Scheme to ensure we maintain a safety net for our hardest hit residents.

RECOMMENDATIONS

That cabinet:

1. note the reduction in the government’s estimate of spending power for the council in 2015/16 of £18.8m as shown in paragraph 20 and the reduction in the government’s estimate of start up funding for the council in 2015/16 of £33.5m.
2. note the changes in the council’s estimates of grants due to the council in 2015/16 as shown in paragraphs 23 to 43.

3. note the actions and estimates provided by the council to address the gap between funding available and general fund spending, and the current predicted gap between resources available and general fund spending of £31.4m.
4. instruct officers to submit a further report to cabinet in December to include any further settlement information that becomes available, initial feedback from consultation and the revised budget gap, and to continue to work on budget options for a balanced budget in 2015/16 for presentation to the cabinet in January 2015.
5. agrees that the council's Southwark Emergency Support Scheme (SESS) should continue to be supported at current levels for the duration of this policy and resources strategy despite the removal of Social Fund grant.

BACKGROUND AND PURPOSE

6. This report is the first of the Policy and Resources Strategy revenue budgeting reports that will inform elected members during the 2015/16 budget setting process.
7. This report provides updates on:
 - 2014/15 budget monitoring
 - 2015/16 policy and resources strategy
 - the Autumn Statement
 - revenue spending power
 - start up funding assessment
 - changes in grant funding
 - budget pressures
 - actions to meet the challenge
 - current predicted gap
 - budget consultations
 - 2016/17 and 2017/18 policy and resources strategy
 - The next steps for preparation of the 2015/16 budget.

KEY ISSUES FOR CONSIDERATION

2014/15 Budget Monitoring

8. The council agreed a balanced general fund budget of £308.2m on 26 February 2014 based on a nil council tax increase, and £6.2m use of reserves, giving a budget of £314.4m. The council also approved budget decisions including reductions of some £25.9m within general fund for 2014/15.
9. The 2014/15 position as at quarter 1 was reported to cabinet on 16 September 2014 and a further report will follow in November. The quarter 1 position showed the council was on track overall to deliver those savings and stay within the budget across both the General Fund and the Housing Revenue Account. However, within that overall picture there are sizeable variations and risks which the council will continue to monitor.
10. Action taken to compile the 2014/15 budget included identifying savings from strategic financing, efficiencies across the council, better council tax collection and an increase in the council tax base.

11. The 2014/15 budget includes £4m for contingency, held to meet unforeseen costs that may arise during the year within departments that strategic directors are unable to contain. At quarter 1 no significant pressures have been identified that will require a call against this contingency. This will be used as the first call to pay the £6.2m contribution from reserves which is already included in the draft budget for 2015/16.

2015/16 Policy and Resources Strategy

The Autumn Statement

12. No details of when the autumn statement will be presented have been announced, but indications are that it will be in early/mid December 2014.
13. There is currently little information as to the content of the autumn statement. However following the publication of the "One North Report" in August 2014, the chancellor of the Exchequer has announced that plans to devolve new money and civic powers to the north of England are to be worked up over the next five months in order to form the centrepiece of December's autumn statement.
14. The government are consulting on the provisional settlement on the basis that their indicative figures are not likely to change.

Spending Power

15. The term "revenue spending power" was first introduced by the government as part of the 2011/12 Local Government Finance Settlement. It is made up of retained business rates, top up grant, revenue grant and council tax income along with a selection of specific grants and NHS support for health and social care.
16. Over the four year period from 2011/12 Southwark as a council and London as an area have borne a disproportionate share of the reductions.
17. Since 2010/11, Southwark have will have lost a lost a total of £75.1m revenue spending power by the end of 2014/15.
18. Revenue Spending Power masks the reduction in formula grant. In 2011/12 Southwark's spending power was 8.4% while the reduction in formula grant was 11.3%. For 2014/15, the reduction in spending power is 6.0%, while the reduction in start up funding is 9.6%.
19. As part of the provisional local government finance settlement 2014 to 2015 the government provided an illustrative spending power for 2015/16. The calculations were based on a cap to spending power reductions of no more than 6.9% but this is subject to change. The calculations also include the pooled NHS and LA Better Care Fund.
20. The figure for Southwark's illustrative 2015/16 revenue spending power was £335.8m which is £18.8m lower than in 2014/15 and represents a 5.3% decrease.

Changes in Start up funding assessment

21. Indicative figures from the government show that Southwark faces a further £33.5m (14.7%) reduction in our settlement funding assessment (SFA) in 2015/16. Total resources from government fall from £230m to £196.5m.

22. The start up funding assessment also includes the business rates which the council can retain. The table in paragraph 59 shows that retained business rates are predicted to rise from £59.2m to £60.7m in 2015/16.

Changes in Grant Funding

New Homes Bonus and the local growth fund

23. Following the 2013 spending review and the creation of a Single Local Growth Fund to be devolved to Local Enterprise Partnerships (LEPs), it was announced in the 2013 autumn statement that London authorities would have their NHB top-sliced, and that the pooled element of New Homes Bonus (£70m) will be transferred to the Greater London Authority, with advice on spending being offered by the London Local Enterprise Partnership.
24. Southwark are currently forecasting NHB receipts of £13.7m in 2015/16, an increase of £2.7m over the £10.8m 2014/5 funding level. When 35% of this is held back for the pool, Southwark would receive £8.9m and the remaining £4.8m would go to the GLA.
25. This represents a net reduction in NHB of £1.9m over the sum included in the 2014/15 budget to support revenue funding. This reduction has been included in the current budget calculations.
26. It is still unclear from government sources whether this top slice is for 2015/16 only or whether it will be ongoing. Current estimates are assuming that the top-slice will continue.
27. The council will continue to lobby for the top slicing to be removed for London, as it has been for the rest of the country.
28. However the council is also engaging with the LEP and has made a joint application with Lambeth and Lewisham for a constructions skills centre to be located in the heart of the regeneration programme at the Elephant & Castle. The skills centre hub, to be in place by 2016/17, will focus on both skills training and employment and form part of a package of delivery involving other skills centres in Deptford and Vauxhall. They will provide pathways for employment and a career in construction and development for our local residents.

Better Care Funding

29. The £3.8 billion Better Care Fund (BCF) was announced by the government in the June 2013 Spending Round, with the aim of delivering better, more joined-up services to older and disabled people, to keep them out of hospital and to avoid long hospital stays.
30. Indicative figures from the government gives Southwark's allocation as £20.5m in 2015/16 an increase of £10.2m over the government announced adjusted 2014/15 grant of £10.3m. The government show the £10.2m increase as included in the government's assessment of Southwark's spending power, which means it should be available for spending on council services.
31. The BCF is a pooled budget that shifts resources into social care and community services for the benefit of the NHS and local government. This means that

although this included in Southwark's spending power allocation, full grant funding will not necessarily be received.

32. The current budget model includes the full use of the additional BCF in 2015/16 to support the council's revenue budget, which does represent a risk. This will be reviewed during the budget process as 2015/16 allocations and governance become clearer, in the context of the Better Care Fund resubmission of September 2014 to NHS England.

Local Welfare Provision (Social Fund grant)

33. In 2014/15, Southwark will receive some £1.627m of local welfare provision grant.
34. The government have announced that this grant will cease from 2015/16, Currently the budget scenario includes the removal of both grant income and expenditure budgets, a net zero effect on the budget.
35. The council has been receiving a funding from the Social Fund which has been used for the Southwark Emergency Support Scheme (SESS).
36. The SESS Scheme is operated as a voluntary sector model through Community Action Southwark. The majority of items provided in the past relate to goods such as cookers, fridges, and starter packs for families. The council has made some payments in emergencies for utilities via the credit union, and also for food vouchers via Pecan. The council has a partnership with St Giles for rent deposits for ex offenders.
37. Experience to date is that applications are increasing and the council recognises the vulnerability of those applying for and receiving funds from the SESS. It is therefore recommended that cabinet maintain it at current levels for the duration of this Policy and Resources strategy.

HB Admin subsidy, localised council tax support and council tax support

38. There is a likely fall out of three grants totalling £5m. Currently the budget scenario includes the removal of both grant income and expenditure budgets, a net zero effect on the budget. This should be recognised as a risk within the indicative budget.

Council tax freeze grant

39. The government have announced that 2014/15 council tax freeze grant will be transferred into the settlement funding allocation (SFA) from 2015/16.
40. No formal announcement has yet been made as to whether there will be a further council tax freeze grant for 2015/16. However, council tax freeze grant has been included in the indicative 2015/16 spending power calculations at a level to make funding available to allow authorities to freeze council tax in 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 not been announced and as for 2014/15 is set at 2%.

Free School Meals

41. In 2013, The Deputy Prime Minister announced that all infants at schools in England would get free school lunches from September 2014. When the 2014/15 budget was set there had been no indication from the government of how much the funding would be, and an estimate of £1.5m was included in the 2014/15 budget. It has recently been announced that Southwark's indicative grant funding for 2014/16 will be £1.607m, some £107k higher than estimated.
42. Based on the current grant funding, the full year effect would be around £2.5m. An additional £1.0m has been included in the budget figures for 2015/16. When indicative figures for 2015/16 are announced, the difference between the indicative sum and the £1.5m already included in the budget, will be included in the budget calculations.

Public Health Grant

43. Current modelling is based on a freeze on public health grant at the 2014/15 level.

Budget Pressures and Commitments

44. The council faces a number of budget commitments and growth or cost pressures as it prepares the 2015/16 budget.
45. Employee costs have been modelled to show a 1% increase for 2015/16 at £1.8m growth based on current estimates of likely pay award.
46. The council calculates "alternative inflation" for long term contracts tied to industry specific rates of inflation. This does not have a single rate, and the current budget is based on contractual inflation modelling at an increase of £2.1m.
47. Due to pressure on budgets, no allowance for general inflation effects has been provided for in the budget since 2010/11. Other costs and income have now been increased and are therefore shown as cash limited with zero increase, meaning the council is absorbing inflationary pressures.
48. Concessionary fares is the name given to the scheme for the London Freedom Pass which is issued to all older and disabled Londoners to give free travel on almost all public transport in London. The Freedom Pass scheme is administered by the organisation London Councils and costs are recharged to individual London Boroughs on the basis of journeys travelled. Cost pressures include an additional £800k for concessionary fares based on London Council estimates.
49. Costs pressures also include £4m for meeting the Southwark ethical care charter commitments, designed to tackle poor working conditions in care in order to improve the quality of care that people receive, in accordance with the cabinet decision on 22 July 2014.

Actions to meet the challenge

50. A number of measures to meet the challenge of delivering a balanced budget in 2015/16 have already been taken and are incorporated in budget projections.

51. These include the prudent use of reserves. In years prior to 2012/13 reserves were used to balance the budget, but the first call on the proceeding years balance was the replenishment of the reserve.
52. Since 2012/13 Southwark a total of £16.8m has been taken from reserves to support the budget. The effect on reserves was somewhat mitigated because there had not been any call on the contingency budget, allowing it to be put into reserves to support the budget process.
53. The Strategic Director of Finance and Corporate Services recognises and accepts that it is necessary to make some prudent use of balances through the period of introduction of new funding arrangements for local government and the general cutbacks in public expenditure. He recognises also that this expedient can only be short term and that year on year the council target must be to remove any dependency on reserves and balances order to reconcile resources with spending needs. The 2015/16 budget proposals include a further £6.2m use of reserves.
54. The budget modelling includes a further growth in the council tax base, as new properties are brought into the council tax list.
55. The modelling shows a further 0.25% increase in council tax collection.
56. The modelling does not include any increase in the Band D council tax rate.
57. The budget is modelled on government and London Council's projections on the retention of business rates, and reflects the expansion of premises subject to business rates in the council area.
58. The first round of the 2015/16 budget challenge meetings were held between 27 August and 16 September with Cabinet Members and Strategic Directors. Further meetings are planned to continue to work towards a balanced budget for consideration in January 2015.

Current predicted gap

59. The current budget model shows a gap of £31.4m as shown in the table below

Para Ref	Item	2015/16 Indicative Budget £m
	Resources	
	Retained Business Rates (DCLG)	(60.7)
	Business rates top-up (DCLG)	(45.3)
	Revenue Support Grant	(88.0)
	Total Start up funding	(194.0)
	Estimated increase in Business Rate Collection	(2.5)
21	Total funding from business rates and government	(196.5)
	Council Tax baseline from 2014/15	(78.2)
54	Taxbase increase (2%)	(1.6)
55	Budgeted increase in collection levels by 0.25%	(0.2)
56	Council tax change	0.0
	Total revenue from council tax	(80.0)
	Total funding before contribution from balances	(276.5)

Para Ref	Item	2015/16 Indicative Budget £m
	Current contribution from balances	(6.2)
	Total Resources	(282.7)
	2014/15 budget starting point	314.4
	Inflation	
45	Employees (1% increase)	1.8
46	Contractual inflation	2.1
47	Other costs and income (0% - cash limited)	0.0
48	Concessionary Fares (Freedom Pass)	0.8
	Commitments	
49	Southwark Ethical Care Charter	4.2
	Grants	
25	New Homes Bonus	1.9
32	Better Care NHS Funding (subject to submission Sept 14)	(10.2)
38	Others: note net nil but present a risk if expenditure of £5m is not also reduced by the same amount	0.0
40	Net change in council tax freeze grant	(0.9)
	Proposed Budget	314.1
	Net Shortfall before efficiencies, savings, and other growth items	31.4

Budget Consultation – Engaging With The Community

60. Extensive budget consultation was undertaken to inform the 2014/15 budget, and the main themes arising have continued to guide the preparation of the 2015/16 budget. These include maximising efficiencies rather than service cuts, and continuing to protect front line services supported by savings from back office functions.
61. The main consultation on the 2015/16 budget with the community is planned to take place at community councils in November. Other events are being planned which may take place earlier. At the same time the council is undertaking a consultation on the draft council plan, which will also inform the budget process.
62. The consultation will take the same format as for 2014/15. The community will be asked to identify services that they consider should be kept, increased, cut or protected, with the aim of identifying £90m in savings over the years 2015/16 to 2017/18.
63. The results of the budget consultations will be reported to committee as part of the budget setting process, will be taken into account as the budget is prepared.

2016/17 and 2017/18 Policy and Resources Strategy

64. No indicative announcement has been made with regard to funding beyond 2015/16, however the 2014 Spending Review did announce high levels of funding reductions for the entire period of the spending review. London Councils have modelled further reductions in funding for 2016/17 and 2017/18. These will need

to be challenged and verified as they appear to show a disproportionate effect on London compared with elsewhere, and on Southwark as a council within London.

65. At the present time, the funding position beyond 2015/16 is therefore subject to considerable uncertainty and conjecture.
66. Advice received from London Councils suggests that local authorities should expect cuts of the same magnitude in 2016/17 and 2017/18. The council's budget consultation, explained in paragraphs 60 and 61 will ask for comments in the context of savings of £90m over three years.
67. For long term financial planning purposes, it would be desirable to be able return to full three year budgeting, at least, and this is a recommendation from the external auditors. However the lack of information from government in terms of indicative funding for 2016/17 and 2017/18 make it difficult to construct a robust financial plan. The council will be guided by further information arising following the national election in May 2015 and possible changes to overall government funding allocations to the benefit of local government. The council will keep under review the capacity to publish a meaningful long term budget.
68. Some services have been brought in-house by the council, which has enhanced service delivery and increased efficiency of those services. It should be noted that as more services are delivered in house rather than by contract, this could lead to the need to make even greater savings from staffing, rather than from contracts.
69. Proposals under the Sustainable Communities Act 2007 such as the power for local authorities to introduce a local supermarket levy may influence later budgets. The supermarket levy would be 8.5% of the rate on large retail outlets in their area with a rateable annual value not less than £500,000; and the revenue from this levy would be outside retained business rates calculations, and 100% would go directly to the local authority.
70. Derby City Council has submitted a proposal to the government to introduce the supermarket levy. The government now until January 2015 to respond to the proposal. If agreed, the timescale involved in getting primary legislation agreed would make unlikely that this could form part of the council's 2015/16 budget planning.

Next Steps

71. Work is continuing to develop the budget proposals and includes the work undertaken by the Leadership Network looking at reducing and integrating services, multi-agency working, managing down demand and digital by default. In addition the council will continue to look at the effectiveness and efficiency of back office services. Proposals around strategic finance issues such as bad debt provision will be explored. Further to this report, officers will consider further options and present a further report to cabinet on 9 December 2014. However it is unlikely that the provisional 2014/15 finance settlement will have been announced in time for this to be included in the report. If the provisional settlement is announced before cabinet a briefing will be distributed either before or at the meeting as time allows.
72. A timetable of scheduled meetings leading up to council tax setting is shown below, as detailed on the forward plan.

Date	Meeting	Current forward plan description	Summary of decision to be made
09/12/14	Cabinet	Policy and Resources Strategy 2015/16 - 2017/18: provisional settlement	To note the council's deliberations for the 2015/16 general fund revenue budget, to report initial feedback from public consultation to the cabinet and agree the next step in the budgeting process
27/01/15	Cabinet	Policy and Resources Strategy 2015/16 - 2017/18 - revenue budget	Cabinet to recommend a balanced budget for 2015/16 to council assembly in Feb 2015
10/02/15	Cabinet	Policy and Resources Strategy 2015/16 - 2017/18 - revenue budget	To recommend a balanced budget for 2015/16 to council assembly in February 2015
26/02/15	Council Assembly	Policy and Resources Strategy 2015/16-2018/19 revenue budget	To agree a balanced budget for 2015/16
26/02/15	Council Assembly	Setting the Council Tax 2015/16	To set the council tax levels for 2015/16

Community impact statement

73. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the 2014/15 budget, each department will undertake equality analysis on its budget proposals.
74. 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.
75. 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

76. 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.

77. 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.
78. Decision makers must understand the effect of policies practices and decisions on people with protected characteristics.
79. Equality impact assessments are the mechanism by which the council considers these effects. The report sets out how it is proposed equality impact assessments will be undertaken in relation to the budget proposals.
80. 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 2014/15 to 2016/17: cabinet 28/01/14 (Item 11)	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
Link: http://moderngov.southwark.gov.uk/ielistdocuments.aspx?CId=302&MId=4554&Ver=4		

APPENDICES

No:	Title
None	

AUDIT TRAIL

Cabinet member	Councillor Fiona Colley, Finance, Strategy and Performance	
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		
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Cabinet Member	Yes	Yes
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