

Item No. 14.	Classification: Open	Date: 15 September 2015	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy 2016/17 to 2018/19: Scene Setting Report	
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

It is a great testament to Southwark that over the last five years, despite the deep reductions in government funding, this local authority has succeeded. We have succeeded in protecting our most valued front-line services like our libraries and support services for vulnerable adults and children. We have succeeded in delivering our Fairer Future commitments like free healthy school meals for all primary children, doubling recycling and paying the London Living Wage. We have succeeded in helping residents on the lowest incomes and those affected by welfare reforms like the bedroom tax by introducing the hardship fund, providing discretionary housing payments and freezing council tax.

There are many factors that have contributed to our success such as the hard work and dedication of our staff, the willingness of our residents and partners to accept change, our clarity of purpose and priorities and our unwavering commitment to innovate and modernise the way the council operates. One of the greatest factors of our success has been our commitment to delivering economic growth in this borough. Our record on delivering new homes and business space has not only helped regenerate neighbourhoods and create jobs and opportunity for our residents, it has also played a tremendous role in mitigating the impact of austerity in Southwark through an increase in our council tax income, new homes bonus funding and our share of newly generated business rate income.

Following the Chancellor of the Exchequer's budget statement in July, we know that the coming years will be just as challenging for the council as the previous five years. London Councils estimates that our funding from government could reduce by £76m over the next three years. Once we factor in inflation and other budget pressures, even allowing for very significant levels of growth in council tax and business rate income we estimate that we face a budget gap of £96m over the next three years, around one third of the council's current net budget. We will face hard choices and it is important to be clear from the outset about our approach to this challenge and therefore I am recommending that we agree a refreshed set of budget principles to guide us as we seek to find ways to fill this gap.

As ever our Fairer Future values will be at the heart of our approach:

- Treating residents as if they were a valued member of our own family
- Being open, honest and accountable
- Spending money as if it were coming out of our own pocket
- Working for everyone to realise their own potential
- Making Southwark a place to be proud of.

Our budget principles will be:

1. At a time of unprecedented cuts imposed by central government, the budget will continue to prioritise the promises we made in the Fairer Future council plan and will seek to protect services for the most vulnerable.
2. We will keep any council tax increase at or below inflation and take into consideration the wider impact of austerity measures on residents and public services in Southwark.
3. We will be responsible guardians of public finances and plan ahead by developing a three year balanced budget supported by prudent use of reserves.

To achieve this:

4. The council will spend money as if it were coming from our own pocket. We will put value for money at the heart of this budget, taking every opportunity to modernise and transform working practises and to make the council more efficient.
5. We will continue to find alternative ways of providing services more efficiently and effectively by working jointly with partner organisations such as the health sector, the voluntary sector, local businesses and other local authorities.
6. We 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 that are currently free.
7. Some services currently provided by the council may have to stop, and many will have to be delivered differently or reduced.
8. We will be open, honest and accountable.
 - a. We will build on the outcomes of budget consultations conducted over the last 5 years, reflecting the priorities of our residents and stakeholders as we develop proposals.
 - b. We will conduct ongoing consultation on the tough choices we must make and be transparent with any specific group or groups of users or staff who may be affected by any cut, reduction or significant change in service provision as soon as possible and explore with them other ways to provide the service.
 - c. We will conduct an equalities impact assessment for our budget proposals.
9. A reduced budget will inevitably mean that the size and composition of our workforce will change. We will treat our staff with respect. We will do everything we can to retain staff through redeployment and retraining, to minimise compulsory redundancies and to assisting staff who are leaving the council.

RECOMMENDATIONS

That cabinet:

1. Notes the key issues contained within the chancellor's budget statement insofar as they impact on the council especially with regard to council housing and welfare benefits.

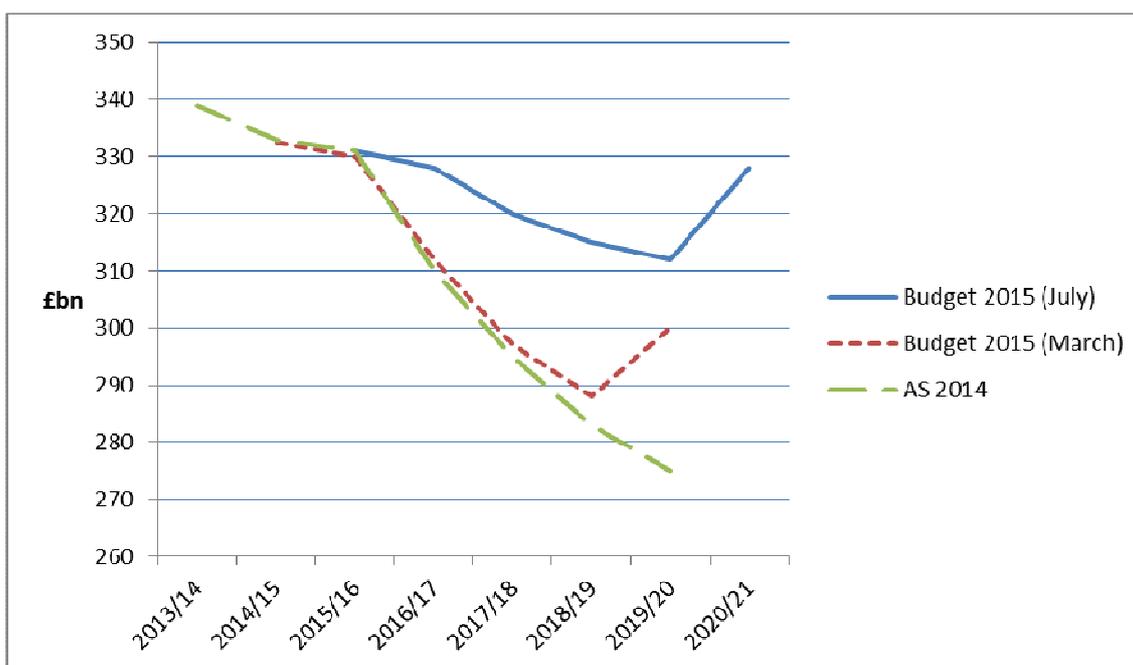
2. Notes the potential reduction in settlement funding for the council between 2016/17 and 2018/19 of £76.1m arising from London Councils most recent predictions, as shown in the table in paragraph 17.
3. Notes the real terms net budget shortfall for the period 2016/17 – 2018/19 of around £96m after taking account of inflation and known cost pressures.
4. Notes that funding for local authorities will not be finalised until publication of the Comprehensive Spending Review on 25 November 2015, and that Southwark's share will not be known until the provisional grant settlement, currently scheduled for November or December.
5. Notes the chancellor's announcement subsequent to the budget requiring departments with unprotected budgets (including local government) to model two scenarios of cost reductions of 25% and 40% by 2020.
6. Notes the government consultation seeking options for delivering in year reductions in public health funding, equivalent to 6.2% of the ringfenced grant.
7. Notes the actions to meet the challenge currently being included in the budget model as shown in paragraphs 62 to 78.
8. Agrees the updated Fairer Future Budget Principles as shown in Appendix A.
9. Agrees that consultation on the difficult choices to be made should be carried out over the coming months, and to take account of the equalities impact of any decisions.
10. Instructs officers to submit a further report to cabinet in November 2015 to include any further settlement information that becomes available, savings identified during the second round of budget challenge meetings, and on further budget options necessary to achieve balanced budgets over the next three years.

BACKGROUND INFORMATION

11. For the first time since 2010/11, there was no indicative budget for the following financial year (2016/17) published as part of the 2015/16 local government finance settlement which was finalised for the current financial year in January 2015. This settlement was for 2015/16 only, although the chancellor's spring budget outlined future public sector funding plans, including those for local authorities. These projections had been worse than had been projected previously as part of his previous autumn statement.
12. On 4 June and 8 July, the chancellor made a number of announcements as part of his pre budget statement and budget statements that impact directly and indirectly on local authority funding and costs. A summary of the relevant measures is set out in Appendix B to this report.
13. One significant proposal from the 4 June announcement was the £200m in year (2015/16) cut in the ringfenced Public Health Grant, representing a 6.2% reduction. For Southwark, this would represent a £1.6m reduction in grant funding; the implications of this will carry over into the 2016/17 budget setting process.

14. As part of these announcements, the chancellor indicated a change to the profile of cuts in public spending. The Government has delayed the expected return to a budget surplus by a year to 2019-20, this means that overall reductions to departmental spending are now less steep than forecast at the March budget
15. The following chart shows the movement in national RDEL between 2016/17 and 2020/21 from the 2014 Autumn Statement, March 2015, and July 2015 budgets.

Projected Government RDEL incl. depreciation (real terms) - 2013-14 to 2020-21



Sources: Autumn Statement 2014 (Table 2.3); Spring budget March 2015 (Table 2.3); Summer budget July 2015 (Table 2.2)

16. London Councils have subsequently projected the impact of these changes which, while reducing funding loss to the Council in 2016/17, has significantly increased the loss of funding over the following two years.
17. The effect on forecast funding arising from the budget are shown in the table below, the overall effect of the re-profiling of the funding reduction has only had a £0.3m effect on funding.

Table 1 – Changes to Southwark’s forecast funding following 8 July budget

Funding Forecast	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
2014 Autumn Statement based	195.2	161.4	137.8	125.5	
Change in grant funding		-33.8	-23.6	-12.3	-69.7
8th July budget based	195.2	187.6	149.9	119.1	
Change in grant funding		-7.6	-37.7	-30.8	-76.1
Movement from 2014 Autumn Statement	0	26.2	-14.1	-18.5	

18. Following on from these announcements, this is the first in a series of the policy and resources strategy reports that will inform cabinet through the 2016/17 budget setting process.
19. This report provides an initial estimate of savings that will need to be identified in the coming months in order to achieve a balanced budget in the context of funding reductions and other cost pressures. These savings will need to be agreed as part of the council tax setting report for 2016/17 to be agreed by council assembly in February 2016. Additionally, the intention is to provide indicative budgets for 2017/18 and 2018/19, subject to information available following the Comprehensive Spending Review and provisional grant settlement announcements.

KEY ISSUES FOR CONSIDERATION

20. Since 2010/11 Southwark have lost a total of £91.2m in spending power, (almost £700 per dwelling). In this period, London boroughs, Southwark in particular have borne a disproportional share of these funding cuts. Over the same period, in order to fund inflation and cost pressures, savings of £156.5m had to be made.
21. The 2015/16 local government finance settlement saw a national reduction in spending power of 1.7%, Southwark lost £20.4m, £155 per dwelling, a 5.7% cut.
22. Local government funding forecasts arising from the 2014 autumn statement and the spring 2015 budget have each shown a worsening position for local authorities, as the austerity measures cut deeper, funding estimates in this report are based on data contained in the 2015 summer budget.
23. On 21 July 2015 the Chancellor of the Exchequer announced that the 2015 spending review would be published on 25 November 2015. In the same announcement he added that that each unprotected department would be asked to draw up plans to cover two possible spending projections. One will demand reductions of 25% in resource spending by 2019/20 in real terms, while the other will demand they set out a 40% saving. These are the same reductions that were requested ahead of the 2010 review, under the last coalition government.
24. Protection will be given to the NHS, schools, defence and international development, consequently large savings will be required in other areas.
25. Further causes of concern and uncertainty stem from the announcement on 4 June 2015 that a total of £4.5bn of in year cuts would be made to government department budgets, with a consequent knock on effect on local government, primarily the £200m cut to public health budgets, equivalent to £1.6m for Southwark.
26. We still do not know at this time, the actual level of funding cuts to local government, the phasing of these cuts and in particular, the impact of these cuts on individual local authorities.
27. There is the risk that local government funding will take a disproportionate cut, and that, as with SR2010, these cuts could potentially be front loaded leaving government departments more time to make cuts to their departmental spending.

28. With these uncertainties, and the future challenges to be faced, the need to update the fairer future budget principles became apparent.

Fairer Future Budget Principles

29. In June 2010 the new administration made a number of commitments and agreed a vision to create a fairer future for all by promoting social and economic equality in an economically vibrant borough.
30. In September 2010 the cabinet agreed the budget principles. These have informed the budget process for all years from 2011/12 onwards, and helped the council address the financial challenges raised by reductions in government grant and changes to local authority financing.
31. The cabinet has now revisited these principles in light of the significant financial challenges which the council faces for 2016/17 and beyond, and are included as Appendix A to this report.

CURRENT POSITION

2014/15 Outturn

32. A report on 2014/15 outturn was presented to cabinet on 21 July 2015. The key points are were follows:
- The outturn showed a total favourable variance for the year of £1.8m
 - This position is after a net decrease in reserves of £7.7 m, after taking account of the 2015/15 favourable variance, the net reduction in reserves was £5.9m
 - During 2014/15 some £1.8m was drawn from the contingency budget to fund pressures on temporary accommodation budgets. The remaining £2.2m was transferred into reserves to provide the first call to support the 2015/16 contribution to the general fund budget.

2015/16 Budget

33. The council agreed a balanced general fund budget of £283.2m on 26 February 2015 based on a nil council tax increase, and £6.2m use of reserves, giving a budget of £289.4m. The council also approved budget decisions including reductions of some £30.0m within general fund for 2015/16.
34. The 2015/16 position as at quarter 1 is included elsewhere on this agenda and further report for quarter 2 will follow in November. This report highlights that the pressures on the temporary accommodation budget are ongoing, and has reported a forecast drawdown from reserves of some £2.3m to relieve these pressures.
35. The 2015/16 made provision for Southwark's priority areas, including London Living Wage, Free Swim and Gym and Southwark Savers.
36. The 2015/16 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. If it is unused, this will be used as the first call to pay the £6.0m

contribution from reserves which is already included in the draft budget for 2016/17.

FUTURE FINANCIAL POSITION

2016/17 to 2018/19 Policy and Resources Strategy

37. No indicative figures for 2016/17 were given as part of the 2015/16 settlement. Budget figures included in this report are based on estimates provided by London Councils using data from the 2015 autumn statement.
38. These figures show that Southwark could face a further £7.6m (3.9%) reduction in the settlement funding assessment (SFA) in 2016/17. Total resources from government fall from £195.2m to £187.6m.
39. The settlement funding assessment also includes the business rates of which the council can retain 30%. Retained business rates are predicted to rise from £60.2m to £61.5m (2.1%) in 2016/17. The actual increase will either be RPI as at September 2015, or a capped increase, as in 2014/15 and 2015/16, announced as part of the spending review.
40. In addition to the forecast business rates included in the SFA, growth of £5.1m is currently being forecast for 2016/17.
41. The funding position beyond 2015/16 is still subject to considerable uncertainty and conjecture, although advice received from London Councils suggests that local authorities should expect cuts of similar magnitude to those in 2016/17 in both 2017/18 and 2018/19.
42. For long term financial planning purposes and as responsible guardians of public finances the council seeks to plan ahead by developing a three year balanced budget supported by prudent use of reserves. This is a fairer future budget principle and a recommendation from the external auditors. At the time of writing the lack of information from government in terms of indicative funding for 2017/18 and 2018/19 make it difficult to construct a robust financial plan.
43. 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.

Budget Pressures and Commitments

44. The council faces a number of budget commitments and growth or cost pressures as it prepares the 2016/17 budget, while continuing to invest in the council's commitments to priority areas including free swim and gym, the Ethical Care Charter and London Living Wage, and Southwark Savers.
45. Existing budget pressures around temporary accommodation, combined with current and planned changes to the welfare system can only increase the pressures on Southwark and similar boroughs.

Inflation

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 £1.5m. This figure is likely to vary over the course of the budget process as inflation indicators fluctuate. The current inflation indicators (July 2015 published 18 August 2015) are CPI at 0.1% and RPI at 1.0%.
47. From 2016/17 contractual inflation will include London Living wage increases where they apply to Southwark contracts.
48. 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 increased over this time, meaning that most budgets are effectively cash limited with zero increase, meaning the council continues to absorb non contractual inflationary pressures.

Pay Awards

49. On 3 June 2015 the national joint council for local government services submitted their 2016/17 pay claim on behalf of Unison, GMB and Unite. The claim calls for the deletion of NJC and all local pay points which fall below the level of the UK Living Wage (and deletion of GLPC pay points below London Living Wage) and a flat rate increase of £1 per hour on all other pay points. Current estimates show, that excluding on-costs, this could cost Southwark over £8m.
50. The council already ensures that all directly employed staff are on pay points above the London Living Wage. It is estimated that this pay claim would add £9m to the council’s payroll costs (around 5%).
51. At this stage in the budget process, employee costs have been modelled, in line with the 8 July 2015 budget, to show a 1% increase for 2016/17 costing an estimated £1.7m.

Other budget pressures

52. 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 £500k for concessionary fares based previous increases, the actual 2015/16 charge to Southwark will be determined by London Council’s Transport and Environment committee in December 2015, and will be reflected in the 26 January 2016 report to cabinet.
53. Costs pressures also include:
 - Ongoing temporary accommodation budget pressures (£2.5m)
 - Increased insurance premiums (£1m)
 - The reversal of the one off contribution from the insurance reserve (£300k)

- Making permanent the additional funding to the Neighbourhood Fund (£88k), met from reserves in 2015/16.

Specific Grants

54. The 2015/16 budget report explained how specific grants such as New Homes Bonus, the Autumn Statement Measures Grant and the Council Tax Freeze Grant were incorporated into the 2015/16 budget.
55. To date, no announcement has been made with regard to the continuation of the council tax freeze grant into 2016/17 or referendum limits for 2016/17.
56. Announcements regarding 2016/17 grants are unlikely to be known until the provisional finance settlement is announced in November or December 2015.
57. Changes to specific grants, and their impact on 2016/17 budget setting will be incorporated into future 2016/17 to 2019/16 policy and resources strategy reports as they are announced.
58. With the continuing movement towards universal credit, it is expected that there will be further reductions in housing Benefit Subsidy Admin grants.

Current predicted funding shortfall

59. Current projections now show a provisional funding shortfall of around £96m for the period 2016/17 to 2018/19.
60. This has been calculated using future funding estimates calculated by London Councils from the announcements on funding from the recent budget.
61. These estimates, along with assumptions on council tax base growth, business rates growth, inflation, changes to specific grants and known budget pressures have led to this funding shortfall being forecast.

Actions to meet the challenge

62. A number of measures to meet the challenge of delivering a balanced budget in 2016/17 have already been taken and are incorporated in budget projections.

Use of reserves

63. 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.
64. Since 2012/13 Southwark a total of £23.0m has been taken from reserves to support the budget. The effect on reserves has been somewhat mitigated because there had not been any significant call on the contingency budget, allowing it to be put into reserves to support the budget process.
65. 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 2016/17 budget proposals include a further £6.0m use of reserves.

Council Tax

66. The budget modelling includes a further growth in the council tax base, as new properties are brought into the council tax list.
67. Using data from the council tax system, it can be calculated that, after adjusting for discounts and CTRS, an increase of 1,600 chargeable dwellings would generate an additional £1.0m of council tax revenue.
68. The modelling shows a further 0.25% increase in council tax collection, bringing the budgeted collection target up to 97%.
69. A collection fund surplus of £1m is currently being forecast for 2016/17.
70. The modelling does not include any increase in the Band D council tax rate.

Business Rates

71. The budget is modelled on internal 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.
72. Using data from the business rates system, it can be calculated that, after adjusting for appeals and reliefs, an increase in rateable value of £8.0m would generate £1.0m for Southwark.

Voluntary Severance Scheme and Senior Management Restructure

73. In order to mitigate the impact of cuts and budget reductions on staff, in April 2015 Southwark announced an enhanced voluntary severance scheme. Applications were considered between 20 April and 30 June 2015, and unless approved otherwise, the last day of service for staff whose application was accepted was 31 July 2015.
74. In addition, cabinet agreed on 28 July 2015 the senior management restructure.
75. Savings arising from these activities not assigned as 2015/16 savings will be available for 2016/17.

Budget Challenge Meetings

76. The first round of the 2016/17 budget challenge meetings were held between 18 and 25 June with Cabinet Members and Strategic Directors. Discussions at these challenge meetings included:
 - Moving to digital by default delivery models
 - Proposals for managing demand
 - Reducing and integrating services
 - Multi-agency working.

77. Further meetings have been organised and will be held between 9 and 24 September 2015 to continue to work towards a balanced budget for consideration in January 2016. Thoughts from the first round will be developed for this second round of challenge meetings. Being mindful of other budget pressures around pay awards, general and contractual inflation, the continuing impact of welfare reform and council plan priorities and commitments. These pressures clearly need to be minimised, but they remain as genuine pressures nonetheless.
78. It is proposed that options for efficiencies, income generation, and savings impacting on service delivery over the next three years (2016/17 – 2018/19) representing of 25% of 2015/16 net budgets should be prepared. These savings options, as far as possible, should be front loaded although, because of the complexity of implementation of some proposals, this may not always be possible.

Budget Consultation – Engaging with the community

79. Since 2010 Southwark have consulted on budget proposals over a wide stakeholder group.
80. Each year these stakeholders have given a consistent message regarding services they value and wish to protect, with a preference that budget savings should be made from back office services.
81. The consultations over the coming months will be held with a view to getting feedback on more difficult decisions, including the complete cessation of providing some services or doing them differently, this possibility is included in the refreshed budget principles (No 7) reported in Appendix A
82. Consultation for the 2015/16 budget took place in a context of a scenario whereby the council would need to make savings of around £90m over the period 2015/16 to 2017/18.
83. The results of the budget consultations were reported to cabinet on 27 January 2015 as part of the budget setting process, and were taken into account as the budget was prepared.
84. These consultation results remain valid and are continuing to inform budget discussions so that the council builds on the outcomes of budget consultations conducted over the last five years, reflecting the priorities of residents and stakeholders.
85. The council now faces some very difficult choices and will be consulting on these with the community, and committing to being transparent with any specific group or groups of users or staff who may be affected by any cut, reduction or significant change in service provision as soon as possible and explore with them other ways to provide the service.
86. Consultation options for 2016/17 are currently being prepared for consideration, a service specific consultation “How do we fund adult social care fairly?” asking for feedback on proposed changes to how Southwark charge for adult care, ran from 16 June to 4 September 2015.
87. Updates on the consultation process will be included in subsequent Policy and Resources Strategy reports.

NEXT STEPS

88. 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.
89. Further to this report, officers will consider further options and present a further report to cabinet on 17 November 2015. However it is unlikely that the provisional 2016/17 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 distributed either before or at the meeting as time allows.
90. 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
17/11/15	Cabinet	Policy and Resources Strategy 2016/17 – 2018/19: revenue budget.	To note the council's deliberations for the 2016/17 general fund revenue budget and agree the next step in the budgeting process
26/01/16	Cabinet	Policy and Resources Strategy 2016/17 – 2018/19 - revenue budget	Cabinet to recommend a balanced budget for 2016/17 to council assembly in Feb 2016
09/02/16	Cabinet	Policy and Resources Strategy 2016/17 – 2018/19 – revenue budget	To recommend a balanced budget for 2016/17 to council assembly in February 2016
24/02/16	Council Assembly	Policy and Resources Strategy 2016/17 – 2018/19 revenue budget	To agree a balanced budget for 2016/17
24/02/16	Council Assembly	Setting the Council Tax 2016/17	To set the council tax levels for 2016/17

Community impact statement

91. 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.
92. 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.

93. The equality analysis undertaken will build on previous analysis including the equality impact assessments carried out as part of 2013/14, 2014/15 and 2015/16 budgets. The council is committed to conducting an equalities impact assessment for budget proposals and 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

94. 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.

95. 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.

96. Decision makers must understand the effect of policies practices and decisions on people with protected characteristics.

97. 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.

98. 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 2015/16 to 2017/18: cabinet 10/02/15	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
Link: http://moderngov.southwark.gov.uk/documents/b50005448/Supplemental%20Agenda%20No.%202%20Tuesday%2010-Feb-2015%2016.00%20Cabinet.pdf?T=9		

APPENDICES

No:	Title
Appendix A	Fairer future budget principles
Appendix B	Government announcements since general election

AUDIT TRAIL

Cabinet member	Councillor Fiona Colley, Finance, Modernisation and Performance	
Lead officer	Duncan Whitfield, Strategic Director of Finance & Corporate Services	
Report author	Jennifer Seeley, Deputy Finance Director	
Version	Final	
Dated	4 September 2015	
Key Decision?	Yes	
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	No	No
Cabinet Member	Yes	Yes
Date final report sent to constitutional team	4 September 2015	

APPENDIX A

Fairer Future Budget Principles

As ever our Fairer Future values will be at the heart of our approach:

- Treating residents as if they were a valued member of our own family
- Being open, honest and accountable
- Spending money as if it were coming out of our own pocket
- Working for everyone to realise their own potential
- Making Southwark a place to be proud of

Our budget principles will be

1	At a time of unprecedented cuts imposed by central government, the budget will continue to prioritise the promises we made in the Fairer Future council plan and will seek to protect services for the most vulnerable.
2	We will keep any council tax increase at or below inflation and take into consideration the wider impact of austerity measures on residents and public services in Southwark.
3	We will be responsible guardians of public finances and plan ahead by developing a three year balanced budget supported by prudent use of reserves.
4	<i>To achieve this</i> The council will spend money as if it were coming from our own pocket. We will put value for money at the heart of this budget, taking every opportunity to modernise and transform working practises and to make the council more efficient.
5	We will continue to find alternative ways of providing services more efficiently and effectively by working jointly with partner organisations such as the health sector, the voluntary sector, local businesses and other local authorities.
6	We 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 that are currently free.
7	Some services currently provided by the council may have to stop, and many will have to be delivered differently or reduced.
8	We will be open, honest and accountable. a. We will build on the outcomes of budget consultations conducted over the last 5 years, reflecting the priorities of our residents and stakeholders as we develop proposals. b. We will conduct ongoing consultation on the tough choices we must make and be transparent with any specific group or groups of users or staff who may be affected by any cut, reduction or significant change in service provision as soon as possible and explore with

them other ways to provide the service.

c. We will conduct an equalities impact assessment for our budget proposals.

9 A reduced budget will inevitably mean that the size and composition of our workforce will change. We will treat our staff with respect. We will do everything we can to retain staff through redeployment and retraining, to minimise compulsory redundancies and to assisting staff who are leaving the council.

APPENDIX B

Government Announcements Since General Election

4 June 2015 - Pre budget

1. On 4 June 2015, the Chancellor of the Exchequer announced £4.5bn of in year (2015/16) savings cuts to government departments' budgets.
2. The main departments that impact on non schools local government funding are Department of Health (Non NHS) and Communities and Local Government (DCLG).
 - The Department of Health (Public Health) budgets will be cut by £200m. These cuts will be passed onto local authorities through an in-year reduction in the Public Health grant. It is estimated that this will lose Southwark some £1.6m in funding.
 - The DCLG has been asked to cut an additional £230m (8.5%) from its budget this year. A spokesman said that no cuts would be made to local authority budgets, implying that the savings are expected to be contained within the department, some of which is expected to come from the sale of assets.
 - Additionally, cuts to Department for Education (DfE) and Department for Works and Pensions (DWP) budgets could lead to reductions in further education grants and discretionary housing payments.
3. While it is anticipated that the 2015/16 local government finance settlement will not be reopened, there remains a danger that the 2015/16 baseline used to calculate the 2016/17 settlement will be reduced before the application of planned 2016/17 reductions. It is estimated that a 5% cut to DCLG's local government budget will add a further £500m to the £3.7bn year on year reduction already made.
4. This is not the first time that in year cuts have followed a general election. In the emergency budget of 2010, a total of £1.16bn was cut from local government's 2010/11 funding through reductions in the specific grants. Southwark lost a total of £3.3m in grant funding, of which £2.2m was borne by Children's Services. This was followed in 2011/12 with further cuts of some £10m to specific grant funding.

July 8th Summer Budget

5. On 8 July 2015, the Chancellor of the Exchequer delivered his first budget of the new parliament. The Chancellor subsequently announced that the Comprehensive Spending Review would be announced on 25 November 2015, the period it will cover is still unclear.
6. The Government has delayed the expected return to a budget surplus by a year to 2019-20, meaning fiscal consolidation will be at the same pace as over the last Parliament
7. The chancellor indicated that overall reductions to departmental spending are less steep than forecast at the March Budget, although the total reduction over the planning period will not decrease..

8. Announcements that will affect local government financing are covered in the following paragraphs.

Employees

9. The government will limit public sector pay awards to 1% for 4 years until 2019/20.
10. The government will introduce a new pay premium for those aged 25 and over starting at 50 pence leading to a new National Living Wage (NLW) of £7.20 in April 2016. The government's ambition is for the NLW to increase to 60% of median earnings by 2020. The Office for Budgetary responsibility (OBR) forecasts that the NLW is expected to reach the government's target of over £9 by 2020. The council is already committed to paying its staff London Living Wage which exceeds the proposed NLW.
11. The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings.

Welfare

12. While the following items do not directly affect council budgets, there may be knock on implications for housing benefits, council tax and the Southwark Emergency Support Scheme (SESS).
 - £12 billion of savings from the working-age welfare budget will be made by 2019/20
 - The household benefit cap will be lowered from £26k to £23k in London, and £20k elsewhere
 - Working age benefits will be frozen for four years
 - A new youth obligation for 18-21 year olds will prevent automatic eligibility to housing benefit

Housing

13. While these housing and welfare proposals do not affect the general fund directly, it is important that they are reported early to prepare cabinet for changes that will be necessary during 2016/17 HRA budget setting process and to assess any impacts on other Council services..
14. The government will reduce rents paid by tenants in social housing in England by 1% a year for 4 years from 2016.
15. The LGA have commented that "long term certainty on social rents is crucial to enable councils and Housing Associations to invest in housing over the long term. In 2013 the Government acknowledged this by setting out the rent strategy to 2025. These subsequent changes to social housing rents will mean councils and Housing Associations will need to review their investment plans

and will reduce their ability to invest in new homes and the improvement of existing ones over the longer term. We will be working with councils to understand the impact of this change”.

16. The government will require high income social tenants (over £40k in London and over £30k in the rest of the country) to be charged a market or near market rent (“Pay to Stay”).
17. The additional rental income raised by local authorities will to be returned to the Exchequer. This is in contrast to Housing Associations who will be able to use the additional rent charged to reinvest in new housing.
18. The LGA have commented that “Councils, like Housing Associations, should be able to retain the additional income generated from these rents to build new homes. This would have far greater benefits for local communities than the money going to the Treasury. This is important in light of the reductions in social rents that have also been announced in the Budget”.
19. The government will consult and set out the detail of this reform in due course, and consult on how this will be implemented.