

Item No. 9.	Classification: Open	Date: 27 January 2016	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy - 2016/17 to 2018/19: Revenue Budget	
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

In December 2015 we published proposals for £67m of savings in Southwark Council's revenue budget to be implemented over the next three years. At that time we were awaiting the provisional local government settlement and feared that we would need to find a further £29m of budget cuts.

When the provisional settlement was published in mid December we were strangely relieved to hear that we would suffer a £47m reduction in our core government funding over the next four years!

In the previous five years the distribution of the reductions in overall funding for local government hit authorities like Southwark – heavily dependent on grant – hardest. The provisional settlement for the next four years takes a very different approach and seems to take greater account of the varying ability of authorities to raise income from their council tax base. The result being that whilst we still face an enormous challenge, it may not be as extreme as we feared in the autumn.

Combining the provisional settlement with other grant announcements and the introduction of the government's proposed Adult Social Care precept, we are now able to present a draft budget that still has a deficit, but of £6m rather than £29m.

However, it is important at this stage that Cabinet understand the high level of uncertainty that remains. Most seriously, we must note that the settlement is still provisional. The local authorities that had done well out of the old distribution method are lobbying hard against the new proposals and it is extremely unlikely that the overall pot of funding for local government will grow. If the lobbying from other authorities succeeds we could well see our funding cut further when the final settlement arrives in early February. For this reason we are joining forces with other London boroughs to ensure our voices are heard in government.

In addition to this we are still awaiting clarity from government on the "efficiency programme" requirement on councils to secure a 4 year rather than 1 year settlement. Likewise there is a lack of clarity on the conditions on the use of the Adult Social Care precept. We are still waiting for settlement figures on the public health grant and other significant funding streams such as new homes bonus and housing benefit administration grant are one year settlements rather than three.

So the draft budget set out in this report is very much a snapshot of our work in progress. It is a draft we are eager to receive comments and views upon from

residents, staff, councillors and other stakeholders as we move towards agreeing a Cabinet recommended budget at our meeting on 9 February 2016 and then setting a final budget at Council Assembly on 24 February 2016.

RECOMMENDATIONS

That cabinet:

1. Note that the provisional settlement was announced by the Secretary of State on 17 December 2015 and that the final settlement is expected to be confirmed by the 12 February 2016.
2. Note that the provisional settlement is for four years with the final three years being indicative, subject to councils making a commitment to efficiency.
3. Note the key issues for Southwark arising from the provisional settlement as set out in this report including:
 - Loss of grant to the council over the period to 2019/20 of £47.0m (23.8%), profiled as set out in the report;
 - Loss of spending power of £9.5m (3.2%) over the same period although this is subject to a number of government assumptions (including annual increases in council tax) and excludes price and demand pressures facing the council;
 - Indicative grant can be assured by government for this period subject to the council agreeing to an efficiency programme, details still to be confirmed;
 - Consultation will be completed on a revised New Homes Bonus Scheme with 'sharper' incentives but with a smaller pot to distribute over the settlement period;
 - New Homes Bonus topslicing previously applied to London local authorities and passported to the GLA for the London LEP will no longer apply with effect from 2016/17;
 - New resources for a Local Authority Better Care Fund have been allocated, although this funding is backloaded in the settlement;
 - Council Tax Freeze Grant will no longer be payable although the Council Tax Referendum Limit will remain at 1.99%;
 - Adult Social Care (ASC) Precept at 2%, subject to confirmation by the Section 151 officer that the precept is being passported to ASC.
4. Note that while the overall funding position has improved since the cabinet report in September 2015, savings will still need to be made by the council over the next three years in excess of £6m in order to balance the budget.
5. Note that balances will continue to be released as planned over the next three years in order to mitigate the impact of reductions in government funding and other pressures.
6. Note the balanced general fund budget proposals for 2016/17 contained within this report including:
 - resources available arising from the provisional settlement;
 - an increase in council tax and retained business rates over the settlement period;

- resources arising from the ASC precept;
 - resources available from the New Homes Bonus scheme;
 - use of balances;
 - corporate contingency;
 - commitments;
 - income generation;
 - efficiencies and improved use of resources and;
 - other savings impacting on service delivery.
7. Note the intention to freeze council tax for a further year in 2016/17, subject to review in future years.
 8. Note the intention to accept the 2% adult social care precept in 2016/17 and beyond.
 9. Note the response to DCLG from the Leader of the council to the consultation on the provisional settlement and his request to meet with the Secretary of State.
 10. Note the indicative budgets for 2016/17, 2017/18 and 2018/19 on the basis of the indicative funding for those years.
 11. Note that this report is to be considered by the overview and scrutiny committee on 2 February 2016 and that any recommendations arising which are agreed by cabinet will be incorporated into the final report to cabinet on 9 February 2016 including balanced budgets for 2016/17 and for 2017/18 and 2018/19 for recommendation to council assembly on 24 February 2016.
 12. Request that officers complete further work in the light of further notifications from government and recommendations from cabinet and from overview and scrutiny Committee and represent balanced budgets for the next three years at cabinet on 9 February 2016.
 13. Note the feedback to date from the public budget consultation exercise.
 14. Note the continuing work underway by strategic directors to complete EQIA in advance of council assembly on 24 February 2016.

BACKGROUND AND PURPOSE

15. In September 2015, cabinet received a report setting out the financial challenge to the council over the next years following the Chancellor's budget statement in July 2015. As a consequence of both lost grant as estimated at the time by London Councils and the ongoing commitments faced by the council largely as a consequence of price and demand pressures, it was reported that there would be a need to generate savings over that three year period of around £96m in order to create a legal and balanced budget.
16. A further report was presented to cabinet on 8 December 2015 where it was noted that:
 - Initial and provisional savings of around £67m had been identified for the period 2016/17 to 2018/19
 - Using the latest funding estimates at that time and assuming all savings were agreed, a gap of some £29m remained.

Cabinet therefore instructed officers to:

- Submit a further report to cabinet in January 2016 to include a balanced proposal for 2016/17 and indicative budgets for the following two years;
- To complete the two phases of consultation with the community on the overall approach and on the specific proposals in the 2016/17 to 2018/19 budget and feed this into the policy and resources strategy report to cabinet in January and the report to council assembly in February 2016;
- Instruct officers to complete further work on equality assessments for all budget options to be proposed as part of the January report to cabinet.

Cabinet also agreed to recommend that the local discount for empty and unfurnished properties be set to zero with effect from 1 April 2016, and that this recommendation be referred to council assembly to be formally approved on 26 January 2016 as part of the 2016/17 council tax base report.

17. Since this time, the government has announced a provisional grant settlement for local authorities including a range of other proposals relating particularly to specific grant funding, rewards and incentives. This report provides an update on the budget consultation exercise and makes proposals for a balanced budget for 2016/17, taking into account the provisional grant settlement and any further information available.

KEY ISSUES FOR CONSIDERATION

Provisional 2016/17 to 2019/20 Local Government Finance Settlement

18. On 17 December 2015, the Secretary of State for Communities and Local Government announced the provisional grant settlement for 2016/17 and indicative funding settlement figures for 2017/18 to 2019/20.
19. Since the announcement, details have gradually emerged regarding both funding levels for individual local authorities and other changes in funding structures. The format of the information has been revised from previous years, especially with regard to the underlying assumptions for the government's calculation of core spending power. For example, this now assumes that local authorities will apply year on year council tax increases over and above the ASC Precept.

Fixed Funding offer

20. The government has set out an offer to local authorities to accept a four year funding settlement to 2019/20. It is understood that this is an offer to individual local authorities, although the conditions to be imposed by the government for accepting the offer, the sanctions if conditions are not met, and implications for not accepting the offer are not known at this time. However, it is understood that government will expect local authorities to make a commitment towards making efficiencies during the period of the settlement, although the details of this commitment are not known.

Specific Grants

21. Further information is still awaited on specific grants including better care fund, public health grant, other new burdens grants, etc.

Changes in Settlement Funding Assessment (SFA)

22. The table below compares the assumed settlement funding assessment contained in the budget assumptions included in the 8 December 2015 cabinet report and the provisional settlement figures.

	2015/16 £m	Adjusted 2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Reduction 2015/16 to 2018/19 £m	2019/20 £m	Total Reduction
December cabinet estimates	195.2	195.2	187.6	149.9	119.1	(76.1)	112.2	(83.0)
Provisional settlement	195.2	197.7	179.5	165.9	158.3	(39.4)	150.7	(47.0)
Change in funding from summer budget based estimates	0.0	2.5	(8.1)	16.0	39.2		38.5	
Annual reduction in funding			(18.2)	(13.6)	(7.6)		(7.6)	

23. Over the period of the settlement to 2019/20, Southwark loses £47m in settlement funding (23.8%). This equates to £39.4m (18.9%) over the three year period to 2018/19. This compares to £6,536.6m (30.8%) nationally and £1,082.5m (28.2%) in London.
24. While the funding reduction indicated by the provisional settlement of £39.4m is less than that which had previously been assumed using London Councils assumptions following the July budget statement, it remains highly significant. This is not least in the context of savings that have been necessary since 2011/12 in order to balance the council's budget.
25. The reduced loss to the council has been a function of two main reasons. Firstly, there were improvements to the Office of Budgetary Responsibility (OBR) general financial forecasts since the summer; these forecasts will need to be monitored carefully over the period of the settlement as any overestimates of growth may compromise funding available for all public services. Secondly, analysis indicates a shift in the distribution of grant to local authorities, especially in favour of those authorities more highly geared towards government funding. Similarly, it indicates a redistribution of funds towards those local authorities more likely to have greater local needs.
26. The table below shows the effect of the provisional local government settlement at national and London levels and specifically compares these with Southwark. It shows that contrary to recent years, outer London boroughs are subject to a proportionately greater share of the funding reductions than inner London boroughs.

		2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Southwark	Grant Loss	(18.2)	(13.6)	(7.6)	(7.6)	(47.0)
	% Grant Loss	(9.2)	(7.6)	(4.6)	(4.8)	(23.8)
England	£m Grant Loss	(2,648.5)	(1,970.1)	(1,047.9)	(870.1)	(6,536.6)
	% Grant Loss	(12.5)	(10.6)	(6.3)	(5.6)	(30.8)
London	£m Grant Loss	(435.0)	(316.7)	(171.2)	(159.5)	(1,082.5)
	% Grant Loss	(11.3)	(9.3)	(5.6)	(5.5)	(28.2)
Inner London	£m Grant Loss	(180.1)	(133.2)	(74.4)	(74.3)	(462.1)

		2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
	% Grant Loss	(9.6)	(7.9)	(4.8)	(5.0)	(24.7)
Outer London	£m Grant Loss	(254.9)	(183.5)	(96.8)	(85.3)	(620.5)
	% Grant Loss	(13.0)	(10.8)	(6.4)	(6.0)	(31.7)

27. The SFA reduction of £18.2m for Southwark Council in 2016/17 comprises a loss in revenue support grant of £19.0m less the projected increase in retained business rates and top up of £0.8m. Overall this is a greater loss in SFA of £8.2m since the report to cabinet in December 2015. In summary, this is due to more of the required cuts being front loaded into 2016/17.

	Adjusted 2015/16 £m	Indicative 2016/17 (Summer Budget) £m	Provisional 2016/17 £m	Change from 2015/16 £m
Retained business rates	60.2	60.9	60.7	0.5
Business rates top-up	45.0	45.5	45.3	0.3
Revenue Support Grant	92.5	81.3	73.5	(19.0)
Total SFA	197.7	187.7	179.5	(18.2)

Changes in Spending Power

28. Revenue spending power (RSP) was introduced by government as an indicator in 2011/12 and has become a measure through which government may assess their view of the impact of changes to grants on council budgets in cash terms. RSP has not accounted for any changes in the costs of services or the level of demand for them, especially for those which are statutory.
29. For this provisional settlement, government has recognised some of the limitations of previous RSP principles (e.g. resources not managed by local authorities directly, such as the Better Care Fund) and changed the basis of the calculation. The following shows what was included in the 2015/16 spending power calculation.
- Revenue support grant
 - Assumed funding from the local share of business rates
 - Council tax
 - Council tax freeze grant
 - Public health grant
 - Autumn statement measures grant
 - New homes bonus grant
 - NHS funding (from 2015/16, better care fund)
 - Efficiency support grant (applies to councils with reductions in spending power greater than 6.4%, and therefore not available to Southwark).
30. The 2016/17 spending power calculation only includes the following:
- Settlement funding assessment
 - Estimated council tax, including annual increases within the referendum limit of 1.99%
 - Additional council tax from social care flexibility (the ASC Precept)

- Potential additional council tax revenue from district councils with lower quartile Band D council tax levels, these can levy maximum of 2% or £5 increase without a referendum (not available to Southwark)
- Proposed improved better care fund (2017/18 onwards)
- New homes bonus
- Rural services delivery grant (not available to Southwark).

31. The impact of spending power following the announcement of the provisional settlement is shown in the table below. As part of the government's calculation of spending power, it has been assumed that authorities tax bases will grow, and that council tax increases will be at maximum allowed

		2016/17	2017/18	2018/19	2019/20	Total
Southwark	£m change	(9.5)	(5.2)	(0.1)	5.3	(9.5)
	% Change	(3.3)	(1.8)	0.0	1.9	(3.2)
England	£m change	(1,246.6)	(564.6)	480.2	1,108.7	(222.5)
	% Change	(2.8)	(1.3)	1.1	2.6	(0.5)
London	£m change	(207.6)	(103.6)	33.3	150.4	(127.5)
	% Change	(3.0)	(1.6)	0.5	2.3	(1.9)
Inner London	£m change	(95.9)	(54.6)	(5.7)	49.1	(107.1)
	% Change	(3.4)	(2.0)	(0.2)	1.8	(3.8)
Outer London	£m change	(111.7)	(49.0)	39.0	101.3	(20.4)
	% Change	(2.8)	(1.3)	1.0	2.6	(0.5)

32. The government has reported an average loss in spending power across all local authorities of 2.8% for 2016/17, and only 0.5% over the period of the spending review. For London boroughs this represents an average loss of 3.0% in 2016/17 and a total of 1.9% over the four year period.
33. The provisional settlement figures show Southwark's spending power reducing by 3.3% (3.2% overall), £9.5m being the fourth highest cash reduction in spending power in London behind Camden £10m (4.0%), Newham £9.6m (3.6%) and Lewisham £9.6m (3.8%).
34. Using the government's calculation, the average 2016/17 reduction for London authorities is 3.0% (inner London 3.4%, outer London 2.8%). Unlike in previous years when some outer London boroughs saw an increase in spending power, all London boroughs have reduced spending power in 2016/17.
35. Over the period to 2019/20, all London Boroughs have a reduction in spending power, with the exception of Hounslow and Lewisham (0%) and the following which have increases, Barnet and Sutton (0.9%), Haringey (1.6%), Havering (1.8%), Bexley (2.0%) and Waltham Forest (2.3%).

Budget Assumptions for Southwark

Council Tax and Council Tax Collection Fund

36. The base estimate for 2015/16 allowed for an assumed level of council tax collection of £80m net of reliefs (such as single occupancy discount and council tax support). For 2016/17, it has been assumed in the council tax base report that

cash collection for the year will increase to £83.2m on the basis of a target collection rate of 97%. The increase reflects not only a higher target for collection but also an increase in the council tax base reflecting the impact of the building of homes in Southwark.

37. Looking ahead, the three year estimates include provision for a further increase in council tax cash collection as new homes continue to be brought into the valuation list and as reliefs continue to be reviewed and as collection rates are proved to be rising.
38. In 2016/17, on the basis of information already known with regard to collection in the current year (including arrears) and costs of collection, a surplus is anticipated of £2.4m, which represents the council's share. This will be available as a one-off resource for the new budget year. Beyond 2016/17, a small surplus is being estimated as the target cash collection increases as set out above.
39. Current assumptions are that council tax will be frozen for 2016/17 at 2015/16 levels and no assumption is being made for any increase beyond then. It is recognised that the council's commitment is to retain council tax within the rate of inflation.

Council Tax Freeze Grant

40. The provisional grant settlement has indicated that the council tax freeze grant will no longer be paid from 2016/17 onwards and therefore there is no assumption made for this grant within the indicative budgets. The impact of this loss amounts to approximately £900k.

Retained Business Rates

41. In addition to the retained business rate assumptions given by the government, authorities are able to generate additional resources through growth in the rateable value of business premises, above the government baseline.
42. Development in Southwark continues to progress and as a result an estimate of £4.0m over and above the £60.7m baseline for 2016/17 is included in the indicative budget. SFA is being included within the budget proposals set out separately in this report.
43. The £4.0m estimate reflects a reduction on the 2015/16 target of £5.0m. This is a result of three key reasons:
 - Experience of collection in 2015/16 which is under pressure due to a significant increase in the number and value of appeals (currently estimated at approximately £30m) leading to an increase in annual provisions needing to be made.
 - Changes in Valuation Office ratings of certain business premises (e.g. doctors' surgeries).
 - Market factors arising from delays in building completion, occupation and valuation.
44. Beyond 2016/17, projections are showing an improved position as historic liabilities arising especially from the backlog of appeals are reconciled. More importantly, a number of significant business properties within Southwark will

become fully occupied and NNDR billed and collected. At this time retained business rates in 2017/18 and 2018/19 are estimated to increase to £6.5m.

45. The position will continue to be monitored closely and estimates refreshed as necessary. In particular, reference will need to be made to the revaluation in April 2017 of business properties; early indications of this impact are expected as soon as the autumn of this year.
46. No further information is available at this time regarding the proposed 100% retention of business rates by local authorities scheduled to be introduced by 2020.

Adult social care precept

47. As part of his autumn statement the Chancellor of the Exchequer announced that local authorities responsible for social care would be given the powers to raise a social care precept of up to 2% above the council's existing level council tax.
48. Southwark are minded to implement the Government proposed 2% precept for Adult Social Care. This would raise in the region of £1.7m per annum. The budget for Adult Social Care is £80m.
49. Government funding to Local Authorities for Adult Social Care has been significantly reduced year on year since 2010. The c.£1.7m per annum that this precept will raise is of course welcome but very modest when compared to the cuts that Local Authorities have experienced and are facing from Government. The Government's decision to postpone the implementation of part 2 of the Care Act [Funding Reform] leaves people using Adult Social Care services, their families, providers and people working in the sector in a further prolonged period of uncertainty and that is causing some instability in parts of the sector, such as care homes. So the focus in Southwark for this additional and ring-fenced funding would be quality of services for older people and adults with disabilities living at home, in extra care housing, in care homes and in nursing care homes. Building on the Southwark Ethical Care Charter which is already making a significant difference to residents with care and support needs, our focus for investment is quality of care – treating our residents with dignity and respect and treating care staff fairly. We will continue to lobby Government to take a coordinated approach, in support of integration of health and social care and to fairly funding our public care system.
50. It has been assumed in these budget proposals that the adult social care precept will be increased by 2% per annum over the period of this budget, subject to annual review by cabinet.
51. The government required Section 151 officers to state whether their authority was minded to take up this offer by 15 January 2016, this has been done. The letter stated that taking up of the offer was subject to final details of the scheme being confirmed by DCLG and formal approval by Southwark's locally elected members as part of the budget and council tax setting process. This final decision will be made at the council assembly meeting on 24 February 2016.
52. The letter also responded to the government's question regarding how this scheme should be operated. Southwark's stated view is that while recognising that the precept will be used exclusively for adult service care, it must remain a matter for local discretion as to where these resources are allocated. In addition,

there should be no further administrative burden or reporting requirement applied other than the reference to be made on the council tax bill as already set out previously by DCLG. Given that this is in addition to a continuing decline in grant funding over the coming years, additional bureaucracy for local authorities and for DCLG should be avoided at all cost.

Better Care Fund

53. As part of the provisional settlement, government announced the introduction of a new better care fund for local authorities. Total funding of £1.5bn has been set aside, partly funded by a saving in new homes bonus provision. Precise allocations to local authorities are not known at this time, although indications are that the funding will be backloaded over the settlement period.

New Homes Bonus

54. The New Homes Bonus (NHB) commenced in 2010/11. It is calculated on the amount of extra council tax revenue raised from new-build homes and long-term empty homes brought back into use. There is also payment for providing affordable homes. This was intended to release resources for local authorities to pay for the increased services resulting from the growth in dwellings. Under the original grant scheme NHB would be paid for six years - e.g. 2011/12 would be paid annually until 2016/17, 2012/13 NHB until 2017/18 and so on.
55. In his autumn statement the Chancellor of the Exchequer announced that the government will consult on reforms including sharpening the incentive to reward communities for additional homes including a reduction in the length of payments from six years to four years.
56. The consultation will include the government's preferred option for savings of at least £800 million, which will be reallocated to the new better care fund.
57. Details of both reforms will be set out as part of the local government finance settlement consultation, which will include consideration of proposals to introduce a floor to ensure that no authority loses out disproportionately. At this time it is assumed that New Homes Bonus will be lost as a consequence of the sharpened incentives by £3.5m each year beyond 2017/18.
58. Provisional figures announced in the settlement show that the general fund element of NHB for Southwark in 2016/17 will be £16.3m, an increase of £3.2m over the £13.1m funding level from 2015/16.
59. The government announced further on 18 January 2016 that the 2015/16 topslice of NHB to the London LEP through the Greater London Authority will not continue into 2016/17. This means that for 2016/17 the full amount of NHB generated through the increase in taxbase (£15.1m) can be used to support the revenue budget.

Autumn Statement Measures Grant

60. There has been no announcement to date with regard to 2016/17 allocations of the autumn statement measures grant.

61. Current budget estimates assume that this grant will be paid at least at 2015/16 levels.

Housing Benefit Administration Grant, Localised Council Tax Support Grant and Council Tax Support

62. The 2016/17 allocation for the housing benefit administration grant has been announced. This shows a reduction of £0.5m (17.7%) over 2015/16 grant levels.
63. There is yet to be a notification with regard to the local council tax support grant. If grant reductions reflect the housing benefit administration subsidy grant reduction, a further £0.1m could be lost. Uncertainty with regard to the continuation of the Council tax support new burdens funding grant puts a further £0.1m at risk.
64. Current budget estimates include £700k for the potential total loss in grant funding.

Education Services Grant (ESG)

65. It was announced in the spending review that the general funding rate would be subject to an efficiency saving, reducing from £87 per pupil to £77 per pupil. This formed part of a wider proposal to phase out ESG over a period of time as more schools convert to academies and on the assumption that local authority responsibilities are reduced.
66. Provisional grant allocations have been received from the government, indicating that Southwark's ESG will reduce by £266k (approximately 9%) in 2016/17. Currently there is no provision set aside to replace this grant loss with council funding.

Public Health Grant and Commissioning of 0-5 children's public health services

67. In April 2013 public health responsibilities were transferred from the NHS to local authorities. To enable local authorities to discharge their new responsibilities, a specific and ringfenced public health grant was created. Southwark's allocation of public health grant in 2013/14 was £21.8m; this increased to £22.9m in 2014/15, and was frozen at that level for 2015/16.
68. On 1 October 2015 the commissioning of 0-5 year old children's public health services was transferred from NHS England to local authorities, Southwark's allocation was £3.5m, giving a total public health grant for 2015/16 of £26.4m.
69. On 4 June 2015 the government announced a package of in-year cuts to the grant funding of £4.5bn; included in this package was a cut in Department of Health non NHS budgets of £200m. This meant a cut to the public health grant of £200m (6.2%) nationally. Southwark's share of the reduction was some £1.6m, resulting in an amended 2015/16 grant of £24.8m.
70. Southwark's baseline for 2016/17 public health grant will be £28.3m (£24.8m plus £3.5m full year effect of 0-5 commissioning grant).
71. The autumn statement announced an average of 3.9% real terms cuts per annum for the public health grant until 2020/21. A letter from Duncan Selbie, Chief Executive of Public Health England (PHE), on 27 November 2015 gave more

information. The government's real terms cuts translate to a 9.6% cash reduction; for Southwark this would equate to £2.7m by 2020/21.

72. At this time, there has been no confirmation of the reduction in funding. In anticipation of an early announcement by government, the indicative budgets within this report include an estimated annual grant reduction of £0.6m.

Inflation and Pay Costs

73. Due to pressure on budgets, no allowance for the impact of general inflation has been provided in the budget since 2010/11. As a consequence, all non contractual price increases have been absorbed at existing cost assumptions. Where costs have varied, these have had to be absorbed within existing budgets. The impact of this has been that any cost pressures have been balanced against demand, service levels and efficiency.
74. Employee costs have been modelled to show a 1% increase for 2016/17 at £1.7m growth based on the latest employers offer of 1% for 2016/17 and 2017/18.
75. 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. From 2016/17 this will include the additional contractual cost of the London Living Wage (LLW) insofar as it sits within existing pay inflation rates. Additional commitments have been made to allow for increases above inflation, not least given changes necessary as welfare benefit changes are implemented.
76. On 19 January 2016, ONS announced the inflation statistics for December 2015. The reported indicators show CPI at 0.2% (up by 0.1% from 0.1% in November 2015) and RPI 1.2% (up by 0.1% from 1.2% in November 2015).
77. Over the course of the year inflation rates remained reasonably stable and at low levels, with both indices following broadly the same path.

Commitments

78. In September 2015's cabinet report, a number of assumptions were made for unavoidable council commitments for additional expenditure. Since then these commitments have been continually reviewed as better information is gathered. Current assumptions for 2016/17 include commitments that in total exceed £11m.
79. For some part, these commitments include unavoidable service related costs including IT and facilities management that enable improved and basic management of the council estate allowing for modernisation and service improvement. Other pressures relate to larger underlying influences and these are set out below.

Temporary Accommodation

80. Temporary accommodation continues to present a significant budget risk. The council simultaneously faces the challenge of increasing homeless demand and restrictions on the supply-side, necessitating the use of more expensive bed and breakfast accommodation. Whilst action is being taken to manage demand, it remains a constant and enduring pressure over which the council has limited

control within the constraints of current legislation and council policy; £2.4m has been included in current budget estimates for 2016/17.

No Recourse to Public Funds

81. No recourse to public funds (NRPF), like temporary accommodation, is demand driven and has in recent years become a significant continuous pressure on council resources. The rate of increase has been mitigated by the management action implemented, with more rigorous checks undertaken of new cases and existing ones being reassessed by officers including internal audit. However, a significant budget pressure remains, and £2.0m has been included in current budget estimates for 2016/17.
82. It is expected that future actions to manage demand will enable savings to be made in 2017/18 and 2018/19 and return budgets to current levels.

Reapportionment of costs to HRA

83. The housing revenue account bears a significant amount of charges from support services through support cost recharges (SCRs).
84. As savings are made on these services, charges to the HRA and general fund departments reduce. Savings on general fund services can be matched to reduced charges and corresponding reductions in SCR income as all budgets are held within the general fund; income received from the HRA budget is essentially cash to the general fund, and reduced charges do not automatically lead to a reduced budget, so that over the last few years budgets have become imbalanced.
85. To enable HRA SCR income budget to match actual charges a budget adjustment is required in 2016/17, both to redress the balance in previous years and to cover 2016/17 savings. Further budget adjustments will be required in future years as 2017/18 and 2018/19 savings are made.

Concessionary Fares

86. 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.
87. On 10 December 2015 London Councils Transport and Environment Committee set the Freedom Pass allocations for 2016/17. London Councils have negotiated a good deal with the transport providers for 2016/17, (see table below for total cost of freedom passes). Costs will increase by less than 0.8% and an additional £100k for concessionary fares is included for 2016/17.

Operator	2015/16 £m	2016/17 £m	Change £m	Change %
Transport for London (TfL)	327.9	333.9	6.0	1.8
Association of Train Operating Companies (ATOC)	21.3	18.5	(2.8)	(13.1)
Other bus operators	2.2	1.7	(0.5)	(22.7)
Reissue costs	1.5	1.5	0.0	0.0
Total	352.9	355.6	2.7	0.8

88. It cannot be assumed however that low increases will continue to be the norm. Inflation is currently low and potential future transfers of services from train operation companies to TfL will add a degree of volatility to the settlement. Prudent estimates have been included for 2017/18 and 2018/19.

Employers' NI

89. Government reforms to the state pension scheme in 2016 will have an impact on employers' contributions to staff in the local government pension scheme. Employers currently receive a 3.4% national insurance rebate for staff in the pension scheme, but when the reforms begin in April 2016 this rebate will not be paid, £500k has been included in the current budget estimates for 2016/17.

Actions to meet the challenge of the 2016/17 Budget

90. Reports were submitted to cabinet through the course of 2015/16, updating them on the situation, especially in the context of emerging information and the autumn statement. In September 2015 a funding gap was reported to cabinet of some £96m over the period 2016/17 to 2018/19. A further report was presented to cabinet in December 2015, identifying some £67m of savings.
91. Throughout the year, all strategic directors and their teams have been taking a number of measures to help meet the challenge of delivering a balanced budget in 2016/17 and indicative budgets for 2017/18 and 2018/19. These considerations have taken place alongside a detailed programme of consultation with the public and other key stakeholders. The results of this consultation are reflected within this report and the detailed proposals for each department are set out in the appendices.
92. Arising from the proposals, there will be a number of staffing impacts as services are reviewed and rationalised and where they are fundamentally transformed. Detailed resource planning will be needed across these services to give certainty as to the precise numbers affected. At this time, it is estimated that as many as 200 posts may be lost, although some will be currently vacant or filled by agency placements or interims. There will also be some natural turnover. At all times, compulsory redundancies will be kept to a minimum, although it is almost certain that there will be some job losses. In all cases, these changes will be subject to consultation with individuals, staff groups and the trades unions.
93. The table below outlines the balanced budget proposal for 2016/17 in line with funding and resource considerations outlined above and budget proposals for each council service as detailed in the appendices to this report.

2016/17 to 2018/19 Budget

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Resources				
Retained business rates (DCLG)	(60.2)	(60.7)	(61.9)	(63.7)
Business rates top-up (DCLG)	(45.0)	(45.3)	(46.2)	(47.6)

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Revenue support grant and other grants (inc Public Health and other specific grants)	(118.9)	(106.6)	(90.1)	(78.6)
Total funding (inc Public Health and other specific grants)	(224.1)	(212.6)	(198.2)	(189.9)
Council tax and Retained Business Rates				
Council tax baseline	(80.0)	(83.2)	(84.5)	(85.8)
ASC Precept	-	(1.7)	(3.4)	(5.1)
Estimated business rates retained	(5.0)	(4.0)	(6.5)	(6.5)
Collection fund surplus	(2.9)	(2.4)	(0.5)	(0.5)
Total revenue from council tax and business rates	(87.9)	(91.3)	(94.9)	(97.7)
Total funding	(312.0)	(303.9)	(293.1)	(287.6)
2015/16 budget starting point (includes Public Health expenditure)	334.6	318.2	310.8	298.9
Employees (1.2%, 1.0%, 1.0%, 1.0%)	2.1	2.2	1.7	1.7
Contractual inflation	2.3	2.6	1.5	1.5
Commitments	4.7	13.3	7.8	6.2
Grants				
Changes to New Homes Bonus	1.4	-6.3	3.5	3.5
Changes in grant related expenditure	3.6	5.4	0.0	0.0
HB admin subsidy and council tax support	0.4	0.7	0.6	0.6
Net change in council tax freeze grant	-0.9	0.9	0.0	0.0
Net budget before proposals	348.2	337.0	325.9	312.4
Proposals				
Efficiencies and improved use of resources	(26.1)	(13.6)	(18.9)	(9.2)
Income generation	(2.9)	(10.0)	(6.0)	(5.0)
Savings impacting on service delivery	(1.0)	(2.6)	(2.1)	(1.6)
Total Budget	318.2	310.8	298.9	296.6
Planned contribution from balances	(6.2)	(6.2)	(5.0)	(4.0)
Net budget after contribution from balances	312.0	304.6	293.9	292.6
Funding shortfall / (surplus)	0.0	0.7	0.8	5.0

94. This budget includes some £69m of savings, a summary is included in appendix A.

95. Details of these savings are included in appendices B to F, supported by commentary from each strategic director relevant to their department as reported to 8 December 2015 cabinet. These commentaries will continue to be developed

during the period before the budget received council assembly approval on 24 February 2016.

96. Details of commitments included in this budget are included as appendix G
97. The budget proposals include the prudent use of reserves, The Strategic Director of Finance and Governance and S151 officer recognises 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 in order to reconcile resources with spending needs.
98. The 2016/17 budget proposals include a further £6.2m use of reserves. This contribution is consistent with both 2013/14 and 2014/15. In the past, it has been noted that this contribution has been possible given a stable level of reserves and the availability of corporate contingency unused from previous years.
99. 2014/15 saw a reduction in the council's reserves and balance for the first time in a number of years. Revenue monitoring for 2015/16 to be reported to cabinet in February will show that the contingency for the year has been fully expended on controlling increased costs for temporary accommodation and no recourse to public funds.
100. Therefore, while balances continue to be earmarked to support revenue expenditure in 2016/17 and beyond, this will need review early in 2016/17 to ensure that this funding option remains viable.

Corporate Contingency

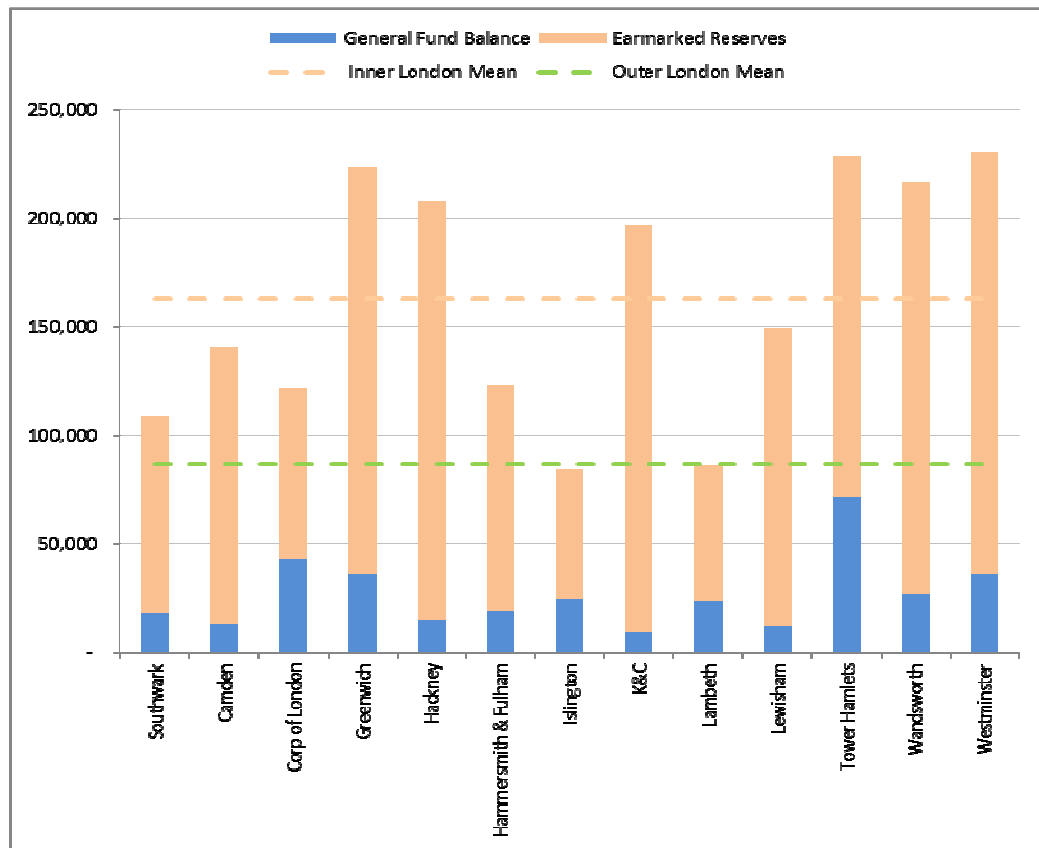
101. The 2015/16 budget included £4m for contingency, held to meet unforeseen costs and service pressures that cannot be contained. For 2015/16, at quarter 3 it will be reported to cabinet in February 2016 that that there remain significant pressures on the temporary accommodation budget as experienced through 2014/15 and also on the no recourse to public funds budget. Corporate contingency will be required to offset these pressures and current forecasts show an adverse variation for both areas of £4.6m.
102. Commitments totalling £4.690m have been included in these budget proposals for these service areas in 2016/17 and beyond. However, favourable variations against the 2015/16 contingency will no longer be available to support the 2016/17 budget and other sources of funding will need to be sought. This will be through either windfall savings in 2015/16 not currently anticipated, alternative use of earmarked reserves with the consequential impacts or through a reduction in the unearmarked general reserve. The S151 officer cannot recommend the final option given the level of balances currently held by the council. The use of other earmarked reserves or windfall savings will be a matter for cabinet decision.

Reserves and Balances

103. Balances and reserves are held by the council in order to fund a range of future commitments, to provide for future investments and to mitigate financial risks. These are reported in detail in the annual statement of accounts and are subject to external audit.

104. In recent years, the council has set aside approximately £6m of unallocated earmarked reserves in order to balance the annual general fund budget and relieve pressure on services. Since 2013/14 a total of £23m has been allocated from reserves and balances for these purposes. This would not be considered normal practice but has been deemed reasonable by the council's S151 officer in the context of unprecedented reductions in government funding.
105. A further contribution of £6m has been assumed in 2016/17 budget calculations: this practice is likely to continue for the period of austerity as long as resources remain available.
106. This annual contribution from balances has been made possible in no small part through the maintenance of contingency provision in the base budget each year. Where calls on this contingency have not been necessary as savings targets have been achieved and in some instances surpassed through early delivery of the outcomes, the annual contingency has become available to return to balances to enable the contribution to be made in future years.
107. As at 31 March 2015, balances and reserves were reported at £109.5m, represented by:
- | | |
|--|--------|
| General Fund Balance | £18.1m |
| Earmarked Reserves | |
| Corporate Projects and Priorities | £16.9m |
| Service Reviews and Improvements (exc. DSG Reserve) | £14.5m |
| Capital Programme and other Capital Investment | £30.4m |
| Strategic Financing, Technical Liabilities & Future Financial Risk | £29.6m |
108. The general fund balance of £18.125m represents the balance of last resort in the event of any major and unforeseen 'event' that compromises the delivery of the council's budget. At current levels, this balance represents around 4% of the council's annual revenue and capital turnover (excluding business rate income of around £200m) and is considered by the Section 151 officer to be appropriate for the organisation in the context of the risk profile. The main risks include the extent of the council's capital programme (4th largest in London in 2014/15) and ongoing regeneration activities.
109. Earmarked reserves are held for specific projects ranging from university scholarships (£465k) to the Southwark Emergency Support Scheme (£3.1m to 2018/19), modernisation (£5.1m) and regeneration and development projects (£9.2m including contribution to Aylesbury developments). Without the presence and future use of these reserves, the future of projects and important cost saving and invest to save initiatives would be compromised, delayed and even halted.
110. Earmarked reserves also contain funds to finance future technical accounting liabilities such as the Waste PFI (£3.8m), contributions to the 2015/16 general fund budget (£6.2m), the council's insurance fund to cover any uninsured loss (£6.4m) and a number of financial risk elements including cover for any loss on debt interest (4m) and social care demand pressure (£1.8m). Details on all of the various balance and reserve items are contained in the audited annual statement of accounts.

111. By comparison, while Southwark remains one of the councils with the largest turnover in London, it is ranked 19th out of 33 London Boroughs by value of reserves. While on the one hand this demonstrates sound financial management, it also indicates that there remains relative risk to other authorities when compared to others who clearly take more prudent views.
112. It should be noted that the use of reserves and balances in forming any part of the annual revenue budget must be considered with great caution, especially in periods where balances are falling overall and significant risks exist within the base budget not least the pressure imposed by savings targets associated with grant loss. While general fund balances were unchanged in 2014/15 from 2013/14, earmarked reserves decreased by approximately £4m. The position will remain under close review and the S151 officer will continue to make recommendations as appropriate within the policy and resources strategy.
113. The graph below shows the level of balances and reserves in Southwark and the other inner London Boroughs.



Budget Consultation – Engaging with the Community

114. As noted in the report to cabinet on 8 December 2105 the approach that has been taken to budget consultation follows the council's agreed Community Engagement framework. It used both face to face and online methods to attempt to get as representative a sample of views as possible.
115. The budget report also takes on board the results of the previous extensive spending challenge exercises over the last four years where residents gave us their views on which services should be protected. These exercises told us that residents wanted us to be more efficient and find more cost effective ways to

deliver services. Residents also told us that we should cut back office costs and protect frontline services especially for the vulnerable and those most in need.

116. The focus for the consultation was through Community Councils commencing at Peckham and Nunhead Community Council on 10 November 2015. This consisted of a short presentation by a cabinet member followed by a series of questions where the public voted on their responses. Residents could also respond through an online survey.
117. In total, 303 people responded to the consultation. Together with those who have responded over the last three years this means that over 1,000 responses have been received in this period.
118. A summary of the results is as follows:
- An overwhelming majority (94%) of those that responded agreed or strongly agreed that the council should continue to focus on being more efficient, protecting frontline services and directing resources to those most in need. This is consistent with the budget consultation exercises over the last few years and is also consistent with what is seen in budget consultation exercises across the country.
 - People who responded are more likely to agree or strongly agree (84%) that the council should empower residents and communities to do more for themselves where they are able to do so.
 - A significant majority (87%) agree or strongly agree that it is right that the council should focus on its priorities of growing the local economy, building new homes and creating more jobs through this period of cutbacks.
 - A majority (74%) agree that we should encourage residents and businesses to deal with us online leaving more costly phone and face to face services for the most vulnerable. While in the face to face consultations people were more likely to be undecided than in the online responses this is to be expected and the majority still agreed that this was the right approach.
 - A significant majority agree or strongly agree (89%) that we should invest in modernising services now including through use of modern technology to save money later to use in support of frontline services.
 - A substantial majority of those who responded agreed we should look at ways of increasing income, for example through continuing to be tough on collecting money we are owed (89%), charging for some services (77%) and delivering services for others where we are able to do so (75%). With regards to charges for those living outside the borough a smaller majority agreed we should charge more (55%) with 23% of respondents being undecided on this issue.
 - With regards to continuing to freeze the council tax the results are less conclusive. 39% of respondents agreed or strongly agreed that council tax should continue to be frozen, 13% were undecided and 48% disagreed or strongly disagreed.
119. As noted in the 8 December 2015 cabinet report the voluntary and community sector (VCS) have also been involved and informed and this consultation is ongoing as the budget process progresses and implementation takes place following agreement of the budget. This has included writing to all funded voluntary sector organisations outlining the council's process for decisions on funding for the current year. This correspondence pointed out that:

- over this period the government cuts have meant unprecedented reductions to the funding that the council receives.
- as in previous years, because of the government timescale for notifying us of our settlement for the coming financial year we as yet have no certainty on what our funding will be for 2016/17.
- work is ongoing to consider a range of savings options that could equate to 25% or more.
- the council faces a significant budget gap for the coming year with likely similar gaps in the following two years
- despite the scale of the reduction to the council's budget in the past the impact overall on voluntary sector programmes to date has been significantly less and that while we will do whatever we can to support the VCS, it clearly becomes harder to sustain the current level of support as further cuts begin to bite.

120. The letters also:

- made a commitment to giving three months' notice where there are funding reductions from the date the council sets its budget (or when a commissioning decision is taken if this is later than budget setting) to allow VCS organisations to plan for any impact
- point out that while difficult decisions have had to be taken in recent years the council remains committed to continued working with partners at this time of unprecedented budget reductions.

121. As noted above the ongoing consultation process will include:

- Consultation with groups impacted by the proposals, for example groups representing young people.
- Staff consultation in line with the council's policies on reorganisation, redeployment and redundancy.
- Deputations to cabinet in January 2016.
- Consultation with the Southwark Forum in January 2016 which represents voluntary sector organisations across the borough.
- Overview and scrutiny committee scrutinising the proposals on 2 February 2016.

NEXT STEPS

122. The proposals in this report will be subject to consideration by the overview and scrutiny committee on 2 February 2016. Any recommendations made will be submitted to cabinet on 9 February 2016, to agree final recommendations to council assembly for the annual budget and council tax setting on 24 February 2016.

123. The exact timing of the final 2016/17 finance settlement is not yet known but will be included in the 9 February report or in a briefing distributed either before or at the meeting.

124. A timetable of scheduled meetings leading up to council tax setting is shown below :

Date	Meeting	Current forward plan description	Summary of decision to be made
02/02/16	Overview and Scrutiny	Policy and Resources Strategy 2016/17 - 2018/19 - revenue budget	OSC to review the budget and make recommendations to cabinet.
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

125. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the budget for 2015/16 and for previous years, each department is finalising equality analysis on its budget proposals ahead of the final decisions being taken.
126. Undertaking equality analysis helps the council to understand the potential effects that the budget proposals may have on different groups. The analysis also considers if there may be any unintended consequences and how any of these issues can be mitigated. Analysis is also being undertaken to consider any cross-cutting and organisation-wide impacts. As this exercise nears completion no cumulative impacts have been identified through the cross-council analysis and the outcome has been shared with cabinet members.
127. For many services the budget proposals include efficiencies which have staffing implications. As specific proposals are brought forward, and at each stage of implementation thereafter, the different impacts on different categories of staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.
128. The development of equality analysis informs each stage of the budget process and work continues to update the analysis as further information becomes available throughout the cycle of planning and implementation. The complete analysis of the budget proposals themselves will also be available for overview and scrutiny committee on 2 February 2016, ahead of agreement of the budget by cabinet on 9 February 2016.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

129. 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.
130. 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.

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

132. 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.

133. It is essential that cabinet give due regard to the council's duty under the Equality Act 2010 and the implications for protected groups in the context of that duty in relation to this decision and future decisions on the budget proposals.

REASONS FOR URGENCY

134. The council is committed to publishing budget proposals at the earliest possible opportunity to ensure they are available to the public for comments and questions.

135. Under the council's constitution there is a requirement for the overview and scrutiny committee to review and challenge budget proposals and this is due to take place on 2 February 2016. Presenting this report to cabinet on 27 January 2016 gives the opportunity for debate prior to presentation of final budget figures at council assembly on 24 February 2016.

REASONS FOR LATENESS

136. Due to the late arrival of the information supplied by the Department of Communities and Local Government, extra time has been required to analyse the impact for Southwark and formulate budget options that minimise the impact on Southwark residents.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources 2016/17 to 2018/19 : Cabinet 15/09/15	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
Link: http://moderngov.southwark.gov.uk/documents/s56454/Report%20and%20appendices%202016-17%20PR%20Scene%20setting.pdf		
Policy and Resources 2016/17 to 2018/19 : cabinet 08/12/15	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
Link: http://moderngov.southwark.gov.uk/documents/b50006501/Supplemental%20Agenda%20No.%201%20Tuesday%2008-Dec-2015%2016.00%20Cabinet.pdf?T=9		
Spending review and Autumn Statement 2015 Briefing – LGA	LGA website	Local Government Association
Link: http://www.local.gov.uk/documents/10180/6869714/On+the+Day+Briefing+SR+2015.pdf/fadcf449-c787-43c0-8648-1ccf403a9275		
Provisional 2016/17 LG settlement briefing – LGA	LGA website	Local Government Association
Link: http://www.local.gov.uk/documents/10180/11309/LGA+On+the+Day+Briefing++Provisional+Local+Government+Finance+Settlement++17+December+2015/6641bf96-a677-4870-8887-5ec0dc551a56		

APPENDICES

No:	Title
Appendix A	Summary savings totals
Appendix B	Children's and Adults – Budget narrative and savings proposals
Appendix C	Environment and Leisure – Budget narrative and savings proposals
Appendix D	Housing and Modernisation – Budget narrative and savings proposals
Appendix E	Chief Executive - Budget narrative and savings proposals
Appendix F	Finance and Governance (inc Corporate) – Budget narrative and savings proposals
Appendix G	Commitments

AUDIT TRAIL

Cabinet member	Councillor Fiona Colley, Cabinet member for finance, modernisation and performance	
Lead officer	Duncan Whitfield – Strategic Director of Finance and Governance	
Report author	Jennifer Seeley – Director of Finance	
Version	Final	
Dated	25 January 2016	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
Cabinet Member		Yes
Date final report sent to constitutional team	25 January 2016	