

Item No. 8.	Classification: Open	Date: 9 February 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

Since 2010 Southwark Council has had to make £156m of budget savings, equivalent to a third of our budget. Despite being one of the most deprived areas of the country we have faced some of the largest reductions in government funding for local authorities. The indicative funding figures from government for the coming years tell us that yet more savings are required, particularly in 2016/17.

On 27 January, cabinet received a report containing budget proposals that would enable the Council to broadly balance the budget for the next three years. The report was based on a number of assumptions, not least those based upon the contents of the government's provisional settlement which indicated a further £47m reduction in our core government funding over the next four years

It is unfortunate that at the time of writing this report, details of the final settlement are still not available. Cabinet will therefore receive the report and are asked to agree the next steps necessary to balance the budget for 2016/17 for recommendation to council assembly on 24 February. It is hoped that the final settlement announcement will be made in advance of the cabinet meeting and if so I will ask the strategic director of finance and governance to provide an update on the funding position.

Since January Cabinet, consultation has continued. Cabinet members have met with the overview and scrutiny committee (OSC) and received their recommendations. At the moment, a small gap of £400k is reported for next year with larger gaps in the next two indicative years. In the light of the recommendations from OSC, I hope that Cabinet will be able to make decisions that will at least enable the budget for next year to be balanced, although given the size of the task and uncertainty regarding the final settlement, it may be more difficult to balance for 2017/18 and 2018/19.

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 on 8 February, after completion of this report.
2. Note that this report continues to be based on the provisional settlement announcement which is for four years with the final three years being indicative

and that this settlement is subject to the council's making a commitment to efficiency.

3. Note the key issues for Southwark arising from the provisional settlement reported to cabinet on 26 January 2016 (appendix H)
4. Note the recommendations of the meeting of the overview and scrutiny committee held on 2 February 2016.
5. Note the feedback to date from the continuing public budget consultation exercise.
6. Note that the budget proposal contained within this report for 2016/17 will need to be balanced in advance of Council Tax setting at Council Assembly on 24 February 2016.
7. Note that subject to the final settlement announcement, the budget gap for 2016/17 is £400k.
8. Note the indicative budget proposals for 2017/18 and 2018/19 and the remaining gaps of £1.2m and £5.3m respectively, subject to the final settlement announcement and future uncertain pressures.
9. Note that it is assumed that balances will continue to be released as planned and contingency maintained over the next three years in order to mitigate the risks of the reduction in government funding, the consequent savings programme and other uncertain pressures.
10. Note the intention to freeze council tax for a further year in 2016/17, subject to review in later years.
11. Note the intention to accept the government's offer to raise a 2% adult social care precept in 2016/17 and beyond.
12. Note the continuing progress on the completion of equalities analysis for each budget proposal, provided as a background paper to this report, and notes that equality analysis will continue through the cycle of planning and implementation of these budget proposals.
13. Agree the next steps to prepare a balanced budget based on a nil council tax increase for 2016/17 for recommendation to Council Assembly on 24 February 2016. The budget schedules are set out in Appendices A to G.

BACKGROUND AND PURPOSE

14. This report follows the cabinet meeting of 27 January 2016. This report now includes notes of the recommendations from overview and scrutiny committee on 2 February 2016, and an updated business rated growth estimate following the submission of the NNDR1 return to the Department for Communities and Local Government (DCLG).
15. This report makes proposals for a balanced budget in 2017/17 and indicative budgets for 2017/18 and 2018/19.

KEY ISSUES FOR CONSIDERATION

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

16. The provisional 2016/17 to 2019/20 local finance settlement for Southwark was presented to cabinet on 27 January 2016, these are included as Appendix H to this report.

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

17. The final 2017/17 to 2018/19 local government finance settlement is due to be debated on 10 February 2016, the final settlement must be published before that. If final figures are received in time to be presented to this cabinet, either a written or verbal addendum will be provided at the meeting.

Budget Assumptions for Southwark

Council Tax and Council Tax Collection Fund

18. 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.
19. 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.
20. 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.
21. 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

22. 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

23. 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.
24. Development in Southwark continues to progress. Following the completion and submission of the NNDR1 to DCLG a growth figure of £4.6m over and above the £60.7m baseline for 2016/17 has been identified. This is a £0.6m increase over the £4.0m estimated included in the 26 January report to cabinet. This is included in the 2016/17 to be recommended council assembly. SFA is being included within the budget proposals set out separately in this report.
25. The increase of £0.6m, nevertheless still reflects a reduction on the 2015/16 target of £5.0m of some £0.4m. This is a result of three key reasons :
 1. 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.
 2. Changes in Valuation Office ratings of certain business premises (e.g. doctors' surgeries).
 3. Market factors arising from delays in building completion, occupation and valuation.
26. 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.
27. 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.
28. 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

29. 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 of council tax.
30. 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.
31. 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.

32. 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.
33. 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.
34. 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

35. 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

36. 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.
37. 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.

38. 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.
39. 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.
40. 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.
41. 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

42. There has been no announcement to date with regard to 2016/17 allocations of the autumn statement measures grant.
43. Current budget estimates assume that this grant will be paid at least at 2015/16 levels.
44. When this grant is announced, grant funding in addition to the levels utilised in the 2016/17 budget process will be taken into reserves and used to support the budgeted use of reserves for 2016/17 following loss of unspent 2015/16 contingency, see paragraph 85.

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

45. 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.
46. 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.
47. Current budget estimates include £700k for the potential total loss in grant funding.

Education Services Grant (ESG)

48. 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.

49. 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

50. 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.
51. 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.
52. 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.
53. 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).
54. 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.
55. 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

56. 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.
57. 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.
58. 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.

59. 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 1.1% in November 2015).
60. Over the course of the year inflation rates remained reasonably stable and at low levels, with both indices following broadly the same path.

Commitments

61. 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.
62. 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

63. 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

64. 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.
65. 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

66. The housing revenue account bears a significant amount of charges from support services through support cost recharges (SCRs).

67. 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.
68. 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

69. 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.
70. 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

71. 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

72. 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

73. 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.

74. 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.
75. 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.
76. 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 £m	2016/17 £m	2017/18 £m	2018/19 £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)
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)	(85.6)
ASC Precept		(1.7)	(3.4)	(5.2)
Estimated business rates retained	(5.0)	(4.6)	(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)	(91.9)	(94.9)	-97.8)
Total funding	(312.0)	(304.5)	(293.1)	(287.7)
2015/16 budget starting point (includes Public Health expenditure)	334.6	318.2	311.1	299.3
Employees (1.2%, 1.0%, 1.0%, 1.0%)	2.1	2.2	1.7	1.7

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Contractual inflation	2.3	2.8	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	337.2	326.2	312.8
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)	(2.5)	(2.0)	(1.6)
Total Budget	318.2	311.1	299.3	297.0
Planned contribution from balances	(6.2)	(6.2)	(5.0)	(4.0)
Net budget after contribution from balances	312.0	304.9	294.3	293.0
Funding shortfall / (surplus)	0.0	0.4	1.2	5.3

77. This budget includes some £69m of savings, a summary is included in appendix A.
78. 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.
79. Details of commitments included in this budget are included as appendix G.
80. 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.
81. 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.
82. 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.

83. 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

84. 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 has been reported to cabinet, in a separate item on this agenda 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.
85. 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

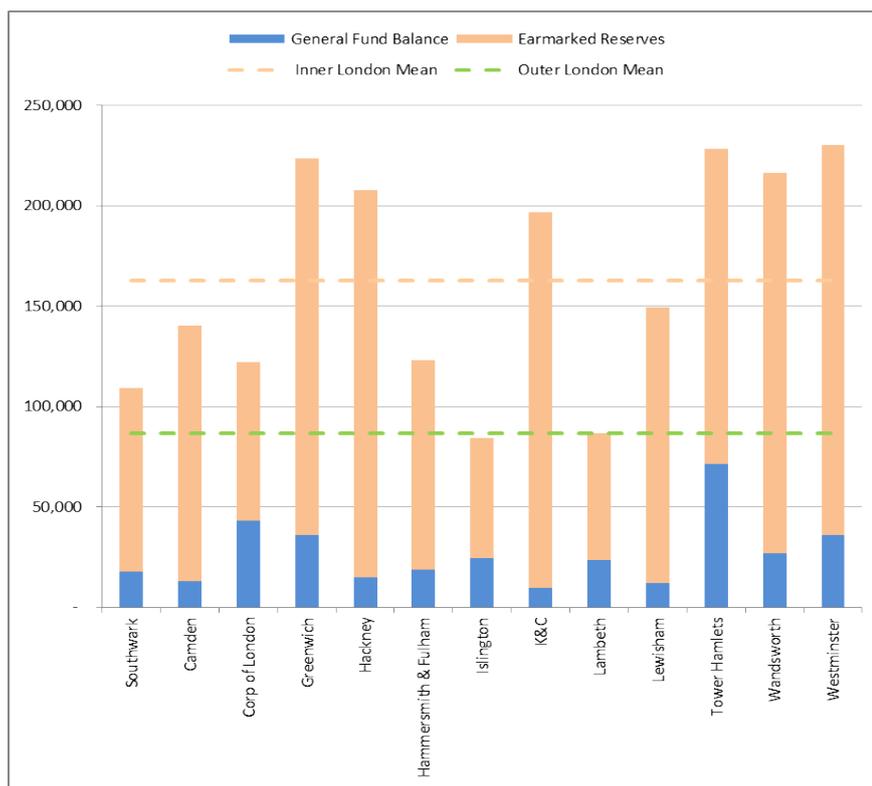
86. Balances and reserves are held by the council in order to fund a range of future commitments, to provide for future investments and to mitigate financial risks. These are reported in detail in the annual statement of accounts and are subject to external audit.
87. In recent years, the council has 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.
88. 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.
89. 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.
90. 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

91. 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 (fourth largest in London in 2014/15) and ongoing regeneration activities.
92. 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.
93. 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.
94. 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.
95. 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.
96. The graph below shows the level of balances and reserves in Southwark and the other inner London Boroughs.



Budget Consultation – Engaging with the Community

97. On 27 January cabinet noted the feed back from the public budget consultation exercise, this is included as Appendix I to this report. Over the last three years over 1,000 responses have been received to the budget consultation.
98. In total 303 people responded to the 2016/2017 budget consultation. 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.

99. As noted in the 8 December cabinet report the 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.

100. The ongoing consultation process also includes the following:

- Consultation with groups impacted by the proposals, for example groups representing young people which is taking place in advance of agreement of the budget and will continue as proposals are implemented.
- Staff consultation in line with the council's policies on reorganisation, redeployment and redundancy as reorganisation proposals are brought forward.
- Deputations to Cabinet in December and January 2015. These are set out in the minutes of the cabinet meetings held on 8 December 2015 and 27 January 2016 and were received from:
 - i. Friends of Damilola Taylor Centre
 - ii. Southwark Youth Council
 - iii. Rotherhithe and Bermondsey Youth Community Council Members/Odessa Youth Club Members
 - iv. SGTO Youth Forum
 - v. Southwark Trades Union Council
 - vi. Mint Street Adventure Playground
 - vii. Service Users with Learning Disabilities
 - viii. Southwark Day Centre for Asylum Seekers.
- Consultation with the Southwark Forum on 27 January 2016 which represents voluntary sector organisations across the borough. At the Forum the cabinet member for finance, modernisation and performance met with and heard from representatives of about 30 Southwark VCS organisations.

- Overview & Scrutiny Committee scrutinising the proposals on 2 February 2016 the recommendations of which are set out below.

Overview and scrutiny committee recommendations

101. On 2 February 2016 the overview and scrutiny committee (OSC) met to discuss the budget options reported to cabinet in January with cabinet members and chief officers. The following paragraphs contain the recommendations from OSC are that:

1. Cabinet considers reopening the enhanced voluntary redundancy scheme to all staff, reserving the right to refuse applications where the council needs to retain staff to protect service quality and continuity.
2. Cabinet looks again at efficiency savings in 'modernisation', IT, and facilities management to see if any of the proposed savings could be delivered faster than currently planned.
3. Cabinet asks officers to look at what further proactive work could be done by the council to mitigate costs arising from support for those with no recourse to public funds, for example, support in resolving their immigration status.
4. Cabinet investigates the possibility of securing further savings by considering merging the functions of the Civic Office with the Events Team.
5. Cabinet request a joint commissioning housing strategy for families and single adults in temporary accommodation.
6. Cabinet provides a clear report setting out a longer term view of the council finances.
7. The plan for future year's budget consultation is shared with OSC members.

102. It should be noted that the cabinet member for children and schools was not able to attend OSC. A separate meeting will be arranged so that any recommendations on this portfolio can be ready for budget setting.

NEXT STEPS

103. This report will be submitted to council assembly for the annual budget and council tax setting meeting on 24 February 2016.

Community impact statement

104. 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 has undertaken equality analysis/screening on its budget proposals ahead of the final decisions being taken. Where screenings have identified potential impacts more detailed analysis is being carried out

105. 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. At this stage no cumulative impacts have

been identified through the cross-council analysis and the outcome has been shared with cabinet members.

106. 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.
107. 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.
108. Initial equalities analysis/screening has been undertaken for all budget options, the outcome is included as a background document.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

109. 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.
110. 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.
111. Decision makers must understand the effect of policies practices and decisions on people with protected characteristics.
112. Equality analysis is the mechanism by which the council considers these effects. The report sets out how it is proposed equality analysis will be undertaken in relation to the budget proposals.
113. 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

114. 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.
115. Under the council's constitution there is a requirement for the OSC to review challenge budget proposals. This took place on 2 February 2016, and recommendations arising from this meeting are included in paragraphs 101 to 102 of this report.

REASONS FOR LATENESS

116. To enable the recommendations from OSC, and final settlement figures to be incorporated into the report.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources 2016/17 to 2018/19 : Cabinet 15/09/15 (Item 14)	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
Link: http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=5139&Ver=4		
Policy and Resources 2016/17 to 2018/19 : cabinet 08/12/15 (Item 18)	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
Link: http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=5142&Ver=4		
Policy and Resources 2016/17 to 2018/19 : cabinet 27/01/16 (Item 9)	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
Link: http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=5143&Ver=4		
Spending review and Autumn Statement 2015 Briefing – LGA	LGA website	Local Government Association
Link: Spending Review and Autumn Statement LGA		
Provisional 2016/17 LG settlement briefing – LGA	LGA website	Local Government Association
Link: Provisional 2016/17 LG Settlement Briefing LGA		
Equality analysis	160 Tooley Street PO Box 64529 London SE1P 5LX	Stephen Douglass 0207 525 0886
Link: http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=5144&Ver=4		

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
Appendix H	Technical information on the provisional local government finance settlement information
Appendix I	Budget consultation – Engaging with the community

AUDIT TRAIL

Cabinet member	Councillor Fiona Colley, Finance, Modernisation and Performance	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report author	Jennifer Seeley, Director of Finance	
Version	Final	
Dated	8 February 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		8 February 2016