

Item No. 2.1	Classification: Open	Date: 24 February 2016	Meeting Name: Council Assembly
Report title:		Policy and Resources Strategy 2016/17 – 2018/19 – Revenue Budget	
Wards or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

That council assembly:

1. Agrees to freeze the Southwark element of the council tax for 2016/17.
2. Agrees to use the flexibility offered by the government to support Adult Social Care through a precept equivalent to 2% of council tax on the basis that these additional funds will be used exclusively for adult social care (ASC).
3. Agrees the recommendations of the 9 February 2016 cabinet as amended for a general fund budget requirement (after use of reserves) for 2016/17 of £271.4m.
4. Notes the indicative budgets for 2017/18 and 2018/19 included within this report and the associated funding shortfall that will need to be updated and addressed as part of the council tax setting process for those years.

BACKGROUND INFORMATION

Revenue Budget

5. The final 2016/17 grant settlement figures and indicative figures for future years were announced by government on 8 February 2016. On 9 February cabinet considered a report on the council's Policy and Resources strategy 2016/17 – 2018/19 revenue budget proposals.
6. Amendments were made during cabinet to the recommendations included in the report, which were agreed by cabinet and now read:
 - 1) Note that the provisional settlement was announced by the Secretary of State on 17 December 2015 and that the final settlement was confirmed on 8 February.
 - 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 councils 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).
7. Cabinet welcomed the recommendations of overview & scrutiny committee and responds as follows:

- Agrees to take forward the recommendation to reopen the enhanced voluntary redundancy scheme and bring forward a report at the March 2016 cabinet
 - Agrees to bring reprofile a number of efficiency savings into 2016/17
 - Agrees to consider the remaining recommendations as work commences on the 2017/18 budget
8. Cabinet noted the feedback to date from the continuing public budget consultation exercise:
- 1) Recommendation no longer required as proposed budget is balanced.
 - 2) Recommendation no longer required as proposed budget is balanced.
 - 3) 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.
 - 4) 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.
 - 5) Note the intention to freeze council tax for a further year in 2016/17, subject to review in later years.
 - 6) Note the intention to accept the governments offer to raise a 2% adult social care precept in 2016/17 and beyond.
 - 7) 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.
 - 8) Agrees to accelerate a number of customer experience and modernisation efficiency savings as set out below to deliver a balanced budget based on a nil council tax increase for 2016/17 for recommendation to council assembly on 24 February 2016.
9. In total and in the context of resources available, the proposal was agreed to set a general fund revenue budget for 2016/17 of £271.4m.

KEY ISSUES FOR CONSIDERATION

Revenue Budget 2016/17

10. Table 1 below shows a high level summary of the proposed budget following consideration by cabinet on 9 February 2016. The schedules included as Appendix D to the cabinet report are now attached to this report as Appendix 1, including updates to the phasing of housing and modernisation options agreed by cabinet (option references 65, 71, 73,74 and 80).

Table 1: high level summary budget**Amended 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) (note1)	(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)	334.6	318.2	310.7	299.3

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
expenditure)				
Employees (1.2%, 1.0%, 1.0%,1.0%)	2.1	2.2	1.7	1.7
Contractual inflation	2.3	2.8	1.6	1.5
Commitments	4.7	13.3	7.8	6.1
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	325.9	312.7
Proposals				
Efficiencies and improved use of resources	(26.1)	(13.9)	(18.6)	(9.1)
Income generation	(2.9)	(10.0)	(6.0)	(5.0)
Savings impacting on service delivery	(1.0)	(2.6)	(2.0)	(1.6)
Total Budget	318.2	310.7	299.3	297.0
Planned contribution from balances	(6.2)	(6.2)	(5.0)	(4.0)
Net budget after contribution from balances	312.0	304.5	294.3	293.0
Funding shortfall / (surplus)	0.0	0.0	1.2	5.3

Note 1: includes £33.1m of specific grants in 2016/17

Southwark council tax

11. For the purpose of setting council tax, the council calculates the total budget, less specific grants, less contribution from reserves. For 2016/17 this would be:

	£m
Total budget (table above)	310.7
Specific grants (see note 1 above)	(33.1)
Planned contribution from reserves	(6.2)
Total budget requirement	271.4

12. All local authorities are required to set their council tax by 11 March 2016. Given this timescale, it is difficult at this stage to provide comparative information for 2016/17. This council will set its own tax on 24 February 2016 (the date to which this report refers). As in previous years, any delay to this date will mean the council would have to move its instalment date beyond 1 April 2016. This would result in a loss of income to the council from cash flow and could also put at risk the ability of the council to meet its collection targets.
13. Cabinet have recommended accepting the government's offer to raise a 2% adult social care precept in 2016/17, but otherwise a zero per cent increase in council tax for 2016/17.
14. The effect on the Southwark element of council tax is shown in the following table:

	2015/16	2016/17	change
Southwark Council Tax	912.14	912.14	0%
Adult Social Care precept	-	18.24	2% of Band D
Total	912.14	930.38	2.00%

Greater London Assembly (GLA) precept

15. The GLA precept is reported in the council tax setting report elsewhere on this agenda.

Community impact statement

16. The community impact statement is set out in the cabinet report of 9 February 2016 attached at Appendix 1.
17. A summary of the 2016/17 budget equality analysis is a background document to Appendix 1 of this report.

Consultation

18. The policy and resources strategy 2016/17 to 2018/19 reported to cabinet on 27 January and 9 February 2016 contained a detailed report giving results and analysis from the spending challenge consultation held during 2015.
19. In addition, recommendations from overview and scrutiny committee on 2 February 2016, and the recommendations from a further meeting on 8 February

were considered by cabinet at their meeting on 9 February and where appropriate have been incorporated in this proposed budget.

A strong and stable resource base

20. In setting out the draft budget proposals for 2016/17 the Strategic Director of Finance and Governance, as the statutory section 151 officer, is assured that the range of spending commitments and proposed savings are being set within the resources available that meet local priorities. The draft budget proposed for 2016/17 is therefore robust.
21. In addition to ensuring that sufficient funds are available to finance the ongoing management of the council services, the Strategic Director of Finance and Governance needs to be assured that there is an appropriate level of reserves and balances available. The Local Government Act 2003 requires the chief finance officer to report on the adequacy of reserves held, and requires members to have regard to that report in setting the budget. The Act also gives powers to the Secretary of State to specify a minimum of reserves to be held, but those powers have not yet been applied.
22. Reserves are funds set aside from underspends or proposed budget contributions, to meet contractual commitments or future expenditure plans, including meeting risks or liabilities that may arise at a later date. For example, the council has a number of pressures which fluctuate over time and are unpredictable in nature. These could include winter maintenance (such as pot holes and road gritting for highways) or meeting the upkeep of older buildings that the council operate from. Reserves are the most effective way in which to mitigate these pressures, subject to appropriate criteria. Another example is one-off redundancy costs arising from restructuring, where it may be that these costs cannot be met from existing revenue budget provision. Therefore and, subject to an appropriate business case, reserves may be used to support these costs.
23. The council has a number of reserves. The most significant of which are:
 - Modernisation, service and operational improvement reserve. This is for one-off expenditure and multi-year projects that are designed to modernise and improve service levels and operational efficiency of Southwark's activities. Schemes will include accommodation pressures, shared services, customer service improvements and information services. The use of the reserve is subject to protocols in accordance with the council's medium term resource strategy (MTRS).
 - Regeneration and development reserve. This reserve is to fund one-off expenditure and multi-year projects to facilitate the significant regeneration and development taking place in the borough. Projects include the Elephant & Castle, Canada Water, Southwark Schools for the Future, and land acquisitions associated with these projects.
 - Financial risk reserve. This reserve is set aside against future financial risks that may arise. For example, taxation risk, legislative changes including actions involving the Greater London Authority, major projects, risks as a result of unavoidable changes in accounting practice, risks arising from retention of business rates arrangements.

24. Due to the size, scale and complexity of projects and services across the borough the council is required to maintain a general level of balances to meet future unpredictable expenditure demands. Securing outcomes around key priorities of regeneration, recognising key operational risks attached to the unique size of our housing stock and more generally the levels of deprivation across the borough and associated factors, means that it is essential the council maintains a robust approach to both reserves and balances.
25. Maintaining an adequate level of reserves and balances are therefore key factors in the Strategic Director of Finance and Governance's assessment of the robustness of the budget. The relatively low levels of balances and reserves when compared to similar councils in London have been reported to cabinet and more recently it has been reported that the level of earmarked reserves have reduced. This position has been planned to help sustain services and transform the council through the austerity period, but cannot be seen as a permanent source of funding.
26. The position remains under close review and the section 151 officer will continue to make recommendations as appropriate within the policy and resources strategy. He considers the current plans for use of balances to be acceptable and recognises that the budget continues to allow for a contingency that mitigates the risk of shortfalls in savings and income targets or higher levels of commitments arising from unforeseen budget pressures.
27. In setting the budget the council needs to be mindful of the continued uncertainty with regards future funding, although the four year settlement, once agreed, may limit this risk subject to the revised funding arrangements based upon a new system of retained business rates. The impact of this reform cannot be assessed at this time. The use of the financial risk reserve in respect of business rates risks forms part of the mitigation strategy. The risks identified strengthen the importance of maintaining a robust MTRS within which to plan council business and sustain delivery of essential frontline services.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

28. The report asks council assembly to agree the amended recommendations of the 9 February 2016 cabinet for a general fund budget requirement (after use of reserves) for 2016/17 of £271.4m including the impact of a 2% ASC precept/council tax increase for 2016/17. In accordance with Part 3A of the constitution, council assembly are required to agree the budget.

Legislative Framework

29. Section 31A of the Local Government and Finance Act 1992 (the Act) provides that the council has an obligation to calculate and agree an annual budget

Restrictions on Voting Under Section 106 of the Local Government Finance Act 1992

30. Section 106 of the Local Government Finance Act applies at any time to a member of an authority, if at that time the member is due to pay council tax payments which have remained unpaid for at least two months.

31. The payments to which the section applies are any type of either sole or joint and several liability for council tax, and any failure to pay any agreed sum of council tax. Therefore members are advised that this section is likely to apply to them if they are currently two months in arrears of any amounts of council tax, even if they have made any special contractual arrangement with the council to pay off the arrears.
32. If this section applies to any member, he/she at the relevant meeting and as soon as practicable after its commencement, must disclose the fact that the section applies and not vote on any question with respect to this matter.
33. The relevant meetings are those at which any of the following are the subject of consideration, namely:

- (a) "Any calculation required by chapter 111, 1V, V of part 1 of the 1992 Act".

The only calculations likely to be made by this authority are those under chapter 111 of part 1 of the act, (chapter 1V relates to precepting and chapter V limitations on council tax (i.e. capping). The chapter 111 calculations include the calculation of the budget requirement, basic amount of tax, the additional requirements because of the special trust funds, the calculation of the tax for the different valuation bands and the basic amount of council tax to be set under Section 30.

- (b) "Any recommendation, resolution or other decision which might affect the making of any such calculation"

This is an extremely wide wording and would extend well beyond merely setting the budget. It applies to virtually any matter where the financial implications directly or indirectly might affect the calculations concerning the council tax. It would therefore apply to decisions concerning the level or extent of services as well as the expenditure, receipt or forgoing of any money.

- (c) "The exercise of any function under Schedules 2-4 of the 1988 and 1992 Act"

The functions under either the 1988 or 1992 Acts concern the administration and the enforcement of community charge and council tax respectively.

34. Section 106 of the Local Government Finance Act 1992 makes it a criminal offence for a member to vote when prohibited from doing so or to fail to make the necessary disclosure. There is a statutory defence, with the onus of proof on the member, to prove that he did not know that the section applied to him or her at the time of the meeting or that the matter in question was the subject of consideration at the meeting. Prosecutions shall not be instituted except by or on behalf of the Director of Public Prosecutions.

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 1	Cabinet Report 9 February 2016 Policy and Resources 2016/17 – 2018/19 – Revenue Budget with appendices (including updated Appendix D, as agreed by cabinet)

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Jennifer Seeley, Director of Finance	
Version	Final	
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	Yes
Date final report sent to Constitutional Team	11 February 2016	