

## APPENDIX 1

<b>Item No.</b> 13.	<b>Classification:</b> Open	<b>Date:</b> 7 February 2017	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Policy and Resources Strategy 2017-18	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Cabinet member for finance, modernisation and performance	

### **FOREWORD - COUNCILLOR FIONA COLLEY, CABINET MEMBER FOR FINANCE, MODERNISATION AND PERFORMANCE**

Southwark Council faces an extraordinary financial challenge in 2017-18.

Our government funding will reduce by £15m. We also face millions of pounds of unavoidable budget pressures such as increased national insurance and business rates on our offices. This is sadly a situation we have become accustomed to. 2017-18 will be the eighth consecutive year of government funding reductions with at least two more to come.

What makes this year's budget setting challenge unprecedented is the nationwide crisis in funding for the NHS and Social Care. Here in Southwark we have been more successful than most in maintaining services, with the second lowest level of delayed discharges from hospitals of all London boroughs. However, that success has come at a considerable cost and we anticipate that in this financial year the Children's and Adults' Services department will be overspent by £15m.

Before Christmas we hoped that the high profile media coverage of the crisis in Adult Social Care funding would result in additional funding being made available by government. The response of government was to propose that councils could raise an additional 1% of council tax – with Adult Social Care levy of 3% rather than 2% – equivalent to an extra £0.9m in Southwark. The government will also provide a one-off Adult Social Care grant of £1.6m, but funded by further reductions in the New Homes Bonus which resulted in an additional £1m loss of funding. This woefully inadequate response still leaves a substantial deficit in our social care budget.

As a result this report proposes that not only should we levy the 3% Adult Social Care precept, but also a further 1.99% increase in general Council Tax, resulting in the total council tax due to Southwark increasing by 4.99%.

Factoring in the Mayor of London's proposed increase in the policing precept, a band D council tax bill would increase by £50.44 for the year, just less than £1 per week.

The increase will raise an additional £4.5m of income for the council, still considerably less than the loss of government funding, overspends and unavoidable pressures.

The news is not all bad. The success of our local regeneration has resulted in considerable economic and housing growth which in turn translates into increased council tax and business rate income. Our buoyant capital programme has allowed us to continue to invest in the borough and deliver our manifesto promises.

Our continued modernisation and innovation enables us to propose a further £18.9m of savings from efficiency and improved use of resources and £2.5m from additional income next year. Throughout this difficult budget process we have been guided by our Fairer Future budget principles, and our commitment to deliver a Fairer Future for all in Southwark.

## RECOMMENDATIONS

That cabinet:

1. Note the context of the budget as agreed by cabinet on 24 January 2017, where the following recommendations were agreed:

*“That cabinet:*

- 1.1. *Note that the provisional settlement was received on 15 December, and is reflected in the revised 2017-18 draft budget.*
- 1.2. *Note that the key elements for the council arising from the provisional settlement included:*
  - *Settlement Funding Assessment (SFA), updated to include the confirmed Revenue Support Grant (£57.79m) and Business Rate Baseline Funding levels (£108.21m)*
  - *Confirmed new homes bonus for 2017-18 of £13.053m representing an overall reduction of £2.0m on 2016-17 budgeted funding levels;*
  - *Powers to bring forward the timing of the adult social care precept*
  - *A one year only Adult Social Care grant of £1.577m for 2017-18, funded by the government through a further reduction in new homes bonus*
  - *Confirmed improved better care fund in 2017-18 of £1.658m payable directly to the council and indications of increased funding in 2018-19 and 2019-20;*
  - *Confirmed Public Health Grant for 2017-18 of £28.194m which is a reduction of £0.69m from 2016-17.*
- 1.3. *Note the risk transfer of retained business rate funding to local authorities.*
- 1.4. *Note the impact on school funding grants, specifically the cessation of the Education Support Grant.*
- 1.5. *Note the continued uncertainties especially regarding adult social care and children’s services cost and demand pressures for 2017-18 and beyond and also ongoing funding risks and uncertainties relating particularly to the new Adult Social Care Grant, New Homes Bonus, Public Health Grant and risks of retained Business Rates.*
- 1.6. *Note the current budget deficit for 2017-18 of £1.822m, reduced from £2.6m on 13 December 2016, and £8.1m presented on 1 November 2016, after the incorporation of a number of budget proposals and updated information following the provisional settlement.*

- 1.7. *Note that the general fund budget proposals for 2017-18 contained within this report include:*
- *grant resources arising from the provisional settlement on 15 December (Appendix A)*
  - *Estimated resources for the Autumn Statement Grant*
  - *An assumed increase in Council Tax of 1.99%, below the cap of 2% laid down by the Department for Communities and Local Government (DCLG);*
  - *An assumed increase in the Adult Social Care (ASC) precept of 3%, in line with the maximum laid down by DCLG*
  - *Estimated council tax revenue of £87.5m in line with the Council Tax Base report agreed by cabinet in December*
  - *Estimated retained business rates growth of £8.7m*
  - *Planned use of balances of £3.7m, subject to reserves and balances being available*
  - *Planned contingency of £4m*
  - *Provision for contractual inflation and 1% pay award*
  - *Proposals for budget changes in 2017-18:*
    - *new commitments £22.916m, of which £5.9m is ASC earmarking of precept and grant (Appendix C)*
    - *efficiencies and improved use of resources of £18.247m (Appendix D)*
    - *income generation proposals of £2.482m (Appendix E)*
    - *other savings impacting on service delivery of £4.981m (Appendix F)*
- 1.8. *Note that the assumed increase in the Southwark element of the council tax represents the first increase in eight years (paragraph 48) and it is estimated that Southwark will continue to have the seventh lowest council tax in London.*
- 1.9. *Note that this budget proposes to use the flexibility offered by the government to support social care through an increase in the Adult Social Care precept, equivalent to 3% of council tax, on the basis that these additional funds will be used exclusively for adult social care (paragraph 44).*
- 1.10. *Note the current budget options proposed to help achieve a balanced budget 2017-18 as presented in appendices B-D; including ongoing protection for Children's Social Care budgets.*
- 1.11. *Note the departmental narratives setting out the service context and commitments, savings and income generation proposals (Appendix B).*
- 1.12. *Note the proposed approach to address the Children's and Adults' Social care budget pressures, and comparative data. (Appendix G).*
- 1.13. *Note the reducing level of reserves and balances available to the council to help mitigate the risks of funding reductions moving into future financial years.*

- 1.14. *Note the continuing work underway by strategic directors to complete appropriate equality assessments for all budget proposals (reference in Appendix B)*
  - 1.15. *Note the consultation that took place prior to agreeing the indicative budget options for 2017-18 and 2018-19 in February 2016 and that further consultation will be undertaken for new budget options where necessary or appropriate.*
  - 1.16. *Note that this report will be considered by overview and scrutiny committee on 30 January 2017 and that any recommendations arising will be incorporated into the final report to cabinet on 7 February 2017.*
  - 1.17. *Request that officers complete further work in the light of further notifications from government and recommendations from cabinet and overview and scrutiny to present a fully balanced budget position for cabinet on 7 February 2017.*
  - 1.18. *Note that on the basis of this range of uncertainties and as reported to cabinet previously, a balanced one year 2017-18 budget will be presented to cabinet in February for approval in advance of council assembly in February 2017”*
2. Note that the 24 January report was considered by overview and scrutiny committee on 30 January 2017 and agree a response to the recommendations arising (paragraph 86).
  3. Note that as at 1 February 2017 the final settlement has not been received, and that the revised 2017-18 budget presented at Appendix A reflects the provisional settlement, and that any changes will be reported to council assembly.
  4. Note that this report presents the final balanced general fund budget proposals for 2017-18 including:
    - new commitments £22.566m, of which £5.9m is ASC earmarking of precept and grant (Appendix C)
    - efficiencies and improved use of resources of £18.897m (Appendix D)
    - income generation proposals of £2.480m (Appendix E)
    - other savings impacting on service delivery of £5.081m (Appendix F).
  5. Agree to submit this balanced one year 2017-18 budget to council assembly for approval.
  6. Note that the indicative budgets for 2018-19 and 2019-20 agreed by council assembly in February 2016 are under considerable pressure despite the significant proposals in 2017-18, and note that work will commence early in 2017-18 to update the Fairer Future Medium Term Resources Strategy to address these concerns.
  7. Under Part 3C of the constitution full cabinet is responsible for the approval of new fees and charges and agreement of charging levels in line with the medium term resources strategy, and therefore agree the fees and charges presented in Appendix H and note the level of those fees which cabinet is not permitted to set (paragraphs 88 to 93).

## **BACKGROUND AND PURPOSE**

8. This budget strategy is underpinned by the principles set out in the Fairer Future Medium Term Financial Strategy (FFMTFS) and Integrated Efficiency Plan 2017-18 to 2019-20, agreed by cabinet on 20 September 2016. The FFMTFS will continue to be reviewed as more information becomes available and officers continue to work on the future years' budgets and is planned to be presented to cabinet in the summer of 2017.
9. The 1 November 2016 report "Revenue Monitoring Report incorporating Updated Medium Term Financial Strategy and Treasury Management 2016-17" set out the revised financial remit for the three year planning period to 2019-20. The final year, 2019-20, coincides with the end of the current four year settlement term and the proposed start date for the new system of 100% Business Rate Retention. The report highlighted emerging cost pressures in Children's and Adults' Services and for No Recourse to Public Funds.
10. This report updates the 2017-18 budget proposals considered in January 2017 in light of the requirement to balance the budget. This one year budget is considered by the section 151 officer to be the most appropriate strategy at this time given continued uncertainties. These uncertainties include demand and cost pressures for adult social care and children's services costs, and uncertainties in government funding sources for new homes bonus, public health grant and business rate retention beyond 2018-19. A summary of the updated 2017-18 budget can be found at Appendix A.
11. The Policy and Resources Strategy 2017-18 underpins the work of all council departments, ensuring financial sustainability and the best possible level of service for residents. The council remains committed to promoting efficiency as the key driver to reducing costs and minimising the impact of budget decisions on front line services. The Fairer Future for All promises commit to *spending every penny as if it were our own*. This promise is reinforced with the Fairer Future Budget Principles and will remain the council's prime motivation in Policy and Resources Strategies in coming years. Inevitably, as total resources available continue to reduce, demands increase for services and planned efficiency improvements are delivered, protection of these valued front line services becomes increasingly difficult.

### **Fairer Future Medium Term Financial Strategy**

12. The 2015 Spending Review and Autumn Statement announced a 53% cut in government funding to local authorities from 2016-17 to 2019-20. The Spending Review included proposals for 100% retention of business rates by 2020, phasing out of the Revenue Support Grant, the opportunity to raise Council Tax by up to 2% per annum to cover adult social care costs, the continuation of the Public Health grant ring-fencing for a further two years, and New Homes Bonus reform.
13. On 23 November 2016, Chancellor Philip Hammond delivered his first Autumn Statement. This included a number of policy announcements including confirmation that the Autumn Statement will be abolished and the Budget will be moved to the autumn. The March 2017 Budget will therefore be the last spring Budget, and there will be a further Budget in the autumn of 2017. The government will, however, continue to respond to the Office for Budget Responsibility's economic forecasts in the spring in a "Spring Statement" from 2018.

### **Council Plan and the Budget**

14. This budget provides a clear link between council budget financial sustainability and borough wide regeneration. There is an increasing reliance on raising income through local taxation whether through increasing the council tax base through housing growth or increasing funding from business rate growth. Growth (either business rate or council tax) directly impacts on a significant proportion of our budget through New Homes Bonus, council tax and business rate income sources.
15. The current Council Plan 2014-18 priority themes of quality affordable homes, strong local economy and revitalised neighbourhoods are integral to a sustainable ongoing budget. These links were demonstrated in the council's efficiency statement submission for the four year settlement.

#### **Local Government Settlement 2017-18 update**

16. The provisional settlement was received on 15 December, and the impact reported to January 2017 cabinet. As at 1 February 2017 the final settlement has not been received but is expected to confirm the provisional settlement figures.
17. The provisional settlement contains allocations for core funding streams for the Settlement Funding Assessment (SFA) for the three year period 2017-18, 2018-19 and 2019-20, including the significant funding cuts set out in the four year settlement of 2016-17. Overall, SFA for England will fall by 10.6% in 2017-18 (9.4% for London Boroughs), and in real terms by 25.6% by 2019-20 (23.8% for London Boroughs).
18. The level of funding from 2018-19 onwards for New Homes Bonus (2017-18 £13.053m) and Public Health Grant (2017-18 £28.194m) remains unconfirmed.
19. The key changes impacting on the council from the settlement are shown here and discussed in more detail in the paragraphs below:
  - Confirmed revenue support grant of £57.79m;
  - Confirmed business rate top up and the ongoing incremental transfer of the business rate risk to the local authority by a further 12% as a result of the reducing top up grant;
  - Confirmed New Homes Bonus of £13.053m (of which £1.126m is the affordable housing element). This is a £2.0m reduction from the assumed budget;
  - Powers to bring forward the timing of the adult social care precept from 2% in 2017-18 to 3% in 2017-18 (paragraph 44);
  - A new one year only Adult Social Care Support grant of £1.577m (paragraph 37);
  - Confirmed improved better care fund of £1.658m (paragraph 41).
20. The provisional settlement also confirmed reductions to the Education Support Grant (ESG) and changes to school funding arrangements as detailed in paragraph 59 and the departmental narrative in Appendix B.

#### **Change in spending power**

21. The Core Spending Power figures calculated by the DCLG include the Settlement Funding Assessment (see paragraph 25), an assumed increase in council tax of 1.99%, in line with the referendum limit, additional increase of the 2% adult social care precept, and average growth in council tax base, the Improved Better Care Fund, New Homes Bonus and the one-off new Adult Social Care Support Grant.
22. The core spending power calculation does not include any inflationary cost pressures, assumptions regarding demand pressures and calls on this funding or reductions in grants such as Public Health.
23. Southwark's reduction in core spending power between 2016-17 and 2017-18 is calculated as -2.5%, compared to the London average reduction of -1.5%. Southwark has the fourth largest reduction in spending powers among the 33 London boroughs. By comparing the components of this spending powers change calculation (see table below), it is clear that there is an increasing reliance on locally raised council tax to fund local authorities' budgets.

#### **DCLG change in spending power from 2016-17 to 2017-18**

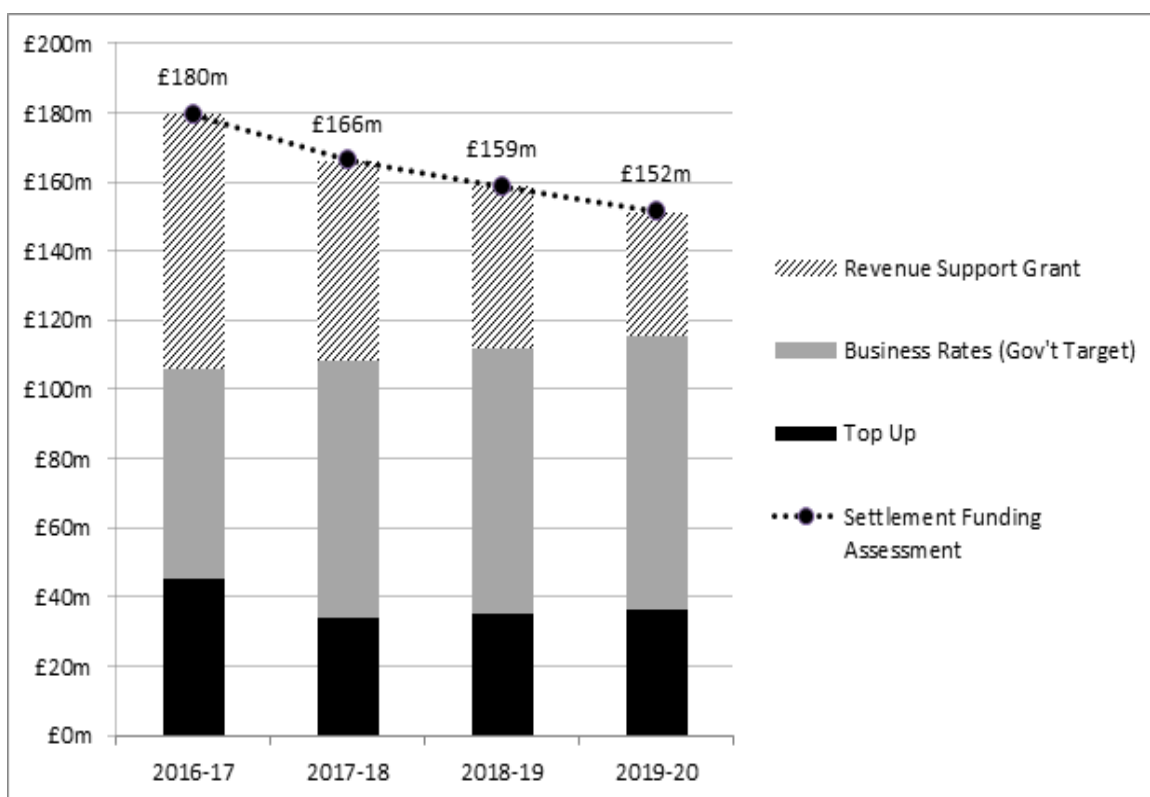
	<b>Change in SFA</b>	<b>Change in Council Tax</b>	<b>Change in Relevant grants</b>	<b>Change in Spending Power</b>
<b>Southwark</b>	-7.5%	8.0%	-1.7%	-2.5%
<b>London Average</b>	-10.6%	7.3%	3.9%	-1.5%

24. The DCLG calculation does not include the impact of cost pressures such as pay and contract inflation, new regulation changes such as apprenticeship levy or revised business rates, in total amounting to over £7m of cost pressures in 2017-18. The DCLG calculation assumes that Southwark will implement a council tax increase and ASC precept.

#### **Settlement Funding Assessment**

25. The Settlement Funding Assessment (SFA) comprises the core funding sources for authorities defined as the Revenue Support Grant, retained business rates and business rate top up. The SFA is 7.5% lower than in 2016-17 and by 2019-20 will have reduced by 15.6% over the three year period. The settlement for 2017-18 shows:
  - Revenue Support Grant of £57.8m
  - Baseline Business Rate Funding Level of £108.2m, made up of:
    - i. Top up £33.9m
    - ii. Retained business rates £74.3m.
26. The graph and table below show the declining levels of the SFA from 2016-17 to 2019-20.

## Southwark Settlement Funding Assessment 2016-17 to 2019-20



	2016-17 £	2017-18 £	2018-19 £	2019-20 £
Revenue Support Grant	73.48	57.79	46.98	35.86
Top Up	45.34	33.90	34.99	36.23
Business Rates (Gov't Target)	60.70	74.31	76.70	79.43
<b>Settlement Funding Assessment</b>	<b>179.52</b>	<b>166.00</b>	<b>158.67</b>	<b>151.52</b>
<i>Annual change in SFA</i>		-7.5%	-4.4%	-4.5%
<i>Cumulative change in SFA</i>		-7.5%	-11.6%	-15.6%

### Business Rates Baseline

27. The 2017-18 finance settlement represents the fourth year in which the Business Rates Retention (BRR) scheme is the principal form of external local government funding. There has been significant change to the BRR scheme as a result of the adjustments for the 2017 Revaluation, which alter the business rates baselines for individual authorities. Southwark remains one of the 23 “top up” in boroughs in London. The BRR revaluation adjustment should ensure, as far as is practicable, that an authority’s retained income is the same after revaluation as immediately before.



28. Due to the variable nature of the BRR element of local authority funding, the settlement no longer provides the absolute funding level for authorities. Local authorities will collect more or less than their target level of business rates. The 2017-18 budget includes a forecast assumption that the council's Business Rate Retention income will exceed the baseline funding level by £8.7m.
29. The increasing reliance on local taxation through the BRR as a funding source is shown in the chart above, with a reduction in Revenue Support Grant and increased reliance on BRR over the period 2016-17 to 2019-20. This reduces the levels of secure funding for local authorities, increasing risk and reducing financial planning certainty.
30. The Secretary of State for CLG again restated the government's intentions to reform the BRR system and move to 100% retention by 2020. He announced that the Local Government Finance Bill would enter parliament early in 2017, and that pilots would begin in six areas of the country in April 2017. Southwark's regeneration programme will be key to ensuring sustainable budget sources as we move closer to 100% business rate retention.

### **Public Health Grant**

31. Alongside the provisional settlement, the government published the Public Health Grant Allocations for 2017-18. These have not changed from the indicative figures published last year. Southwark's allocation of £28.194m is 2.45% less than previous years. Between 2013-14, when Public Health responsibilities transferred to local authorities, and 2017-18, grant funding will have reduced by equivalent of 10% with no inflationary increases from 2015-16 onwards. Southwark has the fourth lowest per head public grant allocation of the inner London boroughs.
32. The grant remains ring-fenced in 2017-18. There is no information beyond next year.

### **New Homes Bonus (NHB)**

33. The government has confirmed that New Homes Bonus (NHB) payments to councils will be reduced to five years in 2017-18 (currently six years) and to four years from 2018-19 onwards. A 0.4% baseline will be introduced so that local authorities will need to achieve tax base growth of greater than 0.4% before they receive any NHB funding. Southwark's tax base growth is expected to be in excess of this. The changes to the New Homes Bonus Scheme have allowed the government to remove £241m from the scheme's previously announced funding for 2017-18. This funding has been diverted to the new Adult Social Care Support Grant (paragraph 37). This funding is to be distributed based on the adult social care relative needs formula and is for 2017-18 only.
34. For 2018-19 onwards, the government has yet to decide whether to enforce further reductions on allocations where there is no local plan in place or houses are built following a successful appeal.
35. NHB allocations for 2017-18 have been published. London boroughs' share of the national total has stayed broadly the same at 21%, receiving £261 million of the £1.2 billion national total.
36. Southwark's allocation for 2017-18 is £13.05m (of which £1.126m is the affordable housing element). The 2018-19 and 2019-20 allocations within DCLG's Core

Spending Power are only indicative. These are based upon authorities' share of the 2017-18 overall allocation. There could, therefore, be significant variances between these amounts and the actual allocations and so further modelling will need to be undertaken to calculate NHB for 2018-19 and 2019-20. The level of NHB directly relates to the increase in homes with additional grant for affordable housing, further consolidating the link between local growth and regeneration and funding levels.

### **Adult Social Care Support Grant (new)**

37. This one off grant distributes £241.1m NHB "saving" in proportion to the adult social care relative needs formula from 2013-14 so that all authorities with responsibility for social care receive a share of this funding. London boroughs' share of the national total is £37m. Southwark's share is £1.577m. This has been allocated to the Adult Social Care budget as a commitment line but will need to be removed in 2018-19 as this funding is for one year only.
38. At the overall level, it is estimated that London will lose out by £10.6 million from this switch in funding. However, the impact varies across London with 12 boroughs gaining slightly while 21 are worse off. In Southwark, the reduction in the NHB was larger than the increase in the Adult Social Care Support Grant, and has the impact of reducing overall resources by £2.0m. Southwark is the fourth highest cash loser.
39. Further guidance is awaited on the use of this funding.

### **Improved Better Care Fund (IBCF)**

40. There is no change to the illustrative figures set out in the 2016-17 settlement for the Improved Better Care Fund. In 2017-18 the government is providing £105m, rising to £825m in 2018-19, across England. Government has confirmed the allocation methodology and the allocations as they were set out in the technical consultation on the settlement, and this assumes councils will implement the adult social care precept. The allocation methodology, through a separate grant to local government, benefits those councils who raise less from the additional council tax flexibility for social care. The settlement does not confirm how the new flexibility to raise the Social Care Precept will impact the calculation of future years' IBCF allocations.
41. Southwark's allocation of IBCF is £1.658m, and further guidance on the use of this funding is expected.

### **Adult Social Care Precept**

42. The introduction of a social care precept was originally announced in the autumn statement in 2015. In the 2016-17 local government finance settlement, the government confirmed that there would be a 2% social care precept and that this would be available for four years up to 2019-20.
43. The 2017-18 local government finance settlement has amended the use of this additional precept. It can now be applied at 3% per annum for the next two years, up to 2018-19, with a total maximum additional precept of 6% for the period 2017-18 to 2019-20. If an authority chooses to use the higher 3% threshold in each of 2017-18 and 2018-19, then it would not be able to have an additional ASC precept in 2019-20.

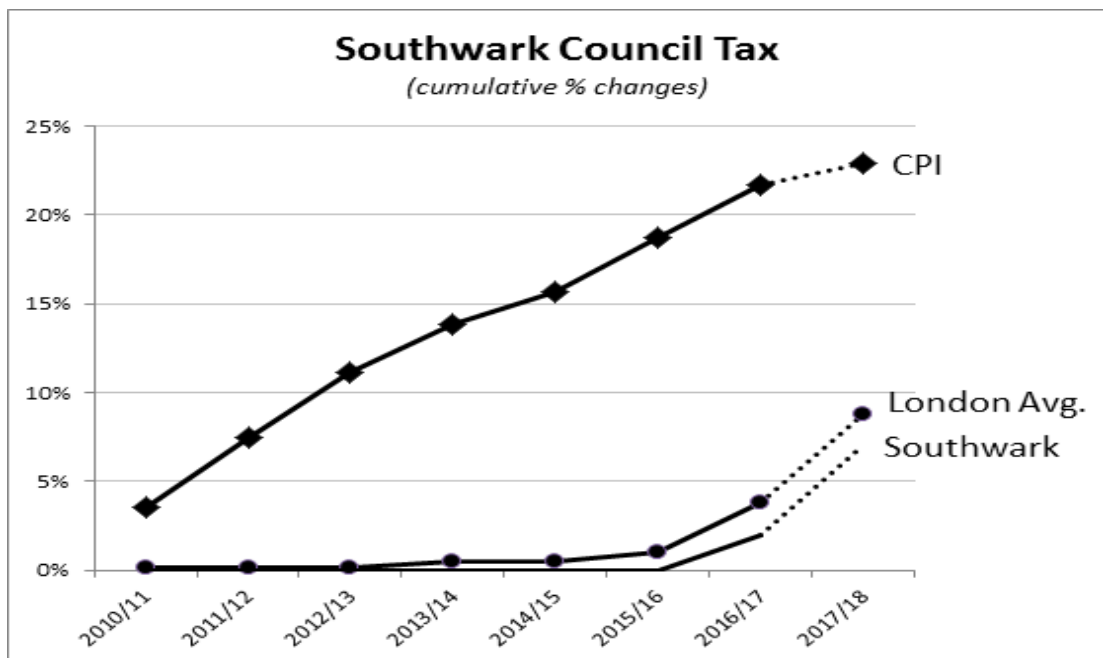
44. To ensure that councils are using income from the precept for adult social care, councils will be required to publish a description of their plans, including changing levels of spend on adult social care and other services. This must be signed off by the Chief Finance Officer (Section 151 officer). Councils wishing to use the extra freedom to raise their precept by 3% instead of 2% in 2017-18 must also show how they plan to use this extra money to improve social care. This suggests an increasing burden compared to 2016-17 where local authorities were only required to show that an amount equivalent to the additional council tax had been allocated to adult social care. The DCLG has yet to confirm the final conditions of the scheme.
45. Of interest is the LGA's comments of the impact of the settlement, and specifically the adult social care precept:
- *"No new money from central government has been included in the settlement. The Government has, however, created more flexibility by allowing the social care precept to rise by an additional 1 per cent in 2017-18 and 2018-19 ...this flexibility does not address the £2.6 billion funding gap facing social care by the end of the decade.*
  - *By bringing forward council tax raising powers, the Government has recognised the LGA's call for the urgent need to help councils tackle some of the immediate social care pressures they face. However, this shifts the burden of tackling a national crisis onto councils and their residents.*
  - *The measures announced in today's settlement will help in part but fall well short of what is needed to fully protect the care services for elderly and vulnerable people today and in the future. In addition, increasing the precept raises different amounts of money for social care in different parts of the country unrelated to need and will add an extra financial burden on already struggling households.*
  - *Councils, the NHS, charities and care providers have been clear both before and since the Autumn Statement about the need for an urgent injection of genuinely new additional Government funding to protect care services for elderly and disabled people. Given this unified call for action, it is hugely disappointing that today's settlement has failed to find any new money to tackle the growing crisis in social care."*
46. In 2016-17, Southwark was among 10 of the 13 inner London boroughs who utilised the power to raise income from the adult social care precept.
47. As reported in budget monitoring reports to cabinet in November 2016 and February 2017, these national pressures on social care are evident in Southwark with acute cost pressures totalling £15m being reported across Children's, Adults' and Public Health budgets. The precept is important in order to protect services for our most vulnerable residents. The additional 1% will raise £0.9m, bringing the total value of the Adult Social Care Precept to £4.4m. This funding is earmarked for Adult Social Care as a commitment in the schedules of £2.7m (£1.7m 2016-17 plus £2.7m in 2017-18 totals £4.4m).

#### **Southwark element of council tax**

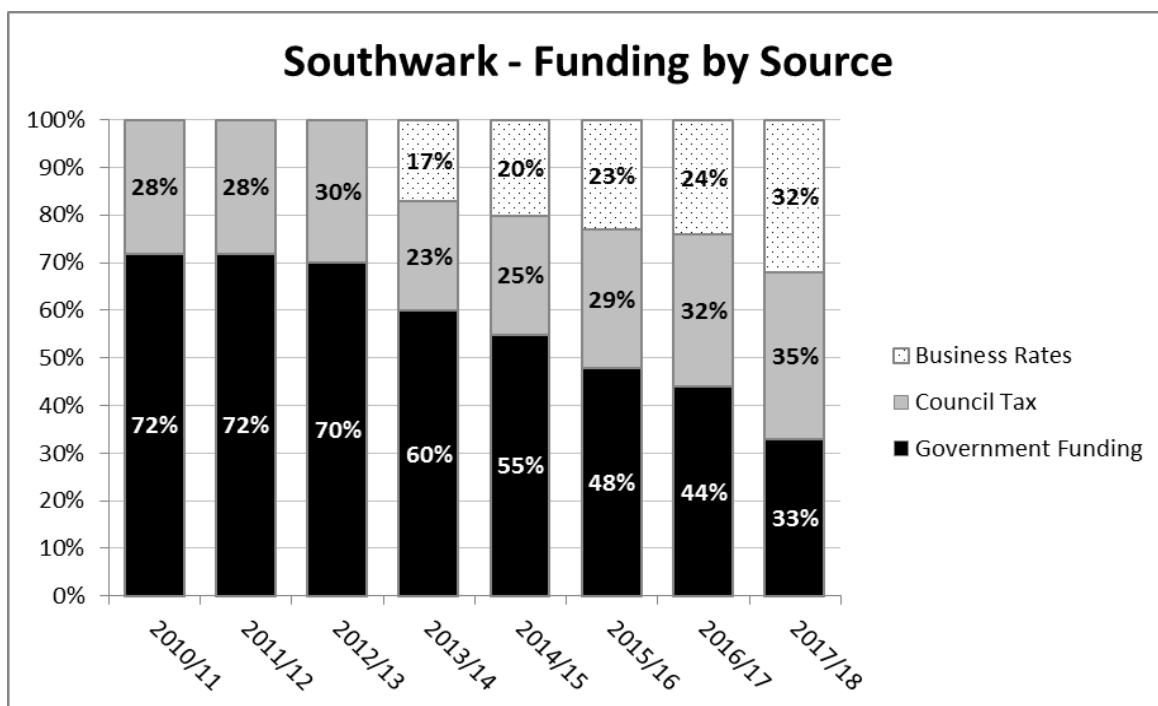
48. The council is committed to the fairer future promise to "keep council tax low". The Southwark element of council tax has been frozen since 2008-09 and the authority has been able to maintain the seventh lowest level of council tax in London, despite

having incurred the largest reduction in government grants. During this same period, the GLA element has reduced by 10.9% and as a consequence Southwark tax payers are paying less in 2016-17 than they did in 2008-09. Throughout this period, the government applied a cap on any council tax increase of 2% per annum and required a local referendum for any increases at or above this level. This level has not been exceeded by Southwark to date and the cap remains in place for 2017-18, albeit increased to 5% to reflect the additional adult social care precept.

49. In 2016-17, and in line with government guidance, the council applied a 2% precept to help fund adult social care. Of the 33 London boroughs, 26 took advantage of this precept. For 2017-18, government has extended the adult social care precept to allow for 6% over the next three years with no more than 3% in each of the first two years. Within this report, it is recommended that a 3% precept be applied for 2017-18, in light of the substantial pressures on adult social care service.
50. Given the pressures on council finances, the reducing levels of reserves and the continued year on year reductions in spending power as assessed by DCLG, the section 151 officer is recommending a 1.99% increase in the Southwark element of council tax for 2017-18. This is in addition to the adult social care 3% precept.
51. Ten of the thirteen inner London Boroughs increased their council tax in 2016-17, 26 out of 33 across London. Since 2008-09 only two boroughs have not increased council tax. This is indicative of the growing stress across local authorities in London.
52. As demonstrated in the chart below, the proposed increase in the council element of council tax remains below the charge it would have been if CPI (inflation) had been applied each year from 2010-11.



53. It can be seen from the chart below that the proportion of the council's resources raised locally through council tax, and more recently from retained business rates, has grown significantly, with a substantial decline in the proportion of funding from government.



54. The impact of the increase in Council Tax of 4.99% will mean that:

- 82% of residents (103,000 households) will see a council tax bill rise of less than £1 per week.
- 70% of the residents receiving support through the local council tax relief scheme (CTRS) will pay no more than 20p extra per week.
- the council tax reduction scheme will continue to ensure that over 7,000 eligible pensioners will continue to receive 100% relief and will see no rise in their council tax bills.

55. The Greater London Authority (GLA) has announced the intention to increase the GLA precept element of council tax in the 33 London boroughs by £4.02 (1.5%) for 2017-18. This entire precept increase will be applied to the policing budget. The final precept will not be confirmed until the Mayor's final draft budget is considered by the London Assembly on Monday 20 February. For a Band D property this equates to £0.08p a week. This has been included in the table below.

56. The table below shows the maximum increases in council tax payable for 4.99% increase assuming no discounts or benefits, and including the GLA precept.

No of occupied properties	Banding	Per week £	Per 10 month instalment £	Per 12 month instalment £	Per Year £
10,695	Band A	0.65	3.36	2.80	33.62
35,128	Band B	0.75	3.92	3.26	39.21
32,320	Band C	0.86	4.48	3.73	44.83
22,070	Band D	0.97	5.04	4.20	50.44
15,315	Band E	1.19	6.16	5.13	61.64

No of occupied properties	Banding	Per week £	Per 10 month instalment £	Per 12 month instalment £	Per Year £
5,878	Band F	1.40	7.28	6.07	72.85
4,015	Band G	1.62	8.40	7.00	84.06
569	Band H	1.94	10.08	8.40	100.88

### **Council tax collection**

57. In December 2016 Cabinet agreed a recommendation that, based on collection performance in previous years and to date in 2016-17, a 97.20% assumed collection rate in 2017-18 would give the best estimate of the likely value to be obtained from the demands issued in April 2017.
58. The collection fund forecast outturn position is a surplus of £2m and this has been accounted for in the council tax calculations for 2017-18.

### **Education and schools related grants**

59. Officers are continuing to work through the implications of the complex settlement for schools and education. The Education Support Grant (ESG) is ending in September 2017. This grant of £2.6m (2016-17) supported education services such as school improvement. A transitional ESG of £0.7m is available for 2017-18 and a small element of the funding is transferred to the Dedicated Schools Grant.
60. At the 19 January 2017 Schools Forum, reports were presented to request funding for these previous ESG funded services from the Dedicated Schools Grant for 2017-18. These were supported by the Schools Forum, to enable services to transition to new ways of working under new funding model during the coming year. This means that the assumed adverse impact in ESG funding of £0.9m can be removed from the final budget proposals (was previously within Appendix A).
61. The dedicated schools grant (DSG) funds schools budgets, high needs pupil support in schools and alternative provisions and early years providers as well as a small element held to fund central services. The DSG has increased in line with increasing pupil numbers; however, cost pressures continue within high needs budgets. The implications of the settlement are currently being worked through and will be reported to the Schools Forum.
62. There is a new national early years funding formula in place for 2017-18. The government is proposing the phased introduction of a new national funding formula for schools from 2018-19. Furthermore, a new local funding scheme proposed for 2017-18 for pupils with additional learning needs aims to improve the targeting of resources.

### **Children's, Adults' and Public Health budget pressures**

63. As reported to cabinet in November 2016 and February 2017, the Children's, Adults' and Public Health services are experiencing significant pressures on their revenue budgets. These pressures are created by a combination of demand and cost pressures and severe reductions in government grant for these statutory responsibilities as well as to the council as a whole. Nationally, pressures on social care linked to pressures in the NHS are recognised, but these pressures far exceed

the resources announced in the government settlement. In total, an estimated adverse variance of £15m is forecast.

64. It should be noted that significant management action has been taken and controls are in place. A budget recovery board is overseeing the management actions. Appendix G sets out this work in more detail.
65. The indicative budget agreed at council assembly in February 2016 proposed Adult Social Care savings and income generation for 2017-18 at £12.2m and commitments of £1.7m resulting in a proposed net impact of a budget reduction of £10.5m for 2017-18. Based on 2015-16 experience and 2016-17 monitoring, the December 2016 report to cabinet had proposed that Adult Social Care savings planned for 2017-18 be deferred to provide sufficient time for the budget recovery actions to be completed. This budget report now proposes savings of £5.6m for Adult Social Care, and also recognises the additional demand and cost pressures for Adult Social Care. The net impact of this is a £6.005m budget increase for Adult Social Care, which reflects the allocation of new resources for Adult Social Care, including the one-off Adult Social Care Support grant of £1.577m, Adult Social Care Precept of £2.7m and improved Better Care Fund of £1.658m.
66. There are considerable pressures in 2016-17 for Children's Services and this is despite protection for Children's Services budgets in 2016-17. Rising demand including protecting children from sexual exploitation, a sharp reduction in secure care places provided by government and pressures such as unaccompanied asylum seeking children have all contributed to the overspend. In 2017-18, it is proposed that Children's Services are protected from making savings as they work towards recovering the budget position and reducing spend in line with resources available. Management action is in hand for controllable areas and further plans are in development including innovation to evolve the services for current needs and context.
67. Public Health is funded through a ring-fenced specific grant. In 2016-17, the Public Health service is expected to overspend in the region of £1.6m as a result of a reduction in government grant to a service which is demand led and largely operates to NHS contracts that novated to the council when the function transferred. There is an expectation that this overspend of the ring-fenced grant will be recovered through savings in 2017-18 as new contracts come into effect and this is reflected in the commitment and savings schedules. In addition, this report indicates the need to achieve further efficiencies in 2017-18 of £690k to reflect the 2017-18 further reduction in government grant.

### **Commitments, efficiencies, income generation and savings**

68. In addition to the necessary commitments, throughout the council's budget preparation cycle, further efficiencies, savings and income generation options are presented for consideration to deliver a balanced budget. The report of 24 January showed a gap of £1.82m. This has been updated for the following changes:

<b>Item</b>	<b>Change £000</b>	<b>Schedule Ref</b>
Reduction in contribution to the Modernisation reserve	(200)	119
Reduction in contribution to the Regeneration reserve	(200)	120
Reduction in the impact of NNDR assessments on the council's own property liability	(250)	126

Item	Change £000	Schedule Ref
Savings arising from 2016-17 implementation of youth and play restructuring	(750)	276 & 413
Removal of requirement for ESG provision (paragraph 60)	(900)	App A line removed
Increase in commitment for London Living Wage and increase of scale for lower graded staff	100	121
Revised calculation of impact of Autumn Statement grant	180	Appendix A
Revised calculation of the impact of changes in National Insurance	200	125
<b>Total change</b>	<b>(1,820)</b>	

69. The 2017-18 proposals for each department are described within the departmental narratives in Appendix B, with the detailed schedules presented in Appendices C, D, E and F. These proposals are summarised in the table below.

Department	Budget 2016-17 <sup>(1)</sup> £000	Commit- ments £000	Efficiencies £000	Income £000	Savings £000	Total Change £000	% of Dept Budget
Children's and Adults' Services Total: made up of:	170,144	13,308	(3,711)	0	(4,252)	5,345	3.1
<i>Adults' Services</i>	82,930	11,558	(1,301)		(4,252)	6,005	7.2
<i>Children's Community Safety</i>	86,294	100				100	0.1
<i>Public Health</i>	920		(70)			(70)	(7.6)
	0	1,650	(2,340)			(690)	0.0 <sup>(2)</sup>
Environment and Leisure	70,046	100	(4,580)	(1,505)	(150)	(6,135)	(8.7)
Housing and Modernisation	64,872	3,343	(2,686)	(182)	(679)	(204)	(0.3)
Chief Executive's	8,658		(565)	(493)		(1,058)	(12.2)
Finance and Governance	19,779	85	(1,655)	(300)		(1,870)	(9.5)
Corporate	(62,183)	5,730	(5,700)			30	
<b>Total</b>	<b>271,316</b>	<b>22,566</b>	<b>(18,897)</b>	<b>(2,480)</b>	<b>(5,081)</b>	<b>(3,892)</b>	

<sup>(1)</sup> Note, budgets include depreciation, internal recharges

<sup>(2)</sup> Public Health is funded from grant and so has a net budget of zero. The gross expenditure for Public Health is £30,757k. The efficiencies include £690k for the reduction in grant.

70. Officers will continue to work to provide better context to inform future budget proposals, as requested at the OSC meeting on 30 January 2017. The 2016-17 budget book is now included as a background paper to this budget report.

### Use of reserves and balances

71. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. These reserves are maintained to fund:

- invest to save opportunities, which form part of the modernisation agenda and are expected to deliver future ongoing revenue savings;



- investment in regeneration and development where spend may be subject to unpredictable market and other factors;
- exceptional items or pressures which are difficult to predict and which are not included in revenue budgets or within the capital programme.

72. The budget proposals for 2017-18 include a planned release of reserve of £3.7m. For a number of years, the council has planned for the use of reserves to help smooth the impact of government funding reductions and other budget pressures especially during the period of austerity. Not only has this helped to protect council services but it has also allowed time to transition towards new ways of working and productivity improvements.

73. The level of balances remains subject to the scrutiny of the section 151 officer who must ensure that any one off contributions to the budget are appropriate and affordable. In previous years, this judgment has been facilitated by the availability of unused contingency funds as budgets have met their targets. While the Section 151 officer considers that £3.7m is an appropriate contribution for 2017-18, this now incurs a greater level of risk given the requirement to offset emerging cost pressures in adult social care.

74. The continued use of balances and reserves to support revenue expenditure cannot be considered to be sustainable. The end of year position is shown in the table below. In addition to the £21m reduction in 2015-16, current projections would indicate a further reduction of £18m in 2016-17 for:

- the impact of enhanced voluntary redundancy as part of the council's modernisation
- the £6.2m planned use of reserves to support the 2016-17 budget
- known commitments
- the estimated budget forecast position for Children's and Adults' services.

<b>Summary of earmarked reserves</b>	<b>Balance as at 31/03/2015 £000</b>	<b>Net movement in reserves £000</b>	<b>Balance as at 31/03/2016 £000</b>	<b>Estimated closing balance as at 31/03/2017 £000</b>
Corporate projects and priorities	16,866	(7,294)	9,572	
Service reviews and improvements	14,495	(5,140)	9,355	
Capital programme and other capital investment	30,345	(3,523)	26,822	
Strategic financing, technical liabilities and future financial risks	29,645	(868)	28,777	
<b>Total</b>	<b>91,351</b>	<b>(16,825)</b>	<b>74,526</b>	<b>56,000*</b>

\*note: excludes DSG ring-fenced reserves.

75. The position will be kept under review, and at this time the availability of similar resources to support the budget in 2018-19 will present a challenge. While this approach may be acceptable during such an unprecedented period of funding reductions, the annual use of balances to contribute towards base budgets is not sustainable.

### **Corporate contingency**

76. It is proposed that the corporate contingency of £4m be maintained to support emerging budget pressures during the year. In the current and previous years, this contingency has been essential to manage in year demand and cost pressures.

### **2018-19 and 2019-20**

77. In February 2016 and in response to the government's four year funding settlement, Council Assembly approved indicative budgets for 2017-18 and 2018-19. In the context of the late announcement of the four year settlement and uncertainty over other government funding moving forward (e.g. Public Health Grant, New Homes Bonus, Business Rates Reset), it was not considered appropriate to set an indicative budget for 2019-20.
78. The November 2016 report presented the basis of a model through to 2019-20. The plan for the three years to 2019-20 requires extensive work to deliver efficiencies and improved use of resources. In order to balance the budget fully in the period to 2019-20, further efficiencies, income generation and savings plans will be required. This work will build on the 2017-18 budget proposals and will be developed early in 2017-18. The Fairer Future Medium Term Resources Strategy will continue to be reviewed as more information becomes available and officers continue to work on the future years' budget savings targets to bring the council to a balanced budget in 2018-19 and 2019-20. These will be subject to further cabinet reports during 2017-18.

### **Consultation**

79. High level consultation was conducted on the three year budget proposals for 2016-17 to 2018-19. The consultation responses received were consistent with prior years' consultations, and were used to inform the 2017-18 indicative budget proposals. The analysis was reported to cabinet and council assembly.
80. Since then, consultation on the voluntary and community strategy has been conducted to ensure that all sections of the VCS could contribute to the development of the strategy, and a series of four open invitation listening events was held which attracted over 200 people. The listening events took place in an atmosphere of good will. There was also recognition of the need to find new ways of making the most of diminishing budgetary resources. There has also been consultation on the development of the policy and policy drafts through the Health and Wellbeing Board, Children's and Adults Board, the Forum for Equalities and Human Rights, the council's departmental commissioning network and the council/VCS Liaison Group.
81. Following the 2016-17 budget proposals consultation on the youth sector has resulted in over 600 responses.

82. In a change to prior years' practice, the council has consulted a wider range of business rate payers, including large, medium and small scale business rate payers.
83. Where consultation with individuals is required as part of discussions on their individual circumstances this approach will continue.

### **Overview and scrutiny**

84. Cabinet has responsibility for drafting the budget and policy framework for approval by council assembly. This includes publishing proposals and taking into account any response from overview and scrutiny committee in drawing up firm proposals for submission to the council.
85. The Overview and Scrutiny Committee (OSC) met on 30 January 2017 to consider the 2017-18 general fund budget proposals as presented to cabinet on 24 January 2017. OSC received presentations from cabinet members and were able to ask questions and seek clarification as necessary.
86. The OSC committee made five recommendations which are reported below and the cabinet is asked to consider these recommendations.

Ref	Recommendation
1	That the monitoring process for delivering savings and efficiencies in Children's and Adult Social Care should include updates to Overview and Scrutiny Committee in June and November 2017 – this should include any concerns arising from discussions at budget recovery board.
2	That the Cabinet works with the NHS to change accessibility rules and manage demand to ensure public health spending is kept under control. This would include work to ensure Southwark residents are accessing care that meets their needs but also reduces unnecessary costs.
3	That there is a review of the voluntary redundancy scheme to ensure it is cost effective and that it can be accessed by low paid staff.
4	That the cabinet carries out external consultation with service users, their families and voluntary sector groups regarding changes to Adult Social Care Services. This should be in addition to consultation with staff and individuals whose care packages might be subject to review.
5	That the cabinet member for environment and the public realm works with local housing associations and private managing agents to improve waste management services available to residents through exploring options around Southwark council waste contracts.

### **Next steps**

87. This report presents a balanced budget proposal for the cabinet to submit to Council Assembly on 22 February 2017, in accordance with the constitution.

### **Fees and charges**

88. The setting of fees and charges is a key decision. Under Part 3C of the constitution full cabinet is responsible for the approval of new fees and charges and agreement of charging levels in line with the medium term resources strategy. Some fees for permits and licences are delegated to Chief Officers.

89. In the past the agreement of changes to existing fees and charges has been completed by multiple reports to Cabinet Members for individual decision making where this is permitted. To minimise the bureaucracy of preparing multiple individual fees and charges reports for each portfolio holder, which can result in delay in implementing the fees at the start of the financial year this 2017-18 budget report to cabinet includes a schedule of fees and charges to be agreed. This should improve transparency for residents and service users.
90. The proposals are consistent with the Fairer Future Medium Term Financial strategy to review discretionary fees and charges annually, and to increase to a level, at a minimum, that is equal to the most appropriate London average (e.g. inner London, family, groupings etc) except where this conflicts with council policy, would lead to adverse revenue implications or would impact adversely on vulnerable clients, and to increase all fees and charges capped by statute to the maximum level the cap allows.
91. Some charges may be further reviewed during the year. For example, adult learner fees will be reviewed for 1 September 2017 to keep in line with the appropriate London average, as information becomes available for the new academic year.
92. The assessed rate for Homecare per hour (Adult Social Care) should be updated to the new average cost after the care at home procurement is finished. This is seen as a review to the cost of service, not a change in the fairer contributions policy (which allows for annual review of the assessed cost of service)
93. Appendix H presents the proposed fees and charges for agreement by cabinet.

## **COMMUNITY IMPACT STATEMENT**

94. The council works in accordance with the single public sector equality duty contained within section 149 of the Equality Act 2010. This means the council must have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, and advance equality of opportunity and foster good relations between different groups.
95. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the budget for 2017-18 and for previous years, each department will undertake equality analysis/screening on its budget proposals ahead of the final decisions being taken. Where screenings identify potential impacts more detailed analysis is being carried out.
96. 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 undertaken to consider any cross-cutting and organisation-wide impacts.
97. For many services the budget proposals will 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.
98. Equality analysis will continue through the cycle of planning and implementation of these budget proposals. In line with our Public Sector Equality Duty, any changes to

services arising from these proposals will be implemented in such a way so as to not impact disproportionately on any specific section or group in our community. Where necessary, consultation will be undertaken alongside mitigating actions where necessary. In line with the process across the council, information on the equality analysis will be shared with the relevant cabinet members so it can be considered when decisions are taken. The equality analyses have been considered across the council to look for any cumulative impacts.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Director of Law and Democracy**

99. 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.
100. 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.
101. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.
102. 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.
103. 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**

104. The cabinet is required to prepare a budget proposal for submission to council assembly. This is the last cabinet meeting before Council Assembly on 22 February 2017. The council is required to set a lawful budget by 11 March 2017.

## **REASONS FOR LATENESS**

105. Under the council's constitution there is a requirement for the overview and scrutiny committee to review and challenge budget proposals and this took place on 30 January 2017. Their recommendations are now reflected in this report. It was anticipated that the final local government settlement would be released before 31 January, and that the report could be updated to reflect this. Unfortunately as at 1 February the settlement has not been issued. The budget presented on 24 January showed a £1.8m gap and additional time has been required to formulate budget

options to present a balanced budget to minimise the impact on Southwark residents.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Revenue Monitoring Report incorporating Updated Medium Term Financial Strategy and Treasury Management 2016-17	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
<a href="http://moderngov.southwark.gov.uk/documents/s64608/Report%20Revenue%20Monitoring%20Report%20incorporating%20Updated%20Medium%20Term%20Financial%20Strategy%20and%20Treasury%20.pdf">http://moderngov.southwark.gov.uk/documents/s64608/Report%20Revenue%20Monitoring%20Report%20incorporating%20Updated%20Medium%20Term%20Financial%20Strategy%20and%20Treasury%20.pdf</a>		
Policy and Resources 2016-17 to 2018-19 (27 January 2016 cabinet meeting)	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
<a href="http://moderngov.southwark.gov.uk/documents/b50006581/Supplemental%20no.%202%20Wednesday%2027-Jan-2016%2016.00%20Cabinet.pdf?T=9">http://moderngov.southwark.gov.uk/documents/b50006581/Supplemental%20no.%202%20Wednesday%2027-Jan-2016%2016.00%20Cabinet.pdf?T=9</a>		
Council's Fairer Future Budget Principles approved by cabinet (September 2015).	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
<a href="http://moderngov.southwark.gov.uk/documents/s56454/Report%20and%20appendices%202016-17%20PR%20Scene%20setting.pdf">http://moderngov.southwark.gov.uk/documents/s56454/Report%20and%20appendices%202016-17%20PR%20Scene%20setting.pdf</a>		
Policy and Resources Strategy 2017-18 (13 December 2016 Cabinet Meeting)	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
<a href="http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=5376&amp;Ver=4">http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=5376&amp;Ver=4</a>		
Policy and Resources Strategy 2017-18 (24 January 2017 Cabinet Meeting)	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
<a href="http://moderngov.southwark.gov.uk/documents/s66194/Report%20Policy%20and%20Resources%20Strategy%202017-18.pdf">http://moderngov.southwark.gov.uk/documents/s66194/Report%20Policy%20and%20Resources%20Strategy%202017-18.pdf</a>		
2016-17 budget book	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
<a href="http://www.2.southwark.gov.uk/downloads/download/4602/budget_book_201617">http://www.2.southwark.gov.uk/downloads/download/4602/budget_book_201617</a>		

Background Papers	Held At	Contact
2016-17 fees and charges reports	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
<a href="http://www.2.southwark.gov.uk/info/10016/key_documents/3932/fees_and_charges">http://www.2.southwark.gov.uk/info/10016/key_documents/3932/fees_and_charges</a>		

## APPENDICES

No.	Title
Appendix A	2017-18 Budget Proposals
Appendix B	Supporting Departmental Narratives for Budget Proposals
Appendix C	Proposed Commitments 2017-18
Appendix D	Proposed Efficiencies and Improved Use of Resources 2017-18
Appendix E	Proposed Income Generation 2017-18
Appendix F	Proposed Savings Impacting on Service Delivery 2017-18
Appendix G	Children's and Adults Services Budget Recovery Board
Appendix H	Proposed Fees and Charges (see separate Appendix H pack)

## 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	3 February 2017		
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		N/A	N/A
Cabinet Member		Yes	Yes
Date final report sent to Constitutional Team			3 February 2017