

Item No. 8.	Classification: Open	Date: 23 January 2018	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy 2018-19	
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

Yet again Southwark Council faces enormous funding cuts in 2018-19 with a loss of £12m of government funding and specific grants. These funding cuts come at a time of continuing demands and pressures on our services, particularly social care, children's services, education, homelessness and welfare support.

Whilst we are seeing a welcome growth in the Improved Better Care Fund of £10.9m, this only partially funds the growing demands for adult social care and as previously announced we will need to raise a further Adult Social Care precept of 3% to raise a further £2.9m to support the care needs of older and disabled people. Even this combined £13.8m is insufficient to cover the growing needs of vulnerable adults and the council will need to find an additional £400k from our general budgets, collect a further £800k from client contributions and crucially save a further £4.6m by being more efficient in the way we deliver services. It is thanks to the focus and hard work of our officers and the Budget Recovery Board that we are able to set out these savings with confidence and go into 2018-19 proposing a sustainable budget for Adult Social Care that is £14m larger than last year.

We also face significant challenges in Children's Services and Education. Children's Services provide vital support for vulnerable children in our borough and we face great pressures in terms of the cost of placements, particularly residential care for looked after children. Thanks again to the work of our Budget Recovery Board we are able to propose £1.6m of efficiency savings in this area, but to make the budget sustainable we will also inject a further £3.4m for a net growth in the Children's Services budget of £1.7m.

In Education we are being hit on all sides, with the complete withdrawal by government of the Education Support Grant, cuts and restrictions to schools funding via the Dedicated Schools Grant, cuts to pupil premium for looked after children and growing numbers of children with special educational needs. The services the council provides to schools are vital components of the success we have seen reported in today's school standards report and we are determined to continue to offer these services. To do that we are proposing to increase our general fund contribution to education services by £1.4m.

To fund this additional £3m of spending on for Children's Services and Education officers are proposing that we raise council tax by the maximum permitted 2.99%, raising £2.9m.

Local government pay is now the lowest in the public sector with the average local government worker having experienced a 21% real terms pay cut since 2010. Whilst the government has indicated that the 1% pay cap is no longer in force, they have not provided any resources to local authorities to help us give our staff the pay rise that they deserve. The budget presented today reflects the 2% 2018-19 pay award recently offered by the LGA

Employers Side – this results in a £4.2m budget pressure in Southwark. As negotiations continue and the full impact on the London pay scales are worked through this amount may not be sufficient and we may need to call on contingencies to cover the full cost.

All these pressures, alongside other growing costs such as pay, inflation and IT, mean that as well as having to cope with £12m of cuts, we also need to fund £40.2m of additional budget pressures.

Yet again this year the good news for Southwark is that our continuing growth in homes and in our local economy is providing us with amazing growth in income. We are currently estimating an additional £21m of resources available thanks to this growth and the success of our Exchequer Services team in collecting more income than we had previously anticipated.

To balance the budget shortfall of £18.4m we have set out in the appendices £10.8m of efficiency savings, £7.2m of additional income from fees and charges and £0.4m of savings which will impact on service delivery.

This report will go to Overview & Scrutiny Committee for consideration on 29 January before being reconsidered alongside their recommendations at our next Cabinet meeting on 6 February before going on to Council Assembly for final approval.

RECOMMENDATIONS

That cabinet:

1. Note that the provisional settlement was received on 19 December 2017, key headlines being set out in this report (paragraphs 36-38).
2. Note that the provisional settlement includes an increase to the council tax referendum threshold from 2% to 3%; this is in recognition of social care and inflationary pressures.
3. Note that no changes were made to the Adult Social Care precept arrangements, which remain at a maximum of 3% in 2018-19.
4. Note that the section 151 officer has proposed to increase in the Southwark element of the council tax in line with the government threshold by 2.99% in recognition of the spending pressures in services which protect and support vulnerable children and families; council tax increase will continue to remain below CPI. (paragraph 56-59)
5. Note that this budget also proposes to use the full 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 (ASC). (paragraphs 54-55)
6. Note the budget options proposed to achieve a balanced budget 2018-19, including new commitments, savings, efficiencies and income generation. (Appendices C to F)
7. Note the current proposed budget options include an increase in the Children's and Adults' Services budgets of £17.1m, funded in part by £12.584m Better Care Fund and the £2.9m increase in the ASC precept which has been passported fully to Adult Social Care.

8. Note that the general fund budget proposals for 2018-19 contained within this report have been updated post settlement as follows:
 - Revenue Support Grant (RSG) has been replaced by business rate baseline funding with the implementation of the London Business Rate pooling pilot in 2018-19 (paragraph 39, 65);
 - Resources arising from the provisional settlement on 19 December (Appendix A) have reduced by £12.19m from 2017-18 (excluding Better Care Fund);
 - Improved Better Care Fund resources totalling £12.584m (including the supplementary allocation of £4.497m announced in the spring 2016 budget);
 - Retained business rates growth of £20.996m (paragraphs 64-67), an increase of £12.297m over 2017-18 arising from proceeds generated by continued regeneration in the borough, plus an estimated surplus brought forward of £3.970m;
 - An assumed increase in Council Tax of 2.99%, below the cap of 3% laid down by the Department for Communities and Local Government (DCLG) (paragraphs 51-53, 56-59);
 - Further resources from the adult social care precept of £2.9m, again passported in full to adult social care for 2018-19 (paragraphs 54-55);
 - Estimated council tax revenue of £104.460m (of which £2.9m is represented by the additional ASC precept and £2.9m by Southwark council tax increase); estimated collection fund surplus of £5.663m in part attributable to a review of the provision for bad debt;
 - Planned contingency to be maintained at a level of £4m to mitigate underlying budget risks. (paragraph 107).
9. Note that the following savings, commitments and pay and price pressures have been proposed to help ensure the delivery of a balanced budget in 2018-19 (Appendices C – F):
 - Efficiency savings of £10.777m;
 - Income generation of £7.281m;
 - Savings impacting on services of £0.399m;
 - Commitments of £32.565m;
 - Pay Awards (assumed 2%) of £4.2m;
 - Contractual inflation of £3.5m.
10. Note that, in order to ensure that the base budget is on a secure financial footing a number of commitments are proposed for 2018-19 totalling £32.565m, including:
 - £19.682m for ASC which are funded in the main from the £12.584m from the Better Care Fund and £2.956m through the Adult Social Care Precept;
 - £5.833m for Children's Social Care and Education Services;
 - £0.215m to further support spending pressures on No Recourse to Public Funds (NRPF) and £0.750m Temporary Accommodation;
 - £2.202m for Corporate Facilities Management and ICT in support of the council's modernisation agenda;
 - £1.600m commitment for the anticipated costs of borrowing to finance the significant capital programme.
11. Note the current pay offer of 2% for local government employees has been incorporated into these budget options; however there is continued uncertainty regarding pay negotiations and therefore it is proposed that any further increases are met from the corporate contingency budget in 2018-19 (paragraph 78-79).

12. Note the current budget proposed for 2018-19 is now balanced, after the incorporation of a number of updated proposals and information following the provisional settlement.
13. Note the Departmental Narratives (Appendix B) and the equality analyses provided for the budget proposals.
14. Note the consultation that took place prior to agreeing the indicative budget options for 2017-18 and 2018-19 and that further consultation will be undertaken for new budget options where necessary or appropriate. (paragraph 108).
15. Note that this report will be considered by overview and scrutiny committee on 29 January 2018 and that any recommendations arising will be incorporated into the final report to cabinet on 6 February 2018 for recommendation to council assembly on 21 February 2018 (paragraph 110).
16. Note the proposals regarding pooling of London Business Rates (paragraphs 117-123).
17. Approve (under Part 3C of the constitution) new fees and charges and agreement of charging levels in line with the medium term resources strategy, and agree the fees and charges presented in Appendix G and note the level of those fees which cabinet is not permitted to set (paragraphs 99-101).
18. Note that in the summer of 2018, cabinet will receive a refreshed outlook of the financial position for the council and especially with regard to local government financing for 2019-20 and beyond.

BACKGROUND AND PURPOSE

19. In September 2016, the cabinet approved the Fairer Future Medium Term Financial Strategy (FFMTFS) and Integrated Efficiency Plan noting the relationship to the Council Plan and the new theme to be fit for the future. The council accepted the four year finance settlement in line with the Local Government Finance Final Settlement (February 2016). 2018-19 is the third of these four years. The offer covered the revenue support grant and indicated that tariffs and top-ups in 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities.
20. In 2018-19, London Councils will be entering into a two year pilot arrangement for the retention of business rate growth through pooling. Although this has led to a re-presentation of the settlement by DCLG, the total variation from the original four year agreement for 2018-19 is a small reduction of £230k.
21. Subject to the final agreement to the pilot scheme for London, any financial benefits arising to the council will start to accrue in 2019-20, once the London Congress of Leaders has agreed distribution of available funds. This is discussed in more detail in paragraphs 117-123.
22. Despite the consistency of funding given by the four year settlement (albeit at a reducing level of government support), there remains continued uncertainty with regard to a number of key components of government funding to Southwark. These include the New Homes Bonus, Public Health grant and most importantly Better Care and Improved Better Care funding. In addition, price, inflation and demand pressures need continual review to ensure that budgets set each year are sustainable.

23. The government has expressed a continued commitment to give local authorities greater control over the money they raise locally. Since 2013-14, when the new funding arrangement commenced, the council's reliance on local taxation as an income source has increased. Therefore, a key part of the budget process is for officers to more accurately assess estimated income from council tax (driven in the main by the number of new homes, council tax banding of these homes, the council tax relief scheme and collection rates) and Business Rates (driven by the rateable value, appeals and businesses coming into and out of the rating lists).
24. At cabinet on 18 July 2017 the financial remit was considered which included known estimated resources available at that time, and assumptions regarding the costs of pay awards and inflation. This report concluded with a budget gap of between £16.440m and £19.894m, dependent on the ability of the council to access, in full, the supplementary Improved Better Care Fund (announced spring 2017). Officers were asked to prepare indicative savings and commitments for 2018-19 in order to balance the budget. Subsequently, at cabinet on 12 December 2017 a further report was considered setting out a budget gap of £5.597m. This report provides an update on the work undertaken to both reflect the latest information on available resources, updated estimates on council tax and business rates and to consider budget savings and commitments proposed for 2018-19.
25. As set out in July and December 2017, the budget will be prepared on a one year basis for 2018-19, recognising that the settlement is indicative and a range of other significant uncertainties relating to the council's financial position. A one year budget is considered by the section 151 officer to be the most appropriate strategy at this time given these uncertainties. These still include adult social care and children's services cost and demand pressures and government funding sources and any conditions attached to these. This includes the ring fencing of the ASC precept.
26. The agreement of our CCG partners to the utilisation of the Improved Better Care Fund in full has gone some way to mitigate these budget pressures in adult social care although the most recent monitoring report to Cabinet (Month 4) indicated an adverse variance for the year of £4.229m. This remains a significant improvement over 2016-17. Management action is ongoing to control these pressures and progress continues to be monitored via the Budget Recovery Board. Indications at this time are that measures have been effective in containing the overspend at this level although this position is sensitive and requires continual review.
27. From April 2018, the Homelessness Reduction Act comes into force which places a series of new responsibilities on local authorities to prevent homelessness. The government will provide £72.7m to local authorities to meet the costs of the new burdens associated with the additional duties contained within the Act over the course of the Spending Review. The adequacy of this funding will need to be carefully assessed as it is unlikely to be sufficient to carry out the new responsibilities in full.

Updated Financial Remit

28. In accordance with instructions from the December 2017 cabinet, this report provides updated budget proposals for 2018-19. These proposals present a balanced budget, although this position must continue to be considered in the context of the savings that the council has already made throughout the austerity period since 2010 and the increased ring fencing of a large element of resources available, particularly for adult social care. A summary of the 2018-19 proposed budget can be found at Appendix A.

29. The indicative budgets were set at an assumed level of government funding as set out in the February 2016 four year settlement. The council accepted the government's offer of a four year settlement for 2016-17 to 2019-20 and received confirmation of this from the government on 16 November 2016. On 19 December 2017, the provisional settlement was received, including adjustments in respect of the London business rate pool pilot. The proposed budget has subsequently been updated for the latest funding information provided by the DCLG.
30. This report outlines all major variations from the 2017-18 budgets. It itemises changes in resources available (e.g. government grant and Council Tax income) and provides a high level summary of efficiencies and improved use of resources, income generation and savings that impact on service levels. It also itemises new and emerging growth and commitments that may arise from issues such as price, demand pressures and costs arising from the delivery of council plan priorities.
31. Separate schedules are provided that give details of each element of these variations. Responsibility for each element is retained by the cabinet member responsible for the portfolio and operationally managed by the strategic director for that service (Appendices C, D, E and F).
32. The Policy and Resources Strategy 2018-19 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 promises commit to *spending every penny as if it were our own*. This promise is reinforced with the Fairer Future Budget Principles. 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.
33. With the London Business Rate pilot confirmed for April 2018, the budget presented to cabinet has become wholly reliant on local taxation – either business rates or council tax. For the first time, no government funding in the form of the Revenue Support Grant (RSG) will be received in 2018-19. Although government has not yet made projections for 2019-20, this position is likely to be sustained into the future in line with government's expressed policy to make local government self sufficient.
34. In 2018-19, through the pilot arrangements, protection is in place as part of the arrangements to ensure that the funding level for Southwark will not be detrimentally impacted. However, over time and as the government continues to move towards self sufficiency for local government, this approach brings potential for opportunities and risks. The opportunities will depend on the level to which Southwark will be able to benefit from the additional council tax and business rates generated through the ongoing regeneration in the borough. The risk is the uncertainty of this income, the potential for increasing complexity from the pooling arrangements and implications of grants such as Public Health transferring to the business rate baseline. The level of Southwark reserves will need to be carefully monitored in the context of these uncertainties.
35. This report proposes that a further update be presented to cabinet in the early summer of 2018 to refresh the financial outlook for 2019-20 and beyond, not least in the context of the changes to local government funding.

December 2017 Budget Statement

36. The Secretary of State for Communities and Local Government, announced the Local Government Finance Settlement on 19 December 2017. The Settlement outlines provisional Settlement Funding Assessment (SFA) and Core Spending Power (CSP) allocations for local authorities for 2018-19 and illustrative allocations for 2019-20 (which will be the final year of the current “four year offer” period).
37. Significantly, the Government has decided to make changes to the council tax referendum principles in 2018-19. Namely, the Government will increase the council tax referendum threshold in 2018-19 and 2019-20 from 2% to 3%. This is in recognition of “higher than expected inflation and the pressures on services such as social care and policing”. There are no changes to the adult social care precept arrangements, which remain at a total of 6% increase in the three years 2016-20, with a maximum of 3% in the two years 2017-18 and 2018-19.
38. The main headlines are set out below:

Funding 2018-19

- Settlement Funding Assessment (SFA) will fall by 5.4% nationally in 2018-19, and fall by 5.8% for London Boroughs;
- Provisional funding for 2018-19 has been represented to reflect business rate pooling for London, but indicates a small reduction of £230k from the amount set aside in the original four year settlement
- Business Rate Revaluation 2017 – within the business rates retention system, the NNDR baseline and top up/tariff amounts have been amended to reflect the revaluation in April 2017. The adjusted amounts are intended to make changes in rateable value revenue neutral for individual authorities. For Southwark, this means that we are one of six London authorities that have moved from being a top up to a tariff authority for 2018-19, and reverting back to a top up authority in 2019-20.
- Business Rate pilots – these were confirmed for 2018-19 (including the London pilot pool) as well as the 5 existing pilots continuing – with a commitment to further pilots in 2019-20
- New Homes Bonus (NHB) – the previously planned changes to the New Homes Bonus methodology (consulted on in September) will not be going ahead, therefore, Southwark’s grant allocation is broadly in line with the estimate set out in the December cabinet report.
- Public Health Grant (PH) – the confirmed allocations for 2018-19 are 2.6% less than 2017-18; this was previously anticipated in the budget presented to December cabinet;
- £19 million grant funding was announced for Unaccompanied Asylum Seeker Children (UASC), although council allocations have not been published.

Funding 2019-20 and beyond:

- The Secretary of State confirmed that there will be a business rates baseline reset in 2020-21 and, from 2020-21, business rates retention will be at 75%.
- In addition, it was confirmed that the Public Health Grant be incorporated into business rates retention in 2020-21, subject to appropriate assurances being in place.
- A further consultation has been published on the Fair Funding Review (deadline 12 March), and government confirmed its intention to implement new funding

baselines in 2020-21. The government will consult on “fair and affordable options” for authorities expecting negative RSG (currently £153m) in 2019-20 in the Spring of 2018.

Settlement Funding Assessment (SFA)

39. The Settlement Funding Assessment (SFA) comprises the core funding sources for authorities defined as the Revenue Support Grant (RSG), retained business rates and business rate top up. For 2018-19, the council will no longer receive Revenue Support Grant. This is because the introduction of the London Business Rate pool from April 2018 means that RSG is substituted with baseline business rate funding (see paragraph 65). Therefore, the council's SFA consists entirely of the business rate baseline.
40. The SFA is 4.6% lower than in 2017-18, amounting to £158.440m (£0.23m less than reported at December cabinet). By 2019-20 it is projected the SFA will have reduced to £149.792m.

Improved Better Care Fund (IBCF)

41. The Better Care Fund was established in 2014-15, with the aim of supporting closer working between Local Authorities and the CCG. The council invoices the CCG for its share of the pooled fund which is offset against appropriate expenditure.
42. The Improved Better Care Fund totals £12.584m for 2018-19; this is made up of two parts.
 - The Improved Better Care Fund (IBCF) that was included as part of the 2016-17 settlement of £8.088m for 2018-19. This was for the utilisation of local authorities for adult social care.
 - Following national pressure on adult funding care crisis, supplementary Improved Better Care Fund was announced in spring 2017. This equates to funding for Southwark of £4.497m in 2018-19. This grant is allocated on the basis of 10% of the Relative Needs Formula used for the 2017-18 Adult Social Care Support Grant and the remainder using the existing IBCF allocation. The utilisation of this grant was agreed with the Health and Well-Being board for adult social care funding pressures.

New Homes Bonus (NHB)

43. New Homes Bonus (NHB) was introduced in 2011 to provide a clear incentive for local authorities to encourage housing growth in their areas. It rewards local councils for each additional home added to the council tax base, including newly built properties and conversions as well as long term empty properties brought back into use, after deducting demolitions. Following a review of the funding “sharpening the incentive” the grant reduced in 2017-18. In 2018-19, the grant will reduce further, as the payment will be based on four years’ growth from 2018-19 onwards. A 0.4% baseline was also introduced in 2017-18 so that local authorities would 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 baseline by 2%, generating much-needed additional NHB funding.
44. The total provisional settlement allocation for 2018-19 is £11.398m NHB; a 12.6% reduction (£1.65m) from the 2017-18 allocation.

DCLG Core Spending Power (CSP)

45. In accordance with the DCLG final provisional local government settlement 2017-18, Southwark's core spending power between 2017-18 and 2018-19 is calculated as a 1.2% increase. This assumes that the council will set council tax at the 3% referendum threshold. 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. The grant increase refers to the improved better care fund grant, required to be allocated to adult social care and subject to the CCG agreement.

	Change in SFA ¹	Change in council tax	Change in relevant grants (iBCF, NHB and adult social care grant) ²	Change in spending power
Southwark	-4.6%	10.4%	4.6%	1.2%

¹ In 2017-18 the SFA included Revenue Support Grant and baseline business rates. For 2018-19 the SFA consists of baseline business rates only.

² DCLG spending power calculations exclude Public Health and Education Support Grant.

46. The core spending power calculation does not include any inflationary cost pressures, demand pressures, reductions in grants such as Public Health. This means that the reduction in core spending power is understated, with inflation and pay award pressures amounting to £6.750m for Southwark. If inflation and specific grants are taken into consideration, the councils spending power decreases by 1.67% in 2018-19.

Public Health Grant

47. Alongside the settlement, the government published the Public Health Grant allocations. Southwark's allocation decrease by 2.6%, in line with previous years reductions, to £27.469m for 2018-19. From 2013-14, when Public Health responsibilities transferred to local authorities, to 2018-19, grant funding is anticipated to reduce by an equivalent of 12% with no inflationary increases from 2015-16 onwards. Southwark has the fourth lowest per head public grant allocation of the inner London boroughs.
48. For 2019-20 the Public Health grant will be subsumed into the business rate baseline subject to appropriate assurances, however, until this time, the Public Health grant remains ring-fenced.

Adult Social Care Grant (2017-18 only)

49. The changes to the New Homes Bonus Scheme in 2017-18 allowed the government to remove £241m from the scheme and divert this funding to the Adult Social Care Support Grant, of which Southwark received £1.6m. This grant was for 2017-18 only and no such grant exists for 2018-19.

Education Support Grant (ESG)

50. The education services transitional grant will cease in 2018-19, leading to a loss of funding of £0.7m from 2017-18. To mitigate this loss, the council has built in a budget commitment to support education department functions for an equivalent amount.

Local Taxation

Council Tax

51. The council is committed to the fairer future promise to “keep council tax low”. The Southwark element of council tax was frozen from 2008-09 until last year when financial pressures and the cumulative impact of reduced government funding meant that it was considered no longer sustainable to hold this position.
52. The authority has been able to maintain the seventh lowest level of council tax in London in 2017-18, despite having incurred the largest reduction in government grants. 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. The purpose of this cap was to ensure that “excessive” council tax increases occur only where councils have a clear mandate from local people. This level has not been exceeded by Southwark to date and the cap remains in place for 2018-19, albeit increased to 6% to reflect the increase in the general council tax threshold to 3% and the adult social care precept of 3%.
53. The council tax has remained below the charge it would have been if CPI had been applied each year since 2010-11. Furthermore, the Council Tax Relief Scheme continues to provide support for our financially vulnerable residents.

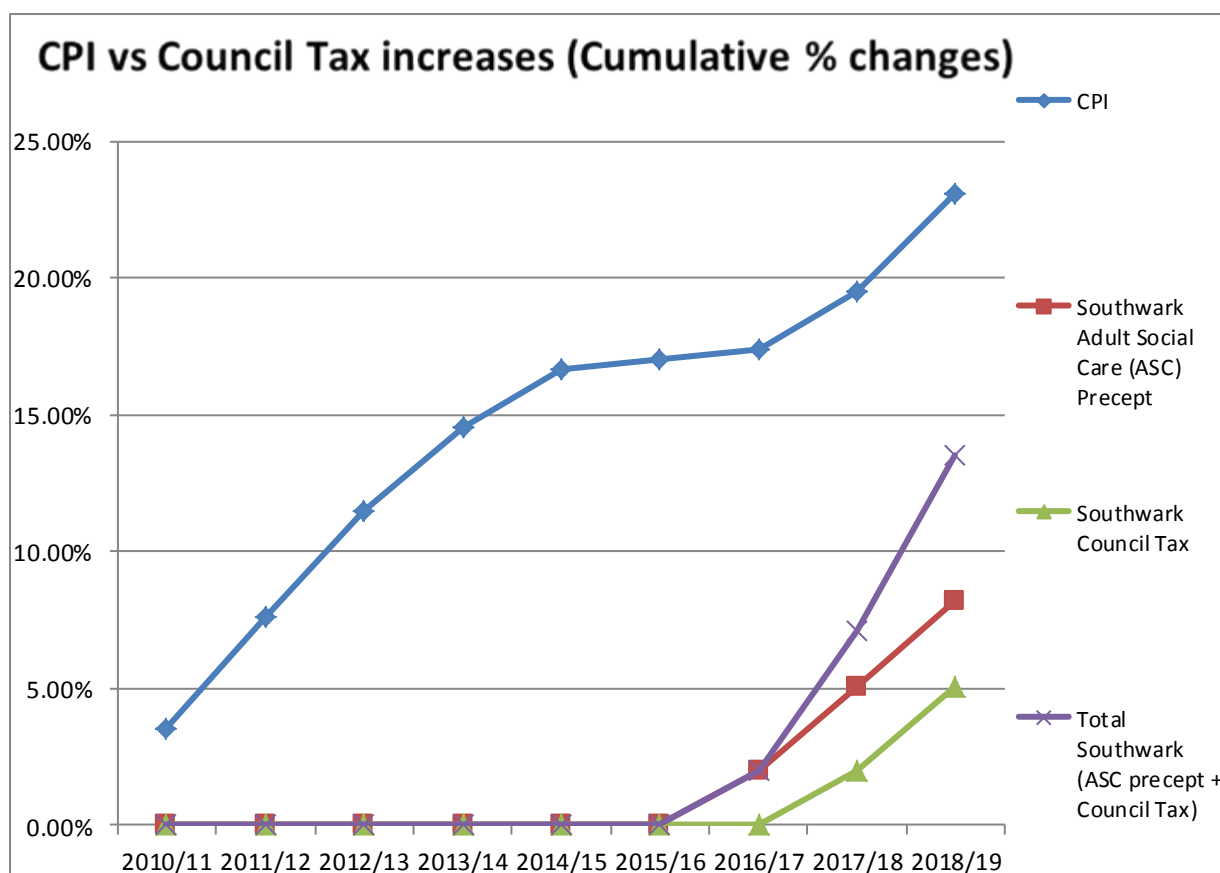
ASC precept

54. 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, 28 took advantage of this precept. For 2017-18, government extended the adult social care precept to allow for 6% over 2017-20, with no more than 3% in each of the first two years. This precept was applied in 2017-18 providing a contribution towards the significant financial pressures within the Adult Social Care budget.
55. Within this report, it is recommended that a 3% precept again be applied for 2018-19, in light of the substantial pressures on adult social care service (see paragraphs 68 to 75). The approach for the council tax base to be a driver to fund Adult Social Care costs unfairly impacts on local authorities with high adult social care needs and a low tax base.

Southwark Element of the Council Tax

56. Ten of the thirteen inner London Boroughs increased their council tax in 2017-18, 25 out of 33 across London, including Southwark. This is indicative of the cumulative impact the financial stress across local authorities in London.
57. In the context of pressures on council finances, the reducing levels of reserves and the continued year on year reductions in spending power, council tax remains a key source of income for the council.
58. 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 2.99% increase in the Southwark element of council tax for 2018-19. This is in addition to the adult social care precept of 3%.

59. 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.



60. The impact of the increase in Council Tax of 5.99% will mean that:

- Residents in Band C properties and below will see a council tax bill rise of less than £1 a week (over 60% of residents in the borough live in Bands A-C);
- 12,000 of the residents continuing to receive 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 6,900 eligible pensioners will continue to receive 100% relief and will see no rise in their council tax bills.

Council Tax Collection

61. As reported in December 2017, the council tax base is growing in the borough – a direct reflection of the regeneration and investment in new homes.
62. The council tax base setting report recommended that the collection rate is maintained at 97.2%, reflecting current performance and in consideration of the increased collection risk as universal credit is rolled out.
63. The collection fund forecast outturn position is a surplus of £5.663m and this has been accounted for in the council tax calculations for 2018-19.

Business Rates Baseline

64. The government agenda is for local authorities to move towards self-sufficiency and away from dependence on central government. As a step towards this reform, in 2013-14, government changed the funding system to increase reliance on local taxation. Revenue support grant (RSG) allocations reduce over the period 2013-20, whilst the level of retained business rates increases.
65. The recent settlement brought about two key changes to the business rates funding for the council:
- The business rate revaluation in April 2017 means that Southwark is now a tariff authority; 16 out of the 33 London Boroughs are now tariff authorities, an increase of six over the previous years. This has a neutral financial impact on the council's overall funding and the council will revert to a top up authority in 2019-20.
 - The council will be joining the London Business Rate pool from April 2018, which means that Revenue Support Grant will be substituted with a baseline business rate funding level. For 2018-19, as set out in Appendix A, the council will be funded via business rate baseline of £158.440m (£164.932m less the tariff deduction of £6.492m). The London business rate pool arrangements include a funding "safety net". This is a "no detriment" clause that means that no council can be worse off than if they had not joined the pool.
66. The 2018-19 budget includes a forecast assumption that the council's Business Rate Retention income will exceed the baseline funding level by £20.996m (i.e. in total the retained business rates total of £179.436m; consisting of the baseline of £158.440m and £20.996m in excess of this baseline). This is after appropriate provisions have been made for appeals. Furthermore, it is estimated that £3.970m of Business Rate collection fund surplus will be available to support the budget. This is an increase in our retained business rates attributable to estimated increase in buildings coming into the rating list, most significantly London Bridge station.
67. This ongoing move to self-sufficient local government demonstrates the importance of Southwark's capital investment programme within the borough, either as the lead authority or with partners. Regeneration is the key to ensuring sustainable budget sources as we move closer to reliance wholly on local taxation, either through business rates or council tax as well as increasing opportunities across the borough for quality of life, jobs and environmental improvements.

Children's and Adults' Services

68. At the end of 2016-17, pressures on Children's and Adults' social care led to an overall adverse variance of £14.887m after the utilisation of £11.450m of reserves, inclusive of the application of the 2016-17 Adult Social Care 2% precept. This was preceded by a cost pressure in 2015-16 of £18.7m which had been met through the use of reserves.
69. The government's autumn 2017 budget recognised the continuing nationwide budgetary pressures in adult social care by introducing the powers for councils to apply a 3% council tax adult social care precept, and provided a one-off adults' social care grant in 2017-18 (although this grant was funded through a reduction in New Homes Bonus). In 2017-18 the council agreed to increase the Children's and Adults' Services budgets by £5.345m, funded in part by the application of the adult social care precept of 3%. This increase was in the context of a grant reduction of £15m.

70. The service pressures due to the level of demand and complexity of need continued to be reflected in the cost pressures being experienced across London and the country. In the spring of 2017, the government responded to the crisis in Adult Social Care funding through announcing the supplementary Improved Better Care Fund (IBCF). Southwark's allocations totalled £7.417m in 2017-18, reducing to £4.497m in 2018-19. As set out in the 19 September cabinet revenue monitoring report, the health and wellbeing board agreed to the application of the supplementary IBCF in full to support the continuing adults' social care budget pressures in 2017-18. Subsequently, the application of 2018-19 supplementary IBCF to the council's adults' social care services was agreed by the CCG's Integrated Governance and Performance Committee on 28 September for 2018-19. As reported to cabinet in September, following the use of the 2017-18 IBCF, the service is currently reporting an adverse budget variance of £4.229m.
71. In 2018-19, the council is proposing to utilise powers for the third year in applying the Adult Social Care precept of 3% in 2018-19, generating £2.9m of resources to be allocated to contribute to those services supporting our more vulnerable adult residents. Also reflected in the budget is the 2018-19 Improved Better Care Fund of £12.584m. This growth is being used to quality care to meet increasing demand for homecare, nursing care and supported living.
72. In total this ensures that Adult Social Care budgets are on a more sustainable footing moving into 2018-19 with an increased budget of £14.305m.
73. The allocation of IBCF and the Adult Social Care precept has alleviated budget pressures for Adult Social Care somewhat, bringing into focus the Children's and Education Services pressures. This was recently recognised by London Councils where data gathered from all 33 London Boroughs indicated 25 of them overspending on Children's Social Care (with an average overspend level of 9.6% across these authorities) and budget pressures in areas across London for children with high needs and transport costs. These pressures, alongside changes to the Dedicated Schools Grant framework, place Southwark budgets under significant pressure in 2018-19. These budget proposals provide for an increase in Children's and Education budgets totalling £3.177m. This is intended to address cost pressures within the Children's and Education Services and place these services on a more sustainable financial footing.
74. These proposals increase the Children's and Adults' Social Care budgets by £17.482m in total in 2018-19. The section 151 officer's view is that this strategy is necessary to ensure that these demand-led services supporting our most vulnerable residents are placed on a secure financial footing as the environment of reducing government grants and reduced level of reserves continues.
75. An executive board (budget recovery board) headed by the chief executive has been established to provide oversight over the significant budget reductions and demand pressures experienced by the Children's and Adults' department. The board continues to meet and an update on progress will continue to be reported to cabinet through the budget monitoring reports.

Updated budget proposals

76. Through the council's budget cycle, savings and income generation options are presented for consideration to close the budget gap which, should these proposals be agreed, presents a balanced budget for 2018-19.

77. The 2018-19 proposals for each Directorate are summarised in the table below and detailed in Appendices C, D, E and F.

	Commitments £000	Efficiencies £000	Income £000	Savings £000	Net Impact £000
Adults' Social Care	19,682	(4,577)	(800)		14,305
Children's Services	3,366	(1,590)	-		1,776
Education	2,467	(660)	(406)		1,401
Children and Adults' Services Total	25,515	(6,827)	(1,206)	-	17,482
Environment and Social Regeneration and Public Health	250	(2,330)	(3,130)	-	(5,210)
Housing and Modernisation	3,800	(210)	-	(399)	3,191
Chief Executive's	50	(330)	(545)	-	(825)
Finance and Governance	175	(1,080)	(330)	-	(1,235)
Corporate	2,775	-	(2,070)	-	705
Total	32,565	(10,777)	(7,281)	(399)	14,108

*Commitments within Adult Social Care total £19.682m, of which £15.540m is funded from Improved Better Care Fund and Adult Social Care Precept monies.

Pay Award

78. The current budget plans for 2018-19 are based on a projected 2% pay rise for all staff. This is within the existing public sector pay cap. The chancellor's budget on 22 November 2017 did not reference any change to this cap. Significant work is currently underway both nationally and within London to reach agreement on pay awards moving forwards. In part, negotiations will be considering the arguments that local authority pay has been disproportionately suppressed as a consequence of the pay cap and that this situation needs rebalancing. Further there are concerns to ensure that the lower graded staff are adequately paid and that pay differentials remain appropriate.
79. Should an increase in excess of 2% be agreed as part of the national local government pay negotiations, this will be the first call on the £4m contingency held within corporate budgets.

Inflation

80. Consumer Price Index (CPI) 12 month rate for October is 3%, unchanged from September 2017. This compares to 0.9% for the same period last year. This budgetary pressure is recognised in the budget with a £3.5m allocation for contractual inflationary pressures in 2018-19.

Efficiencies and Improved Use of Resources

81. The fairer future promises contain a commitment to keep council tax low by delivering value for money across all of our services. In part, this is met through ensuring that the council is focussed on meeting the budget gap with proposed efficiency savings. The fact that efficiency savings of £10.777m represent a significant proportion of the total budget savings proposals is evidence of this commitment to residents (detailed in Appendix C).
82. The major efficiencies within Adults' Social Care relate to modernisation of integrated pathways and review of care packages for people with disabilities to align to the Care Act national eligibility level and through reorganisation of Adult Social Care teams to support the modernisation of the service.
83. Notable efficiencies across Children's Services relate to the part year effect of restructuring children's social care service delivery including layering of management and the effect of the completed restructuring of business support functions for children's social care.
84. Efficiencies through the pan-London e-service, integrated sexual health tariff and more efficient methods of service delivery will deliver efficiencies within Public Health totalling £0.665m.

Income Generation

85. As the council looks for ways to protect front line services, consideration is given to maximising the council's income generation by seeking income streams in line with council policies and priorities. The council will seek to generate additional income by reviewing fees, charges and contributions and seeking further opportunities to provide commercial services. This may include introducing charges for some discretionary services and ensuring that we maximise the recovery of our costs. The schedules at Appendix D set out a number of proposals totalling £7.281m generating additional income.
86. This income falls into four broad groups:
- increase in fees and charges £2.2m
 - increase in contributions for care £0.8m
 - commercial rents of £2.0m and £0.4m, and
 - increasing income arising from the leisure contract, totalling £1.35m
 - a small amount of recharging of costs, as appropriate.
87. The proposed Fees and Charges for 2018-19 are included in Appendix G, and set out in paragraphs 99 to 101 below.

88. Income receivable from the council's commercial property portfolio is a vital source of income to support council services. In this period of decreasing government funding for council services, the council has purchased commercial properties to generate much needed additional income into the general fund revenue budget and help support the delivery of our highly valued public services.

Savings Impacting on Service Delivery

89. Wherever possible, the aim is to continue to protect front line services from saving reductions. However, the extent of the government austerity measures means that after careful consideration, it is inevitable that some service reductions will be required to balance the budget. The schedules at Appendix E propose savings of £0.399m with potential to impact on service delivery.
90. Comprehensive equalities analysis of the impact of these savings will be considered as part of the proposal considerations.

Commitments

91. The commitments within Children's and Adults' services are funded in part from the Improved Better Care Fund allocations of £12.584m and Adults' Social Care's additional funds raised through the application of the adult social care precept of £2.9m. The latter has been committed and ring-fenced for adult social care to ensure that services support our most vulnerable residents to lead and enjoy independent lives.
92. The specific commitments within Children's Services and Education total £5.833m. The majority of the commitments relate to structural finance for staffing and placements. Other notable commitments relate to additional SEN home to school transport costs due to increases in number of children with special educational needs and to mitigate losses of government Education Support Grant (ESG) transitional grant funding that previously supported Education department functions.
93. For some, 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 to ensure the council is "fit for the future".
94. No Recourse to Public Funds (£215k commitment) and Temporary Accommodation pressures (total commitment of £750k) continue to be areas of financial pressure. An early review of the month 8 budget monitoring report indicates that these risks remain. Budget pressures arising in 2018-19, over and above the commitment proposed in this budget will be mitigated by the utilisation of the £4m contingency.
95. Furthermore, as identified in the month 4 capital reports, the council has a projected financing gap of £183.585m in 2017-18 and £171.839m in 2018-19 across both the General Fund and Housing Revenue Account. It is envisaged the council will need to additionally borrow to finance the capital programme moving forwards. To cover the associated costs of borrowing a commitment of £1.400m and £0.2m minimum revenue provision (MRP) has been built into the 2018-19 budget.
96. A commitment is proposed to support the council plan promises: to ensure that young people have the best start in life through ensuring a top quality playground in every local area; and fairer future promise for an age friendly borough through the ongoing implementation of the Southwark ethical care charter.

97. Furthermore, the commitments include council-wide cost pressures relating to national legislative or regulatory changes such as the apprenticeship levy and the business rate revaluation.
98. A detailed list of all commitments can be found in Appendix F. The overarching theme of these commitments is to ensure that services budgets are sustainable, particularly in the context of the reduced availability of reserves to support budget pressures.

Fees and Charges

99. The council's Fairer Future Medium Term Financial Strategy and integrated efficiency plan 2017-18 to 2019-20, agreed by cabinet on 20 September 2016, sets out the policy to review discretionary fees and charges annually. In reviewing fees and charges the policy is to increase them to a level that is at least equal to the most appropriate London average except where this either conflicts with council policy, or would lead to adverse revenue implications or would impact adversely on vulnerable clients. These proposals have been prepared in the context of this policy.
100. Detailed fees and charges schedules across all services are set out in Appendix G.
101. For some services, a review of the London average against Southwark fees has resulted increases in charges above inflation.

Use of Reserves and Balances

102. 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.
103. For a number of years previously, the council had 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 did this help to protect council services but it has also allowed time to transition towards new ways of working, productivity improvements and efficiencies.
104. 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. The budget proposals for 2018-19 do not include a planned release of reserve. The position will be kept under review, and at this time it is thought that the lack of availability of similar resources will present a challenge in 2018-19.
105. The forecast reserves for the end of 2017-18, were set out at month four revenue budget monitor to cabinet of £26.126m, and will be refreshed for the month 8 budget monitoring position.

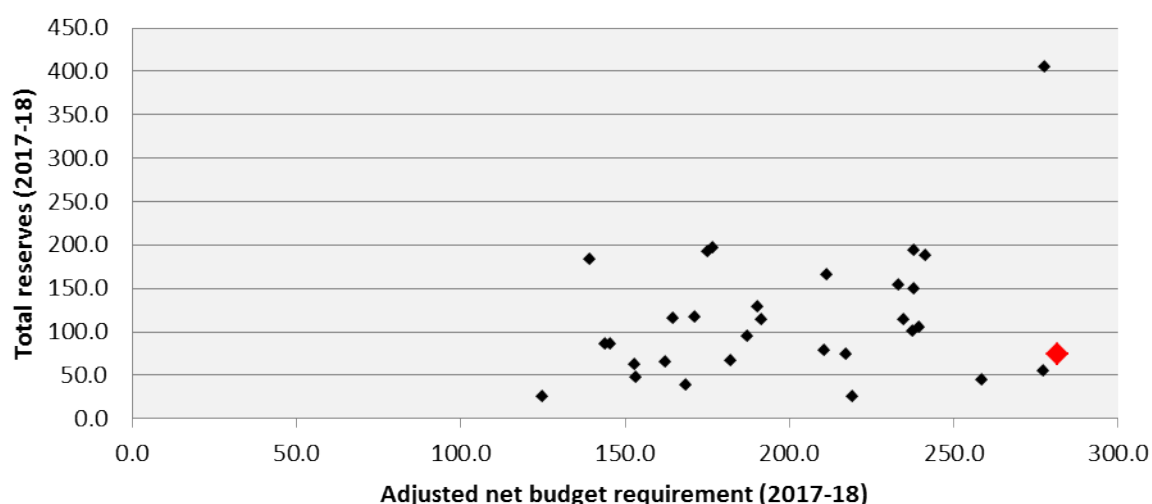
Forecast Revenue Reserves 2017-18 (as reported at month 4)

	2017-18 opening balance £000	Budgeted reserve movements £000	Other reserve movements £000	Forecast Budget variance £000	Total Movement in Reserves £000	Forecast closing balance £000
Corporate Projects and Priorities	4,955	1,600			1,600	6,555
Service Reviews and Improvement	4,801		(2,676)		(2,676)	2,125
Strategic Financing, Technical Liabilities and Future Financial Risk	24,128	(4,368)		193	(4,175)	19,953
Total	33,884	(2,768)	(2,676)	193	(5,251)	28,633
Public Health Grant	(1,907)			(600)	(600)	-2,507
Dedicated Schools Grant	1,249	(1,249)			(1,249)	0
Total	33,226	(3,349)	(3,344)	(407)	(7,100)	26,126

Please note, this excludes the capital programme reserves totalling £22.516m which brings the total opening earmarked reserves to £55.742m and the general fund reserve of £18.803m.

106. London Councils conducted a financial stress survey across London which included reviewing the levels of reserves. As demonstrated by this graph, the council levels of reserves as low relative to the councils budget requirements and other councils. This remains a concern in the context of Southwark ambitious programme for regeneration and revenue cost pressures across services.

Adjusted net budget requirement (2017-18) v Total reserves (2017-18)



Planned Corporate Contingency

107. It is proposed that the planned corporate contingency of £4m is maintained to support emerging budget pressures during the year. The first call on the 2018-19 contingency will be any pay award agreed which is in excess of the current 2% that has been already been allocated within this budget. In the current and previous years, this contingency has been essential to manage in-year demand and cost pressures. For 2018-19, budget pressures within temporary accommodation, no recourse to public funds remain a particular area of risk.

Consultation

108. 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 budget proposals. A substantial majority of those who responded to this consultation agreed that the council should continue to focus on being more efficient, protecting frontline services and directing resources to those most in need and this is reflected in the budget proposals.
109. Since then consultation on the Voluntary and Community strategy was conducted to ensure that all sections of the voluntary and community sector 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 goodwill. 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.

Next Steps

110. The next main governance steps to establishing the 2018-19 general fund revenue budget are outlined in the table below:

Date	Meeting	Report	Purpose
29/01/2018	Overview and Scrutiny	P&R strategy	Comment on and make recommendations in respect of the cabinet's proposed 2018-19 budget
06/02/2018	Cabinet	P&R strategy	Recommend a balanced budget for 2018-19 to Council Assembly
21/02/2018	Council Assembly	P&R strategy	Council Tax setting and approve a balanced budget for 2018-19

Community impact statement

111. 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.

112. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the budget for 2018-19 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.
113. 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.
114. 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.
115. 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 will be collated across the council to look for any cumulative impacts.
116. To date no cumulative impacts have been identified through the analysis. However, this process will be completed in time to be reported on in the final budget report in January 2018.

Business Rates London Wide Pool

117. As reported in some detail within the December 2017 cabinet report, the council is part of the London wide business rate pool for 2018-19. For completeness, the key points impacting on the 2018-19 budget are described below.
118. This agreement involves London authorities retaining all business rate growth above the baseline target set by central government. This is over and above the amount retained by each local authority. The arrangement is for a two year pilot, starting from 2018-19.
119. A founding principle of the London business rates pilot pool is that no local authority participating in the pool will be worse off than they would otherwise have been under the current scheme. This is underpinned in the government's "no detriment" guarantee which ensures the pool as a whole cannot be worse off than participating authorities would have been if they had not entered the pool.
120. The London Councils' final Business Rate Pooling Prospectus explains that the reconciliation of available funds to distribute will occur in September 2019. As set out in the Prospectus, the first call on any additional resources generated would be used to ensure that each borough and the GLA receives at least the same amount as it would have without entering the pool.

121. Although the first year of the pilot relates to business rates generated during 2018-19, as stated above, the available distribution will not be known until September 2019. The relevant extract from the Final Prospectus explains: *“However, it would not be until the outturn position is known (the NNDR3 form) that actual reconciliation would be made and the final growth/decline for the pool as a whole, and individual pool members, would be known. This will be in September 2019 after accounts have been audited for the financial year 2018-19”*. Therefore any additional pooled business rate retention distributed to Southwark will not form part of the 2018-19 budget setting process and benefits will accrue in 2019-20. The section 151 officer considers this to be the most appropriate and prudent strategy.
122. The detail of the pilot arrangements will need to be kept under close scrutiny, not least with regard to the government’s “no detriment” guarantee. For example, while the public health grant and improved better care fund would not be considered as part of the pooling arrangement in 2018-19, the letter from the Chair of London Councils indicates that these could be rolled into the arrangements in 2019-20. One year earlier than the national plans to transfer the Public Health Grant into the business rate baseline.
123. London Councils requires each local authority to give approval to enter into the pilot arrangement. The decision-making powers were appropriately delegated in the December report to enable the pooling arrangements to proceed. A draft memorandum of understanding setting out the arrangements was included in the December report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

124. 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.
125. 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.
126. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.
127. 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.
128. 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

129. 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. Presenting this report to cabinet on 23 January prior to presentation of budget figures to cabinet on 6 February and to council assembly on 21 February. Under the council's constitution, there is a requirement for the overview and scrutiny committee to review and challenge budget proposals and this is due to take place on 29 January 2018.

REASONS FOR LATENESS

130. Due to the anticipation of additional information affecting the budget report, the report was delayed to consider this impact. Further, extra time has been required formulate budget options that minimise the impact on Southwark residents.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources Strategy 2018-19	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=5753&Ver=4		
Policy and Resources Strategy: 2017-18 and 2018-19 Updated Financial Remit	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
Link: (copy and paste link into browser) http://moderngov.southwark.gov.uk/documents/s69811/Report%20Policy%20and%20Resources%20Strategy%202017-18%20and%202018-19%20Updated%20Financial%20Remit.pdf		
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
Link: (copy and paste link into browser) http://moderngov.southwark.gov.uk/documents/s56454/Report%20and%20appendices%202016-17%20PR%20Scene%20setting.pdf		

APPENDICES

No:	Title
Appendix A	Indicative Budget Proposals 2018-19
Appendix B	Departmental Narratives 2018-19
Appendix C	Proposed Efficiencies and Improved Use of Resources 2018-19
Appendix D	Proposed Income Generation 2018-19
Appendix E	Proposed Savings Impacting on Service Delivery 2018-19
Appendix F	Proposed Commitments 2018-19
Appendix G	Proposed Fees and Charges 2018-19

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	17 January 2018		
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		17 January 2018	