

Overview & Scrutiny Committee

Wednesday 8 January 2025

6.30 pm

Ground Floor Meeting Room G02A - 160 Tooley Street, London
SE1 2QH

Supplemental Agenda No. 5

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5.	Policy and Resources Strategy 2025/26 (Budget Scrutiny Scene Setting)	1 - 12
	Enclosed in this supplemental agenda is the presentation on the Policy and Resources Strategy 2025/26 which sets out:	
	<ul style="list-style-type: none">• Current Medium Term Financial Strategy approach• Process to date• Summary of December cabinet paper (previously circulated)• Update on November 'Policy Statement' and impact of Provisional Local Government Settlement	

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Date: 7 January 2025

Policy & Resources Strategy 25/26

Overview & Scrutiny 'Scene Setting' 8 Jan 2025



Agenda

1. Current MTFS Approach

Overview of the 3-year strategy for the GF and the HRA Recovery Plan, including current year position

2. Process to date

Overview of the process undertaken to balance the budget for 2025/26

3. Summary of December cabinet paper

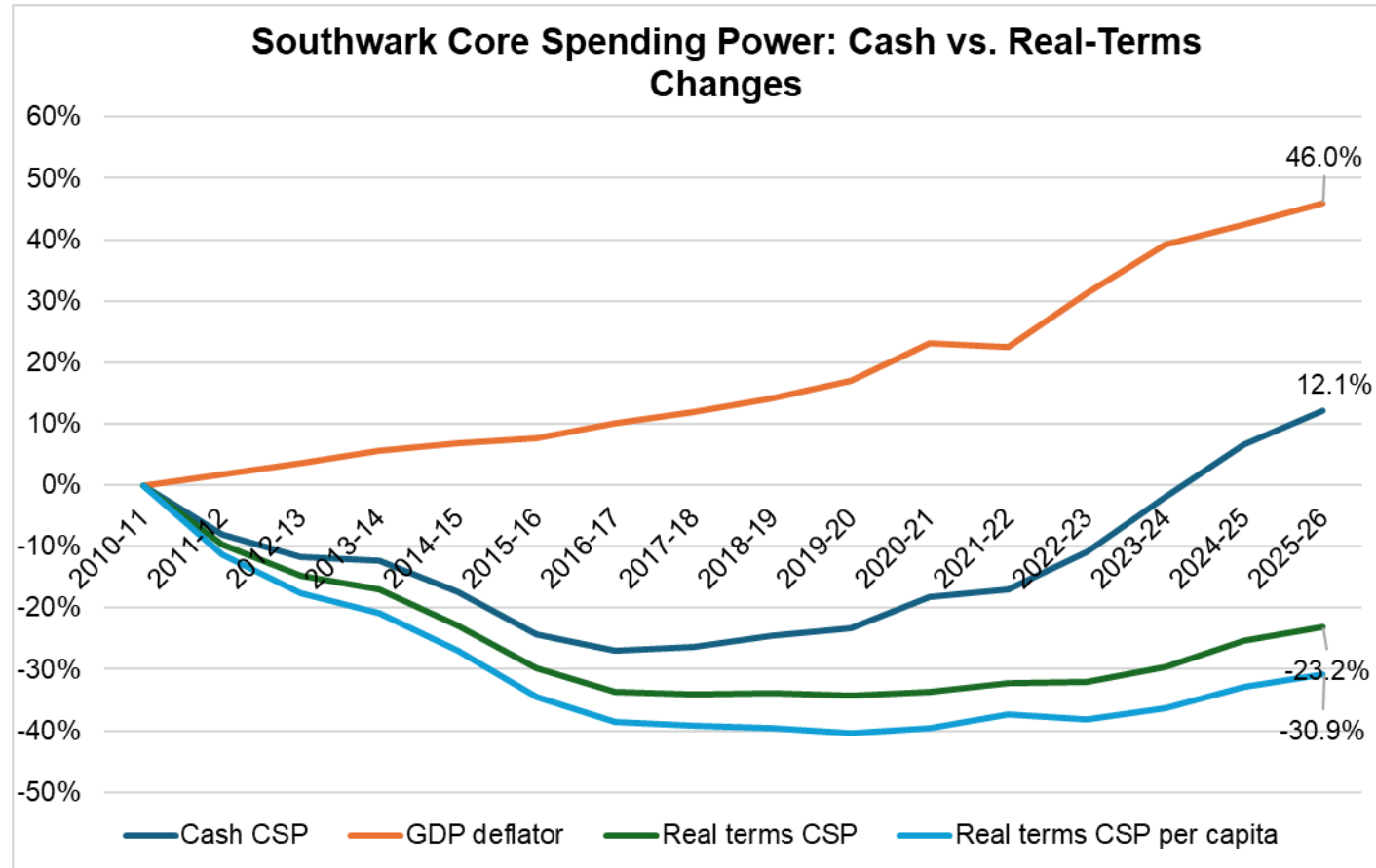
Headlines of the budget update paper received by Cabinet in December 2024

4. Update on Nov' Policy Statement and Dec' Provisional Local Government Finance Settlement (PLFGS)

Overview of the Policy Statement released by MHCLG in November and the subsequent PLFGS published in December, including the impact on the council's medium term financial strategy (MTFS) and HRA Recovery Plan

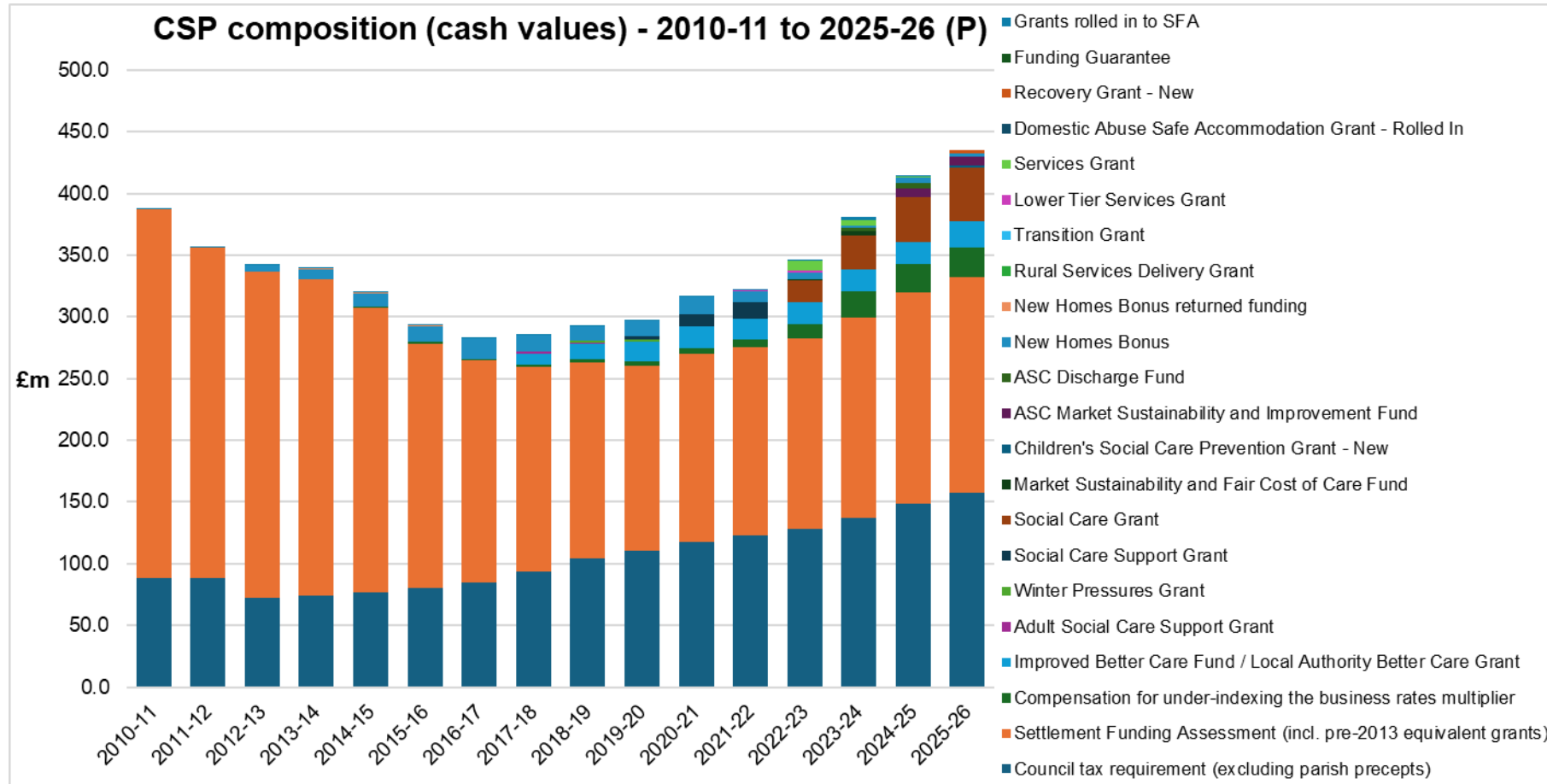
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But first... some context



Sub-inflationary grant increases + population growth = reduction in CSP per head of 30.9% compared with 2010-11

But first... some context



- **Council tax up** from 22% to 36%
- SFA – guaranteed **RSG & NNDR down** from c.77% to 40%
- 17% of CSP now **ring-fenced!**
- Un-ringfenced funding still £27m less in *cash* terms than in 2010-11

1. Current MTFS Approach (GF)

Three Year General Fund MTFS Agreed at Assembly

The next 3 years...

		2023-24	2024-25	2025-26	2026-27
Resources	Un-Ringfenced Government Grants	(82.38)	(84.52)	(79.27)	(79.27)
	Ringfenced Government Grants	(78.68)	(88.93)	(88.93)	(88.93)
	TOTAL GOVERNMENT FUNDING	(161.05)	(173.46)	(168.20)	(168.20)
	Council Tax	(137.71)	(145.29)	(158.75)	(170.01)
	Business Rate Growth	(136.06)	(134.84)	(136.76)	(136.76)
	COUNCIL TAX AND RETAINED BUSINESS RATES	(273.77)	(280.13)	(295.51)	(306.77)
	Contribution from earmarked reserves	(2.50)	(2.43)	(2.50)	-
	TOTAL RESOURCES	(437.32)	(456.02)	(466.21)	(474.97)
Growth & Savings	Prior Year Budget	391.15	437.32	456.02	466.21
	Inflation	48.74	28.99	27.43	18.19
	Commitments & Contingency:	13.84	10.48	5.69	4.67
	Savings	(16.41)	(20.78)	(17.51)	(8.72)
	<i>In-Year Gap</i>		0.00	5.41	5.38
	<i>Prior year savings not yet identified</i>			0.00	5.41
	TOTAL SHORTFALL (cumulative)	-	0.00	5.41	10.79

2027-28
tbc



**£10.79m* to find
for years 2&3**

Historically, savings & growth agreed annually. New approach for 2024-25 to agree a 3-year savings plan with remaining gap to be bridged for organisation-wide transformation initiatives.

1. Current MTFS Approach (GF)

Key Messages

Lighter Touch – already broken the back of the three-year period with the savings identified during the 2024-25 process. No need for line-by-line proposals in 2025-26.

Review of existing plans – this has taken place over the summer and autumn. Broadly the 3-year savings plans are on track to deliver as expected. Risks are highlighted through budget monitoring process.

Limiting un-funded growth – un-funded growth bids add to the gap in future years so departments are seeking to contain pressures within existing resources. However, departments will receive contractual inflation and an uplift in salaries budgets as usual (we have budget for this). The 3 year budget should be just that, a 3 year budget. Focus on mitigation of overspends, delivery of in-year budgets.

This approach enables the organisation to focus on;

- a) Organisation-wide **transformation** projects and
- b) Addressing key risk areas, primarily the sustainability of the **HRA** and the growing overspends in **Temporary Accommodation**

Transformation

Organisation-wide focus on transformation savings – outlined in December cabinet paper.

24. It is estimated that the refreshed programme of activity has a savings potential in the region of c£10m with delivery from the latter part of 2025-26 into 2026-27. The MTFS outlook reflected in this report therefore sets an estimated target of £3m for 2025-26, with a further £7m in 2026-27 from the programmes outlined below.

Phase I

- Corporate Real Estate – rationalisation of our commercial and operational accommodation portfolio and its management
- Digital and IT - Implementing the council's Digital Strategy and maximising the use of technology.

Phase II – Additional Programmes to be added.

- Procurement - A transformed approach to corporate procurement, contracted third party spend, contract, and spend management.
- Income maximisation – ensuring full cost recovery, competitive pricing, and income recovery where charges are levied.

1. Current MTFS Approach (GF)

General Fund – 2024-25 Budget Forecast at Month 8

Department	Budget	Forecast Variance	Reserve Movement	Variance after reserves	Change from Month 4
	£000	£000	£000	£000	£000
Children and Adults Services	164,844	7,795	(5,809)	1,986	819
Integrated Health and Care	3,897	-	-	-	(64)
Resources	64,164	4,572	(426)	3,646	664
Environment Sustainability and Leisure	106,518	(5,800)	4,121	1,096	(1,431)
Housing	28,408	14,464	(4,000)	10,464	4,479
Governance and Assurance	25,329	1,856	(1,064)	792	507
Strategy and Communities	8,006	2,132	(2,132)	0	(86)
Support Costs Re-allocation	(43,370)	(0)	-	(0)	-
Contribution from reserves	(2,500)	-		-	
Total	355,296	25,020	(7,231)	17,789	4,888
General Contingency	4,000	-	-	-	
Outturn	359,296	25,020	(7,231)	17,789	4,888

1. Current MTFs Approach (HRA)

The HRA Recovery Plan – Cabinet, February 2024

Table 4: HRA Budget 2023-24 to 2033-34

	PHASE 1			PHASE 2							
	2023-24 Forecast*	2024-25 Proposed Budget	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Income	(309)	(340)	(353)	(365)	(377)	(390)	(403)	(416)	(430)	(445)	(459)
Fixed Expenditure	61	66	68	70	72	73	75	77	79	81	83
Controllable Service Expenditure	169	157	162	166	170	174	179	183	188	193	197
Asset Management (AM) Budget	52	71	74	77	78	80	83	85	88	91	93
Debt Financing Costs	31	44	48	49	52	53	54	55	56	58	58
Contribution to (from) Reserves	(4)	1	1	3	5	8	12	4	2	2	2
Repay AM Borrowing	0	0	0	0	0	0	0	11	17	21	27
(Surplus) / Deficit	0	0	0	0	0	0	0	0	0	0	0
Reserves	(16)	(17)	(18)	(21)	(26)	(34)	(46)	(50)	(52)	(53)	(55)

Phase 1 headlines

- 6% reduction in service expenditure
- Temporary borrowing c.£59m for asset management
- Disposal of void assets to limit borrowing requirement
- No new borrowing for New Homes

The HRA Recovery Plan and budget for 2024-25 were agreed at cabinet in February 2024. The plan outlined the key control totals that spend heads would need to be contained within in order to safeguard the sustainability of the HRA in the medium to long term.

1. Current MTFS Approach (HRA)

HRA– 2024-25 Budget Forecast at Month 8

	Outturn	Budget	Forecast	Variance
	23-24	24-25	24-25	24-25
Income	£000's	£000's	£000's	£000's
Tenant's Charges	-266,628	-297,660	-297,732	-72
Voids	9,443	6,482	8,963	2,481
Homeowner Charges	-38,440	-37,502	-48,125	-10,623
Other Income	-16,225	-16,795	-16,650	145
Total Income	-311,850	-345,475	-353,544	-8,069
Expenditure				
Tenant facing services	167,718	156,971	165,070	8,099
Other Services	71,523	76,617	74,740	-1,877
Capital and Financing	50,080	71,851	83,410	11,559
Debt Financing	25,066	40,036	38,477	-1,559
Total Expenditure	314,387	345,475	361,697	16,222
Total HRA	2,537	0	8,153	8,153

HRA Recovery Plan Headlines

- 2024-25 budget forecast c.£8.15m O/S at month 8
- Delivery of some savings taking longer than expected
- Overall savings requirement remains the same (c.£19.6m), so the balance of savings not achieved in 24-25 will be rolled over into 25-26.
- Capital Asset Management works budget position significantly improved (vs. 23/24) and minimal borrowing required.

2. Process to date

	March	April	May	June	July	August
Budget	Agree approach CMT	Agree approach Directors Forum Cabinet		GF Cash limits confirmed Transformation priorities & ownership	MTFS 1 Report to Cabinet CMT Challenge 1 on Revenue & Procurement	
Monitoring			HRA: P1 (internal)	Outturn: Cabinet	HRA: P3 (internal)	
Capital Bids	Agree approach CMT	Agree approach Directors Forum Cabinet		Capital Bids	Capital Bids	

	September	October	November	December	January	February
				Consultation ----->		
Budget	Budget LMB's	Budget Discussions (Cabinet and CMT)	OSC for: - MTFS/Proposals - HRA	MTFS 2 Report to Cabinet incl. Draft Budget	Rent Setting & HRA budget to Cabinet OSC - Final Sessions Multi-Ward Forums	Budget at Assembly (via Feb Cabinet)
Monitoring	P3/4 Revenue Monitor: Cabinet HRA: P5 (internal)	P3/4 Capital Monitor: Cabinet	HRA: P7 (internal)		P7 Monitor: Cabinet HRA: P9 (internal)	
Capital Bids	CMT Challenge	Agree Bids			Programme Agreed: Cabinet	

3. Summary of December cabinet paper

- Gap updated from c.£10m split evenly between 25/26 and 26/27 to **£12m split £4m/£8m**
- Headline transformation programme targets of **£3m/£7m** (bringing remaining gap to £1m in each year)
- Assumptions updated to include information received during budget and November 'Policy Statement'
- Updated **budget schedules** (Appendix C)
- Draft Fees & Charges schedules
- Update on the **HRA savings process** and options

4. Policy Statement & PLFGS

Key Points	Southwark Impact
The Council Tax referendum threshold will remain at 3%. Eligible local authorities can set an adult social care precept of up to 2% without a referendum.	The council's 3 year financial strategy already includes these increases
Settlement Funding Assessment will increase by 1.7% to £16.8bn in 2025-26, with a 1.4% increase for London to £3.1bn.	The council's 3 year financial strategy already includes these increases
NICs Increase Compensation: £515m of additional funding will be allocated in England to mitigate the impact of the increase in employer National Insurance Contributions (NICs) on their budgets. Initial estimates are that London Boroughs are expected to receive £89m.	No provisional figure was provided, just an indication of the formula to be used. Southwark's expected pressure from the change in NIC's is c.£5.9m (incl. the HRA) and based on the information provided we anticipate a little less than £3m from central government to offset this.
Homeless & rough sleeping funding will increase by £233m to £920m (nationally).	We are expecting a £3.15m increase in our allocation, however - see below for restrictions...
Just under half (49%) of Homelessness Prevention Grant will be ringfenced for prevention (i.e. cannot be used to fund Temporary Accommodation Pressures).	This restriction appears to apply to the total grant sum (c.£10.5m in Southwark) and, perversely, may result in an increase in pressure on TA as we may be able to use less of the grant overall to offset TA costs.
The Rural Services Grant and Services Grant have been cut completely which were collectively worth £19.3m for London.	The council's 3 year financial strategy already assumed the grant would be cut
The total Social Care Grant was increased by £880m (£200m more than set out at the LGF Policy statement), of which London will receive £144m.	The council's 3 year financial strategy already assumed that £4m of this based on the Budget announcement of £600m nationally. The increase in allocation gives us an extra £2.8m, which will go some way to offsetting provider inflation driven by NIC's changes.
The Improved Better Care Fund and Discharge Fund have been combined into one grant (the Local Authority Better Care Grant), with overall funding remaining the same as 2024-25.	The council's 3 year financial strategy already assumed no growth.

Key Headlines

- Small increase in un-ringfenced grants , will mitigate growing business rate appeal pressures
- Government only compensating NIC pressures partially (awaiting final figure)
- Waiting for grant conditions and final allocations for some lines
- More money for TA (c.£3.15m) but restrictive conditions may increase TA overspend

OVERVIEW AND SCRUTINY COMMITTEE

MUNICIPAL YEAR 24/25

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