

Item No. 13.	Classification: Open	Date: 18 July 2022	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy: Financial Remit 2023-24 and Scene Setting	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Stephanie Cryan, Finance, Democracy and Digital	

FOREWORD - COUNCILLOR CRYAN, CABINET MEMBER FOR FINANCE, DEMOCRACY AND DIGITAL

This report begins the council's 2023-24 budget planning process and notes the ongoing pressures on local government finances. The budget process will culminate in setting the budget and council tax in February 2023. The council has a statutory duty to set a balanced budget each year and despite the impacts of a decade of reductions in funding from the Government, where the council lost £146m in funding in cash terms, we meet that duty.

In this report we also consider the emerging pressures on the budget. These include the Cost of Living Crisis which is helped by the council through the Southwark Emergency Support Scheme (SESS), funded by reserves, Household Support Grant and Discretionary Council Tax Relief. The Climate Emergency including the Capital budget to meet carbon neutral by 2030 met through council borrowing, will impact on future revenue budgets.

Other pressures include the Capital programme, interest rate rises which will affect borrowing charges and rising inflation will add cost to the programme. We also have wider pressures through inflation and the current position assumes a 3% pay award and 6% inflation on contractual costs. We will continue to keep an eye on the impact of inflation as we go through the budget process.

The report outlines the main funding sources for the council which are:

- Settlement Funding Assessment (SFA) and Revenue Support Grant (RSG)
- Core revenue grants
- Council Tax
- Sales, fees and charges

We are currently estimating the budget gap to be £24.2m in 2023-24, assuming council tax increases of 1.99% and ASC precept of 1%. However we will not know the full scale of the gap until we receive our funding settlement in December. This financial remit report is therefore being compiled in a period of unprecedented financial uncertainty. The report considers the most likely financial position to be faced by the council in 2023-24. The forecast however includes a range of assumptions which may prove to be incorrect; sensitivity testing around these assumptions indicates a significant range of outcomes.

The 'most-likely' projected funding gap for planning purposes is £24.2m in 2023-24, but this is in a range of £3.1m best case to £50.5m in the worst case.

The report sets out an approach for the budget process for 2023-24 that takes account of the above and the requirement to identify savings options that fit within the overall policy and financial framework, aligning resources to the council's key priorities and with regard to the emerging pressures.

At this stage there are a great many assumptions and uncertainties, and the financial and economic conditions are continually changing. We continue to face demands and pressures on our services, from the cost of living crisis and additional support for the most vulnerable, social care and homelessness.

Despite these challenges we remain committed to delivering services for our residents and ensuring we support the most vulnerable in line with our emerging Council Delivery Plan and our Borough Plan.

RECOMMENDATIONS

That cabinet note:

1. Council agreed a balanced budget for 2022-23 on 23 February 2022, the main features of which were:-
 - a. A budget requirement of £293m;
 - b. Central Government Settlement Funding Assessment (SFA) of £153.6m;
 - c. Council Tax of £128.9m;
 - d. Business Rates Growth of £17m.

2. The government published a 3 year spending review in October 2021 but left significant uncertainties which made it impossible to set a 3 year budget, including:-
 - a. Shortfalls in inflation projections;
 - b. Uncertainty on the future of the New Homes Bonus;
 - c. Funding for Adult Social Care Reform but no way to reasonably estimate costs;
 - d. No clear indication of when major funding reforms will occur (Fair Funding Review and Business Rates Reset).

3. Additional financial uncertainty as a result of a number of factors:
 - A broadly positive three-year spending review, but with most of the good news front-loaded in 2022-23;
 - Limited information on the major changes to Adult Social Care which are expected to carry a significant price-tag in 2023-24 and 2024-25;
 - The Business Rate Revaluation taking effect on 1st April 2023 and the potential impact on locally retained revenues;
 - Rising inflation driving an emerging cost of living crisis;
 - Rising interest rates increasing the cost of credit for residents and the cost to the council of financing its ambitious capital programme;
 - Economic and financial impacts to the council of exiting the European Union;
 - The current absence of any certainty of funding streams to support climate emergency plans.

4. There are a range of possible outcomes presented in this report, with greater detail in 2023-24 than in 2024-25 and these are based on scenarios built using the best data available at the time. For 2023-24, the possible budget gap ranges from £3.1m to £50.5m, with a most likely scenario of around £24.2m.
5. The central budget forecast is based on the assumptions set out at paragraph 25, with the key assumptions being:
 - Government funding rises by 3% with the exception of;
 - New Homes Bonus – expected reduction of circa £2m resulting from ending of current scheme;
 - Market Sustainability and Fair Cost of Care Fund – expected to increase with matching commitments;
 - 2022/23 Services grant – originally described as ‘one-off’ - forecast as flat until more information known.
 - The Fair Funding Review and Business Rate Retention Reset will be delayed again until 2024-25;
 - Additional costs arising from pay and prices (3% and 6% respectively);
 - Additional debt financing costs arising from additional capital projects (£3m);
 - Council tax will increase by the maximum amount allowed (1.99%);
 - An adult social care precept of 1%.
6. That the accumulated deficit on the Dedicated Schools Grant was £21.7m at 31 March 2022 with the prospect of achieving any meaningful reduction without additional funding from the Department for Education being remote.
7. The Strategic Director of Finance and Governance, with the support of other Strategic Directors will seek to prepare indicative savings options and commitments, initially for 2023-24. For the following 2 years, 2024-25 and 2025-26, a long term strategy is going to be developed which will support the new Council Delivery Plan.
8. Cabinet will receive further reports in the autumn including modelling and proposals for future years as further information regarding funding is made available.

BACKGROUND AND PURPOSE

9. Each year, the council updates a detailed Policy and Resources Strategy covering a period that normally reflects the duration of the government’s financial settlement. As part of the Policy and Resources Strategy, and in line with requirements of the local government finance act, budgets are approved by Council Assembly for the next financial year as part of Council Tax setting. Where the settlement provides provisional funding commitments for more than one year, budgets may be agreed indicatively for a longer period.
10. For many years this process has formed the pivotal component of the council’s financial planning process. This strategy, and the formal approval by Council Assembly, sits at the heart of the council’s commitment to financial planning and

efficiency. Most importantly, the strategy is bound to the policies of the council and not least by the commitments in the Borough Plan.

11. On 1 February 2022, cabinet approved the updated Fairer Futures Medium Term Financial Strategy which confirmed the framework within which the Policy and Resources Strategy is formed. This update built upon the previous version approved in September 2016 which was aligned with the four year local government finance settlement announced in February 2016.
12. Between 2011-12, the first year of the major austerity cuts, and 2019-20, the council lost government funding in cash terms of more than £146m. According to government calculations, lost spending power exceeded £85m during the same period. Neither of these figures allowed for the real terms impact of price and demand pressures. In addition, the council has committed to priorities that have needed to be funded through a limited number of sources. During this period the council has also looked to keep council tax as low as possible, protecting the most vulnerable. Southwark has the ninth lowest council tax rate in London.
13. The Borough Plan is the council's overarching business plan. It contains a range of promises and commitments which the council has worked towards since 2018. Following May's election, the new administration will publish a Council Delivery Plan in Autumn which will set out the key policy priorities as an organisation over the next four years.
14. Council Assembly of 23 February 2022 approved a balanced budget and a Council Tax committee convened on 25th February set the council tax for 2022-23. This was a one year budget due to the uncertainty around future funding.
15. This report notes the current position with regard to the funding of the council and provides an initial forecast of the most likely budget gap for 2023-24.
16. For future years 2024-2026, a new council delivery plan is being established that will set out the council's long term strategy. This will review the council priorities that will shape and inform the longer term financial strategy of the council.

KEY ISSUES FOR CONSIDERATION

Emerging Pressures

17. Cost of Living

Whilst the council continues to provide the Southwark Emergency Support Scheme (SESS), this was originally funded by central government through the Social Fund which is no longer available. The SESS is currently resourced through a combination of earmarked reserves and annual funding through exchequer services. In recent years the fund has expanded to account for the use of Household Support Grant and other one-off government funding for issues such as holiday meals, fuel and COVID-19 related adjustments e.g. to Council Tax Reduction Scheme (CTRS) claimants. The growing issue of inflation – not least impact of food and energy bill increases means that there will be increased

pressure on these funds for the foreseeable future which are at this time not funded by central government.

18. Ukraine Crisis

The current war in Ukraine has led to a refugee crisis. The council is providing support and assistance to the 225 newly arrived Ukrainian refugees. The council has received grant funding for these refugees up until 31 May 2022. It is likely that there will be more refugees arriving over the next few months and again the council will provide support and assistance and seek to ensure that funding continues to be made available to continue to support the additional costs. There is a risk that not all costs continue to be fully funded in the longer term, we will continue to monitor and further progress will be reported to cabinet as appropriate.

19. Climate emergency

The council has provided significant capital budgets to meet the climate emergency objective to be carbon neutral by 2030. To date this has almost exclusively been provided through council resources (e.g. borrowing) and has not benefited from any material commitments from government. The demands of the actions required to meet climate emergency targets will inevitably have an impact on revenue budgets moving forward and these costs are not yet fully included within council budgets.

20. Capital programme

The council, through austerity and COVID-19 periods, has sustained a significant capital programme for the development and improvement of assets and infrastructure across the borough. Where possible this is funded through capital receipts and grant provision but all costs over and above these funding streams are resourced through borrowing. There is concern that interest rates, which have been at historic lows for a prolonged period, are now starting to rise and the maintenance of the capital programme at existing levels will inevitably create additional burdens on the general fund budget. Over and above this, the capital programme is experiencing levels of inflation that will exceed RPI and CPI particularly where work relates to buildings and construction. These costs again will convert into higher debt charges to the general fund moving forwards.

21. Business Rates Revaluation

Not to be confused with the Business Rates Reset (where the entire rates retention system is recalibrated), the Business Rates Revaluation is a periodic national refresh of the rateable values of non-domestic properties. This will take effect from 1st April 2023 and will likely result in a change in the rateable value of a significant number of the properties in the borough. Changes to this value are made to reflect changes in market conditions and these can vary from sector to sector. Rateable Values can increase or decrease and this may lead to changes in the amount an occupier or liable party is required to pay. It may also change the total amount of business rates due to the council. Whilst the overall impact nationally will be neutralised by changes to the non-domestic rating multiplier (the number by which the Rateable Value is multiplied to arrive at a billable amount), individual regions and authorities will see changes in the total rates payable in their area. Until the draft rating list is published (now expected in December 2022), it is difficult to quantify the potential impact on the budget.

22. This report sets out an initial financial outlook for 2023-24. There continues to be great uncertainty, both with respect to central government funding and in terms of the economy as a whole as the growing cost of living crisis materialises, fuelled by growing inflation.
23. The Spending Review which sets out the overall quantum of central government funding to local government took place in October 2021 and, whilst broadly positive, lacked detail around social care reform and contained some one-off funding. The Fair Funding Review and new funding baselines within a 75% business rates retention scheme were planned to be implemented by April 2021, however these have been repeatedly delayed and no firm date has yet been given. Both could have serious implications for the council's finances in future years.
24. This financial remit report is therefore being compiled in a period of ongoing financial uncertainty. The report considers the most likely financial position to be faced by the council in 2023-24.
25. At this stage the 'most-likely' budget scenario is based on the following assumptions:-
 - That there will be no further COVID-19 funding and that council spend on pandemic related activities will be contained within existing budgets;
 - That the council's major revenue income streams (business rates, council tax, sales, fees & charges and commercial income) may come under collection pressures as the cost of living crisis progresses;
 - SFA and other core grants will generally increase in line with inflation, however given the current situation estimates are subject to revision;
 - the Fair Funding Review and 75% Business Rate Retention will not be implemented until at least April 2024;
 - The major grant funding streams, i.e. Public Health Grant, Improved Better Care Fund and Social Care Grants will be uplifted in line with baseline funding;
 - That, following the cessation of the New Homes Bonus scheme on 31 March 2021, the residual payments and any replacement scheme will result in a net grant reduction of around £1.9m in 2023-24;
 - Business Rates reset expected to be postponed until at least April 2024. The council is likely to lose significantly as a consequence of the Business Rate Baseline Reset so reserves of £14m have been set aside to mitigate the impact;
 - Subject to further analysis, net inflation and pay award pressures of £26m have been assumed in the most likely scenario,
 - Increased debt financing costs arising from the approved capital programme and potential additional funding for investment projects (£3m in 2023-24);

- Council tax increase in 2023-24 of 1.99%, with no changes in the local council tax support scheme; no additional adult social care precept has been assumed;
 - Retaining the contingency of £4m within the overall budget to support in year cost pressures;
26. On the basis of the assumptions made at this time, it is estimated that net savings of £24.2m will be required in 2023-24.
27. These assumptions will be continually reviewed and updated as firmer information becomes available.

Local Government funding reform

28. It remains the government's intention to implement new funding baselines for all local authorities. The new baselines will be based on the government's review of local needs and resources (the Fair Funding Review), the introduction of 75% business rates retention and resetting business rate baselines. The last time the 'needs based assessment' was updated was for the 2013-14 settlement.
29. However, due to the pandemic, the Government announced that:
- the review of relative needs and resource and the introduction of 75% business rates retention would no longer be implemented in April 2021 as planned;
 - the revaluation of business rates, due to take place in April 2021, will now come into effect in April 2023.
30. The revaluation of business rates is confirmed for April 2023, however the other major reforms remain un-confirmed and the council's working assumption is that they will not take effect until at least April 2024.

Spending Review

31. The main strategic funding decisions of central government as they relate to local government are normally made at each Spending Review; although these have been supplemented at subsequent annual Local Government Finance Settlements.
32. The Autumn 2021 Spending Review was the first multi-year review in several years. The review was a positive one, with a headline 3% average annual growth in spending power. However, as usual this growth is predicated on councils using the maximum available council tax increase and also includes significant amounts of ring-fenced growth to the adult social care budget. The review was heavily front-loaded, with most good news in 2022-23 and the remaining growth in years 2 and 3 largely comprised of money ring-fenced for social care reform. At the LGA conference in July 2022, the Secretary of State for Levelling Up, Housing and Communities announced that councils will receive a two-year settlement from 2023-24, which will provide some welcome certainty after a series of one-year settlements. No detail has yet been made available and further information will be

included in budget remit update reports to cabinet as and when it is released.

UPDATED FINANCIAL REMIT 2023-24

FUNDING FORECAST

33. The main funding sources for the council are:

- Settlement Funding Assessment (SFA) comprising the business rates baseline, business rates top-up and Revenue Support Grant (RSG);
- Core revenue grants;
- Revenue funding from local taxation (council tax and retained business rate growth);
- Sales, fees and charges.

34. Reliance on locally generated resources has increased significantly since the new funding regime post April 2013. This means the council is far more exposed to the risks arising from income volatility, i.e. business rate growth and losses, council tax income and from sales, fees and charges and commercial income.

Settlement Funding Assessment (SFA)

35. Settlement Funding Assessment represents the core un-ringfenced funding distributed by the government. It consists of Revenue Support Grant (RSG), the Business Rates Baseline and Business Rates Top-Up (or Tariff).

36. The forecast SFA is set out below:

	2022-23 Budget £m	2023-24 Forecast £m
Business Rates Baseline	- 37.8	- 38.9
Business Rates Top-Up	- 80.0	- 82.4
Revenue Support Grant	- 35.9	- 36.9
Total Settlement Funding Assessment	-153.7	- 158.2

37. For 2022-23 the council was funded via a settlement funding assessment of £153.7m. The central case assumes the SFA will grow at 3%.

Revenue Funding from Local Taxation

38. Local government finance is increasingly dependent on locally generated resources, principally council tax and business rates but also income from fees and charges and income from investment property. Whilst this provides opportunities, it also exposes councils to significant risk in terms of delivering growth and managing volatility year-to-year, for example exposure to loss of income from business rates appeals. This has become particularly apparent over the pandemic.

Business Rate Retention

39. In addition to the retained business rate assumptions given by the government (the 'Business Rate Baseline'), authorities are able to retain a share of any growth in business rates income above the government-set target.
40. The pandemic complicated business rates further, with the introduction of additional funded reliefs part-way through years. This means that reductions in business rate retention growth due to the pandemic are being compensated by central government via S.31 grants. The timing of these does not always correlate with the loss period, so movements to and from reserves are used to smooth the impact.
41. In the most likely scenario, it is forecast that business rate income, plus S.31 grants, will grow by about £3m in 2022-23. This gives the council business rate resources of £29.05m over and above the government's baseline target.

Council Tax

42. Council tax income for 2022-23 is budgeted at £128.9m including an assumed council tax increase of 1.99%. The council tax base has grown by over 20% since 2016-17 due to an increase in the number of homes, reduction in the cost of local council tax support and changes to the council tax on long-term empty properties.
43. In reviewing council tax income forecasts, major factors for consideration are:
 - Changes in take-up of working age Council Tax Support. A deterioration in the economy and an increase in the unemployment rate would impact negatively on council tax income.
 - Collection rates. Also sensitive to changes in the economy. Risks are mitigated through an effective and efficient revenues team.
 - Growth in the Taxbase. Expected growth in the number of properties in the borough is factored into forecasts (23-24 forecast: 2%).

These factors will need careful scrutiny and review over the coming months.

44. In the context of the continuing strain on council funding and the government assessment of individual authorities' spending power (which assumes councils will increase council tax each year in line with referendum principles) for planning purposes an assumption of a 1.99% council tax increase has been assumed in the most likely scenario.

Adult Social Care Precept

45. Since 2016-17 councils responsible for social care have been given the power to raise a social care precept. The maximum amount has varied across this period and on occasion limits were applied across multiple years allowing flexibility of timing. The table below shows the precept applied in each year. By 2022-23, the adult social care budget will be enhanced by £14m per annum.

Year	Precept
2016-17	2%
2017-18	3%
2018-19	3%
2019-20	0%
2020-21	2%
2021-22	3%
2022-23	1%

Market Sustainability and Fair Cost of Care Fund

Collection Fund surpluses and deficits

46. The pandemic had a severe impact on locally collected revenue, not least due to the additional funded reliefs introduced to support businesses. Whilst this has resulted in significant deficits on the collection fund, these have been largely offset by S.31 grants from central government. Additionally, the council has been permitted to spread the repayment of residual deficits over a 3 year period, whereas compensation would normally be required in the following year. Timing differences between incurring a loss, receiving S.31 grants and repaying any residual amounts can produce swings in the collection fund surpluses and deficits, so it is important that officers factor these in, to ensure overall resources remain reasonably consistent year-on-year.

London Business Rates Pooling Pilot

47. The council joined the London Business Rate Pool pilot arrangements for financial years 2018-19, 2019-20 and 2020-21.
48. The financial benefit of the pooling arrangement meant that 100% of business rate growth in 2018-19 and 75% of growth in 2019-20 was retained within London. The 2020-21 pooling arrangement was based on 67%. The council has received a share of the pool benefits (one-off resources in 2018-19, 2019-20 and 2020-21) for investment in initiatives set out in the February 2021 budget report.
49. In light of the unprecedented circumstances and significant financial risk presented by the economic environment in 2021-22, the business rate pool in London was stood down. Whilst the financial and other benefits prior to this had been very clear, it was apparent that the continuation of the pool into 2021-22 could actually impair the finances of individual councils and London as a whole. The pool was revived in 2022-23, but a smaller number of London authorities was included based on modelling which determined the most financially viable combination.
50. The council's exit from the Pool simplifies collection fund accounting going forwards, and the Medium Term Financial Strategy (MTFS) has been refreshed to reflect this. All business rate income, including growth, S.31 grants, deficits and other resources have been grouped together for ease of comparison and some lines have been merged for presentational purposes.

Core Grants

51. In addition to baseline funding and revenue funding from local taxation, the council also receives a number of grants which the government includes in their presentation of local authority Core Spending Power.

52. The forecast core grants are set out below:

	2022-23 Budget	2023-24 Foreca st
	£m	£m
Improved Better Care Fund	- 17.85	- 18.38
New Homes Bonus	- 5.11	- 3.19
Social Care Grant	- 17.78	- 18.31
Market Sustainability and Fair Cost of Care Fund	- 1.06	- 9.16
Lower Tier Services Grant	- 1.36	- 1.40
2022/23 Services Grant	- 7.99	- 7.99
Public Health Grant	- 29.50	- 30.09
Total	- 80.65	- 88.52

53. Grants within Core Spending Power:

- Improved Better Care Fund (IBCF). The improved Better Care Fund is made up of two parts, that which was initially included as part of the 2016-17 settlement and the supplementary funding announced as part of the Spring 2017 budget. The utilisation of the supplementary grant has been agreed with the Health and Well Being Board for adult social care funding pressures. It is assumed that this funding will increase at 3%.
- New Homes Bonus. New Homes Bonus (NHB) is intended to incentivise housing growth and rewards housing delivery – Southwark is due to receive £5.1m in 2022-23. The Government has announced that the scheme will not continue its current form and NHB payments in future will be legacy payments for previous growth only. We await confirmation of any follow-on scheme. The most likely scenario assumes a reduction of £2m.
- Social Care Grant. As part of the Autumn 2018 Budget the Chancellor announced additional grant funding for social care and winter pressures. This

funding has now been combined as the Social Care Grant and it has been assumed to increase at the same level as SFA.

- Market Sustainability and Fair Cost of Care Fund. In September 2021, the government announced £5.4bn of funding nationally for adult social care reform over the period 2022-23 to 2024-25. The proposals include paying the 'fair cost of care' and the implementation of a new charging regime including capping and changes to means testing as well as a wide range of other initiatives. Southwark will receive £1.06m in 2022-23 to begin implementing the 'fair cost of care' proposals, but modelling suggests this will quickly ramp to £9m+ in 2023-24 as the full range of proposals are implemented. The sector is not yet clear on how these changes will take effect and there will clearly be significant staffing and IT implementation costs to be taken into account.
- 2022/23 Services Grant. This was a new, one-off, un-ringfenced grant included in the 2022-23 Provisional Local Government Finance Settlement (PLGFS). The grant can be used to pay for any council services and includes an amount to compensate the authority for increases to employers' National Insurance Contributions related to Social Care Reform. Although described as 'one-off', it is expected to continue in some form in 2023-24 and to be distributed on a different basis, although it is unclear at the time what this will mean for Southwark and a flat settlement is assumed.

54. Grants outside of Core Spending Power:

- Public Health Grant. Alongside the finance settlement, the government publishes the Public Health allocations. Southwark's allocation for 2022-23 was £29.5m. Prior to 2020-21, Public Health grant had reduced year on year since 2015-16. As part of the move to 75% BRR, Public Health Funding is likely to be incorporated into baseline funding. It has been assumed that the Public Health grant will be uplifted by 2% in 2023-24 (in line with previous increases).

Fees and charges

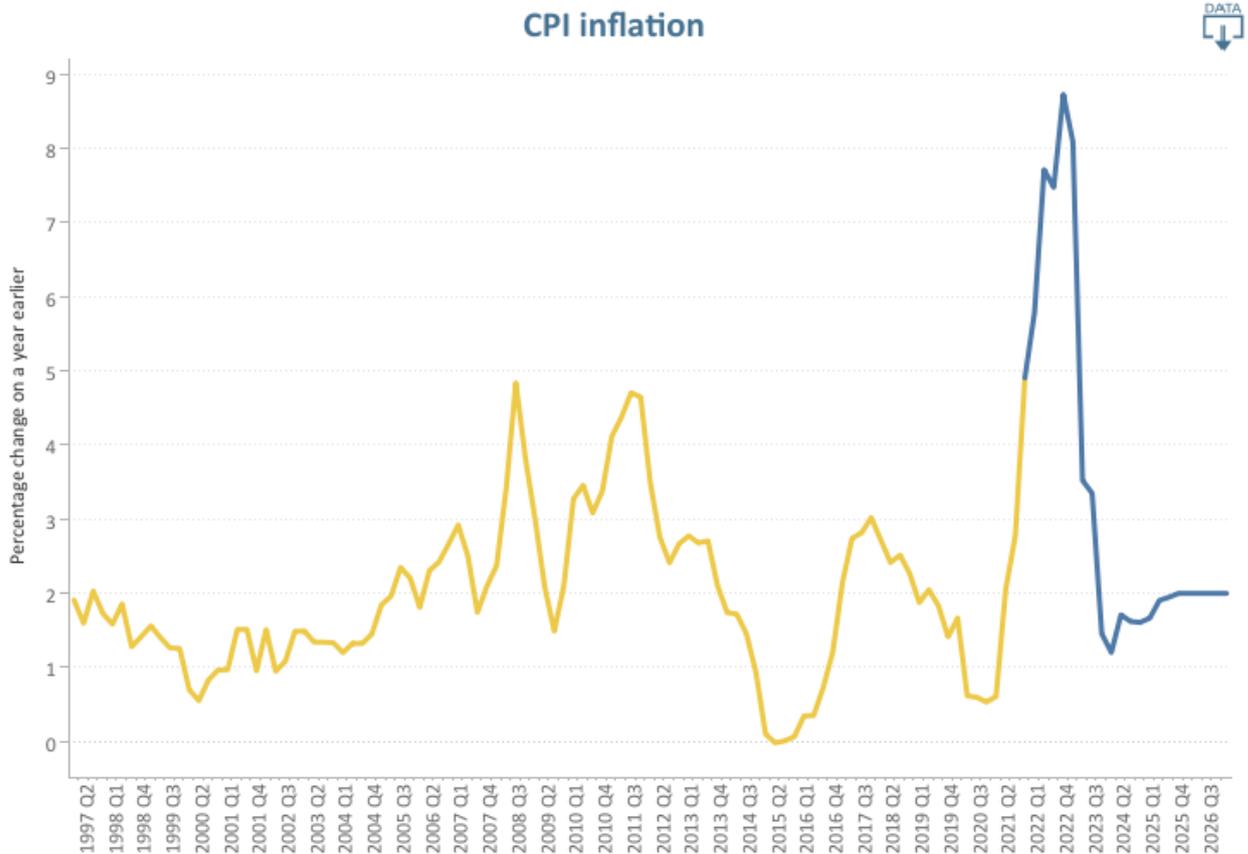
55. The council will seek to generate additional income by reviewing discretionary fees and charges and opportunities to increase other commercial income. In accordance with the council's agreed policy, fees and charges are reviewed annually to increase them to a level that is at least equal to the most 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. Updated fees and charges will be presented for Cabinet approval in January 2023.

COST PRESSURES 2022-23

Inflation and Pay Costs

56. Inflation will be the key risk to the council's budget setting process for 2023-24. The Bank of England (BOE) announced in May that it expects CPI to peak at 10% towards the end of the 2022-23 calendar year. The Office of Budget Responsibility forecast is similar (see chart below), although their expectation of a return to 2% in

Q4 2023 is more optimistic than the BOE who forecast a 2 year intermission between the peak and the return to 'normal' levels.



Source: ONS, OBR

57. Taking these forecasts into account, and working on the assumption that the worst inflation will have passed (and that it will be declining) from April 2023 onwards, the current budget forecast assumes a 3% pay award and 6% on contractual costs.
58. The Bank of England continues to tackle inflation via interest rate hikes and is expected to do so at every opportunity. This will affect the rate at which the council borrows to fund its ambitious capital programme and additional resources have been factored into the draft budget in recognition of this.

Risks to delivery

59. The Policy and Resources Strategy covers a wide range of services and plans of the council. It is natural therefore that circumstances and policies can change and develop over time, and the plan has to be based on broad forecasts for later years where decisions have yet to be taken.
60. The council's current and future financial position is subject to a number of risk management processes, and the financial risks affecting the council are captured in the council's risk assessment including:

- Post-pandemic recovery and renewal;
- Changes in local government funding may compromise future service delivery;
- Changes to the business rate retention scheme and any shortfall in business rate recovery will directly impact the council;
- The substantial commitment within the 10 year capital programme is not matched by resources;
- Due to unprecedented financial pressures, the council's financial balances fall below an acceptable level affecting the council's flexibility;
- Future budgets for the council are not sufficiently robust - especially in light of the current economic climate, inflationary pressures, the impact of welfare reform and future funding changes - resulting in restricted council resource and risk of service failure, increased external scrutiny and reputational damage.

61. All risks are subject to regular review. In addition, financial management and monitoring continues to be undertaken on a risk-based approach, with focus on those budgets which are subject to fluctuating demand.

62. It is recognised that the Fairer Future medium term financial strategy carries a number of significant risks. Delivery of the annual programme of efficiencies, savings and income targets will be difficult, but failure to implement these will inevitably require the council to consider even more difficult decisions.

Macro-economic risks

63. Wider macro-economic risks over which the council has no control, but which may impact on finances include;

- Ongoing economic volatility due to post-pandemic supply chain issues;
- High energy costs likely to continue into 2023-24;
- Rising inflation and the cost of living crisis;
- Medium term implications of exiting the European Union.

Demographic Pressures

64. The council faces demographic growth pressures and changes in the population profiles which results in both additional numbers of referrals and increased levels of need.

65. Temporary Accommodation and No Recourse to Public Funds services are demand driven and have become an increasing pressure on council resources. Caseload remains high with a current upward demand trend.

66. Public Health pressures remain, particularly following the Covid-19 pandemic

67. Within the ring-fenced DSG, High Needs cost pressures continue with rising costs in placements and related transport and increasing demand in services for young people over 16 years old.

Reserves

68. As at 31 March 2022 the council had unallocated general fund reserves of £22.4m and net earmarked reserves of £208m, including a negative reserve for DSG high needs.
69. The net earmarked reserves are maintained to fund:
- invest to save opportunities, which, for example, form part of the modernisation agenda and are expected in part to deliver future ongoing net 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;
 - Ongoing cost and income pressures arising from the pandemic and cost of living crisis.

Any application of these reserves for budget pressures will necessitate reductions in the programmes of work to be funded from them.

70. General Fund balances may be available in the short term to support the costs of the pandemic but use of these reserves will compromise financial resilience and will need to be maintained at existing levels over the MTFS period. Currently this period is constrained by the level of uncertainty created by lack of information on government funding sources. These remain critical to the council's policy and resources strategy. In recent years this strategy has necessarily been restricted to one year periods. Any use of General Fund balances by implication compromises the budget setting process for future years.
71. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. Reserves play a crucial role in good public financial management. They exist so that the council can invest in service transformation for the future or else allow them to respond to unexpected events or emerging needs. Excluding capital and technical sums such as insurance, usable revenue reserves amount to only a fraction of the council's turnover.
72. The legal requirement that a revenue budget deficit is not permissible when it cannot be covered by revenue reserves applies to any future financial year and not the just the current year. Reserves are one-off resources, they can only be spent once, while service demands will continue year on year.
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.

Next Steps

74. The main governance steps to establishing the 2023-24 general fund revenue budget are outlined in the table below:

Date	Meeting	Purpose
July	Cabinet - Budget Remit Report	High-level scene setting, initial forecast of the budget challenge and outline of 2023-23 Budget Challenge process
Summer	Strategic consideration of challenges and opportunities - Strategic Directors/Cabinet Members Cross-cutting themes	
September	Cabinet - Updated P&R Strategy	Update the financial remit and confirm the size of the budget challenges facing the council in the period to 2023-24 to 2024-25
October	Budget Challenge Round 1	
November	Cabinet - Updated P&R Strategy	To provide an update (if necessary) to include details of any government funding announcements/Spending Review
	Budget Challenge Round 2	
December	Cabinet - Updated P&R Strategy	To provide options for meeting the budget challenges over the next three financial years
	Cabinet - Council Tax Base	To confirm the council tax base that will apply for 2023-24
January	Cabinet - Updated P&R Strategy	To select proposed solutions for meeting the budget challenge
January	Overview & Scrutiny	Comment on and make recommendations in respect of the cabinet's proposed 2023-24 budget and indicative budgets for future years
February	Cabinet - P&R Strategy	Recommend to Council Assembly balanced budget for 2023-24
	Council Assembly	Council Tax setting and approve a balanced budget for 2023-24 and agree indicative budgets for 2024-25 and 2025-26

Community, equalities (including socio-economic) and health impacts

75. 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.
76. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Borough Plan. As with the budget for 2022-23 and for previous years, each department undertakes equality analysis/screening on its budget proposals ahead of the final decisions being taken. Where screenings identify potential impacts, more detailed analysis will be carried out.
77. 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 will also be undertaken to consider any crosscutting and organisation-wide impacts.
78. For many services, the budget proposals will include efficiencies that 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.
79. Equality analysis will occur throughout the cycle of planning and implementation of future 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 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.

Climate change implications

80. The Council has reinforced its commitment to combatting carbon emissions and rising global temperatures, by joining the international Climate Change Campaign and declaring a Climate Change Emergency. The Climate Emergency is a major focus for the council, working in partnership with stakeholders, partners, staff and residents to tackle the effects of global warming and the risk to our planet.
81. The Council has committed to doing everything that it can to make Southwark carbon neutral by 2030.
82. How the council uses its resources has a significant impact on the borough's carbon emissions. Across the work we do from our housing investment, to investment in

parks and green spaces, to infrastructure changes such as electric charging points how the council chooses to use resources all impacts on our carbon emissions. The council is looking at how it can better align its work to reduce its carbon impact and meet the target of being carbon neutral.

83. As the council further develops its approach, it is looking at how carbon impact is better considered in the decisions that we take including financial decisions. Officers are currently looking at best practice in other councils as well as innovation in this area to enable decisions which are made in the council to more fully consider their carbon impact.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Governance

84. 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.
85. 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.
86. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.
87. 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.
88. 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.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and resources strategy 2022-23 – revenue budget	160 Tooley Street London SE1 2QH	Timothy Jones 020 7525 1772
Link: https://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=7021&Ver=4 (item 10)		

APPENDICES

No:	Title
Appendix 1	Draft Medium Term Financial Strategy

AUDIT TRAIL

Cabinet member	Councillor Stephanie Cryan, Finance, Democracy and Digital	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report author	Timothy Jones, Departmental Finance Manager	
Version	Final	
Dated	7 July 2022	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Law and Governance	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		7 July 2022

APPENDIX 1: Draft Medium Term Financial Strategy

	2022-23	2023-24			2024-25
		Worst	Likely	Best	
Revenue Support Grant	- 37.78	- 38.53	- 38.91	- 39.29	- 39.69
Business Rates Baseline	- 80.02	- 81.62	- 82.42	- 83.22	- 84.06
Top-Up	- 35.85	- 36.57	- 36.93	- 37.29	- 37.67
Settlement Funding Assessment	- 153.65	- 156.72	- 158.25	- 159.79	- 161.42
Improved Better Care Fund	- 17.85	- 17.85	- 18.38	- 18.38	- 18.75
New Homes Bonus	- 5.11	- 2.00	- 3.19	- 3.19	- 3.19
Social Care Grant	- 17.78	- 17.78	- 18.31	- 18.31	- 18.68
Market Sustainability and Fair Cost of Care Fund	- 1.06	- 9.16	- 9.16	- 9.16	- 13.09
Lower Tier Services Grant	- 1.36	- 1.36	- 1.40	- 1.40	- 1.40
2022/23 Services Grant	- 7.99	- 7.99	- 7.99	- 7.99	- 7.99
Public Health Grant	- 29.50	- 29.50	- 30.09	- 30.39	- 30.70
Government Grants	- 80.65	- 85.63	- 88.52	- 88.82	- 93.78
Total Government Funding	- 234.29	- 242.35	- 246.78	- 248.61	- 255.20
Council Tax	- 128.86	- 125.89	- 132.44	- 137.74	- 143.29
Council tax baseline funding	- 123.02	- 128.61	- 128.61	- 128.61	- 135.10
Council tax base - properties/LCTS working age	- 1.85	- 1.29	- 2.57	- 3.86	- 2.70
Council tax - increase	- 2.49	-	- 2.61	- 2.64	- 2.74
Council tax - ASC precent	- 1.25	-	- 1.31	- 2.64	- 2.74
Council tax - collection fund (-)surplus/deficit	- 0.25	4.00	2.66	-	-
Business Rate Growth	- 25.92	- 18.56	- 29.05	- 38.80	- 20.79
Council Tax and Business Rate Growth	- 154.78	- 144.45	- 161.49	- 176.54	- 164.08
<i>Budget requirement</i>	- 308.43	- 301.17	- 319.75	- 336.33	- 325.50
Total Funding before contributions from balances	- 389.07	- 386.80	- 408.27	- 425.15	- 419.28
Contribution from earmarked reserves	- 1.07	-	-	-	-
Total Resources	- 390.15	- 386.80	- 408.27	- 425.15	- 419.28
Prior Year Budget	377.13	390.15	390.15	390.15	408.27
Inflation					
Pay Awards	2.50	8.75	5.25	5.25	7.21
NI Increase	0.80	-	-	-	-
Contractual Inflation	5.32	21.00	21.00	17.50	18.55

Increase in Fees & Charges		- 0.50	- 1.50	- 2.50	- 0.97
Commitments & Contingency:					
ASC Reform Implementation		9.16	9.16	9.16	13.09
Growth and Commitments	18.08	3.70	5.36	5.65	4.00
Debt Financing (approved programme)	2.06	5.00	3.00	3.00	2.00
Budget Before Savings & Efficiencies	405.90	437.26	432.42	428.21	452.15

Budget Gap before Savings & Efficiencies	15.75	50.45	24.15	3.06	32.86
Savings					
Effective use of resources and efficiencies	- 6.96	-	-	-	-
Income, Fees and Charges	- 5.18	-	-	-	-
Other Savings	- 3.61	-	-	-	-
Total Savings	- 15.75	-	-	-	-

Total Budget	390.14	437.26	432.42	428.21	452.15
<i>2023-24 Savings & Efficiencies still to be identified</i>					<i>24.15</i>
Total Shortfall	- 0.00	50.45	24.15	3.06	57.01