

<b>Item No.</b> 8.	<b>Classification:</b> Open	<b>Date:</b> 17 January 2023	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Policy and Resources Strategy 2023-24 to 2024-25 update	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Stephanie Cryan, Communities, Equalities and Finance	

## **FOREWORD - COUNCILLOR STEPHANIE CRYAN, CABINET MEMBER FOR COMMUNITIES, EQUALITIES AND FINANCE**

Central government decisions on local government funding have been provisionally confirmed for one year only in 2023-24 with indicative funding levels only for 2024-25. In addition, many of the reforms to local government have been halted. So, there remains significant uncertainty for local government in the medium term.

Since the last version of this report, we have now received the provisional local government settlement, which provided additional ring-fenced funding towards the current pressures in social care. Whilst this is welcomed, the longer term picture remains challenging.

Alongside the refining of proposals and further potential areas of savings identified this report now presents a revised budget gap from £6.3m to £1.44m. Work will continue to ensure that this gap is closed ahead of the final Budget going to Council Assembly in February 2023.

In December, we noted the scale of the challenge that we looked to be facing for the 2023-24 budget planning process. We set out the emerging pressures in the context of the changing economic policies of the government following the election of Rishi Sunak. These factors of soaring inflation and the economic impact of the pandemic and energy cost price increases remain and create huge pressure on our communities and businesses. Meaningful medium term financial planning remains highly speculative.

Against this challenging backdrop, this administration remains determined to keep our promises, to protect the most vulnerable, reduce inequalities and to continue to focus on the delivery of Southwark 2030.

## **RECOMMENDATIONS**

That cabinet:

1. Note the outcome of the Policy Statement published on the 12th December

2022 (para 18-23)

2. Note the outcome of the Provisional Local Government Finance Settlement published on the 20th December 2022 (para 24-29)
3. Note that, as reported to Cabinet on 7 December 2021, the intention remains to prepare a balanced one year 2022-23 budget for approval by cabinet in advance of council assembly in February 2022;
4. Note the revised budget gap of £1.44m, down from £6m in December;
5. Note that the budget proposals for 2022-23 contained within this report include:
  - Un-ringfenced Settlement Funding Assessment grant of £162.4m, an increase of £8.7m on 2022-23
  - Un- ringfenced other grant income of £6.2m, a decrease of £8.3m on 2022-23
  - An increase of £12.5m in ring fenced grants to £78.7m
  - Estimated retained business rates growth of £47m, an increase of £21m from 2022-23, due to business rate revaluation and updating for high levels of inflation;
  - Estimated council tax revenues of £137.8m, including a council tax increase of 4.99% (2% adult social care precept and 2.99% general increase);
  - Pay provision and contractual inflation of £34.3m, for the 2 year period 2022-23 and 2023-24.
6. Note that the GLA is expected to increase its council tax precept by 7.1% following publication of the Mayor's draft budget in late December.
7. Note the GLA council tax precept is due to be set on the 23rd February, one day after Council Assembly sets the budget for Southwark, therefore a Council Tax setting Committee will need to be convened.
8. Note the current budget options proposed to help achieve a balanced 2023-24 budget (Appendices B to E) including:
  - Efficiency savings of £12.0m;
  - Net income increase of £2.5m;
  - Savings impacting on services of £2.3m;
  - Commitments and growth of £9.0m
9. Note that, in order to ensure that the base budget is on a secure financial footing a number of commitments are proposed for 2023-24.
10. Approve the proposed Fees & Charges schedules as set out in Appendix F
11. Note the Departmental Narratives and the ongoing equality analyses of the budget proposals (Appendix A);
12. Instruct officers to undertake further consultation for new budget options where

necessary or appropriate; and

13. Note that this report and accompanying schedules will be considered by overview and scrutiny committee on 23 January 2023 and that any recommendations arising will be considered for inclusion in the final report to cabinet on 6 February 2023 for recommendation to council assembly on 22 February 2023

## **BACKGROUND AND PURPOSE**

14. 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.
15. 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 Fairer Future Medium Term Financial Strategy (FFMTFS).
16. 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 allow 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, recognising the pressure this places on all households but particularly the most vulnerable. Southwark remains the eighth lowest council tax rate in London.
17. This report provides an update on the work undertaken to both reflect the latest information on available resources, updated estimates of council tax and business rates and to consider budget savings and commitments proposed for 2022-23.

## **KEY ISSUES FOR CONSIDERATION**

### **Government Policy Announcement 12 December 2022**

18. Michael Gove, the Secretary of State for Levelling Up, Housing and Communities (DLUHC), announced details of the Local Government Finance Settlement on 12 December 2022, ahead of the Provisional Local Government Finance Settlement (PLGFS) on the 20<sup>th</sup> December 2022. He announced a two-year settlement, with a focus on social care.

19. The headline announcement was that councils would see an average increase of 9% in their funding for 2023-24, with a minimum guarantee of 3% increase in core spending. The policy statement confirmed that council tax could increase by 3% in 2023-24 and 2024-25.
20. In addition, there was a reiteration of the autumn statement that social care reform funding would be delayed until October 2025 and the funding recycled to support current social care pressures (to address discharge delays, social care waiting times, low fee rates and workforce pressures). Additional resources would be available through the ability to increase the Social Care precept by 2% for 2023-24 and 2024-25.
21. Other announcements ahead of the PLGFS were as follows:
  - The Autumn Statement announced the freezing of the Business Rates Multiplier for 2023-24 at 49.9p. It was confirmed that local authorities would be compensated for the reduction in income as a consequence of this decision.
  - Revenue Support Grant (RSG) to be updated in line with CPI (10.1%) and 2024-25 (forecast 5.5%)
  - At the Spending Review 2021, the Services Grant was announced for one year only. This has been confirmed for 2023-24 but at a reduced amount.
  - In recognition of inflationary pressures, the government announced that the Lower Tier Services Grant and a proportion of the New Homes Bonus (NHB) legacy payments would be re-purposed to create a new one-off, funding guarantee. This will ensure that all authorities will see at least a 3% increase in their core spending power before any decision they make about organisational efficiencies, use of reserves, and council tax levels.
  - Confirmation that the government would implement the slightly modified approach to the revaluation adjustment to tariffs/top-ups (for the 2023 Revaluation), which it consulted on over the summer.
  - The consolidation of four grants into the local government finance settlement. All of the four grants will keep their existing distribution. These are the Independent Living Fund; Council Tax Discounts – Family Annexe; Local Council Tax Support Administration Subsidy; and Natasha’s Law.
  - The need to review reserves levels taking into account the need to maintain reserves at appropriate levels to support financial sustainability and future investment. In addition, a commitment to explore releasing a user-friendly publication of the reserves data currently collected in the Revenue Outturn statistics.

- The extension of the Statutory Override for the Dedicated Schools Grant for the next 3 years from 2023-24 to 2025-26.
22. The policy statement was clear that in this two year period there would be no reform of local government funding nor a reset to the business rates retention policy.
  23. Apart from the overall direction of travel, there were no further details for 2024-25 except that a new funding stream could be expected from the 'Extended Producer Responsibility' packaging scheme (pEPR). DLUHC will be assessing the impact of additional pEPR income on the relative needs and resources of individual local authorities in the coming year (i.e. this could impact on SFA for 2024-25).

### **Provisional Local Government Finance Settlement 2023-24 (PLGFS)**

24. The PLGFS was published on 20 December 2022, following the policy announcement on the 12 December 2022. The government announced a 9.2% increase in core spending power, to help councils deal with inflationary and other cost pressures, with extra funding directed for social care. This headline increase assumes that councils raise their council tax by the maximum permitted without a referendum.
25. The policy statement suggested that this would be a 2 year settlement (which was to be welcomed after the past four consecutive years of single-year settlements). But once again, the provisional settlement was a holding position designed for stability. Proposed allocations for 2023-24 and a set of principles for funding in 2024-25. These principles are helpful for planning purposes, but there were no individual authority level allocations in which to create a detailed 2-year budget. In addition, inevitably, there was no information as to the direction of travel after the next election. There is still some way to go before councils can plan in the longer term.
26. The additional funding for social care existing pressures is welcomed but it will not be enough in the longer term to address the severity of the pressure facing social care services. In addition, there was no indication of how the delayed adult social care reforms would now be financed, given that the funding allocated for this has been re-cycled to support current pressures.
27. Allocations for the Dedicated Schools Grant (DSG) were published alongside the provisional settlement but the planned policy reforms aimed at reducing the pressure on high needs budgets have not been published to date. This will be needed to ensure that high needs deficits are eliminated before the end of March 2026, when the statutory override arrangements are due to end.
28. The broad approach was to roll-over the core elements of the 2022-23 settlement preserving the current distribution; additional resources for social care, and a modest increase in the ability to raise council tax to fund services.
29. The key points were as follows:

- Core Spending Power will increase by 9.2% across England and London boroughs in 2023-24.
- The Council Tax referendum threshold will increase from 2% to 3% for 2023-24
- Social Care Precept will increase from 1% to 2% in 2023-24.
- Settlement Funding Assessment will increase by 5% to £15.7bn.
- Compensation for under-indexation of the business rates multiplier to fund very high levels of inflationary pressure.
- Tariffs/top-ups will be adjusted to ensure the 2023 Revaluation, as far as practicable, will not impact on boroughs' retained business rates
- The Social Care Grant will increase by £1.5bn in 2023-24 to £3.9bn (£612m in London).
- Adult Social Care (ASC) Market Sustainability and Improvement will be supported by a £562m ring-fenced grant with £400m added to the existing £162m Market Sustainability and Fair Cost of Care Fund.
- Services Grant will reduce by 44% in 2023-24
- The Lower Tier Services Grant will be discontinued.
- There will be a new one-off CSP funding guarantee to ensure all authorities receive a minimum 3% increase (no London boroughs will receive this).
- The New Homes Bonus will continue in 2023-24 as an annual grant. Legacy payments will end, and the future of the grant will be confirmed before the 2024-25 LGF Settlement.
- Four existing grants (worth £239m) will be rolled into SFA and the Social Care Grant.
- £100m of additional funding for local authorities to support those on local council tax schemes, by a further reduction of up to £25 off council tax bills.
- For 2024-25, the RSG will be updated in line with CPI and major grants will continue.
- Neither fundamental reform to needs assessments nor the business rates reset will be implemented before 2025-26.
- Public Health grants have not yet been published.

### Updated financial remit

30. In accordance with instructions from the December 2022 cabinet, this report provides updated budget proposals for 2023-24. These proposals present a £1.44m gap - an improvement on the £6.3m gap presented in December (down from £19.8m in November).
31. The table below shows a summary of the 2023-24 budget following the announcement of the provisional settlement. Further detail and commentary on individual lines follows this table.

	<b>2022-23 Forecast</b>
<b>Settlement Funding Assessment</b>	<b>- 162.38</b>
<i>Revenue Support Grant</i>	- 42.18
<i>Business Rates Baseline</i>	- 87.33

Top-Up	-	32.87
<b>Un-Ringfenced Government Grants</b>	-	<b>6.17</b>
2022/23 Services Grant	-	4.50
New Homes Bonus	-	1.67
Lower Tier Services Grant		
<b>Ringfenced Government Grants</b>	-	<b>78.68</b>
Public Health Grant	-	29.50
Social Care Grant	-	27.47
Independent Living Fund (rolled into Social Care Grant)	-	0.18
Improved Better Care Fund	-	17.85
ASC Market Sustainability & Improvement Fund	-	3.68
<b>TOTAL GOVERNMENT FUNDING</b>	-	<b>247.23</b>
<b>Council Tax</b>	-	<b>137.79</b>
Council tax baseline funding	-	128.61
Council tax base - properties/LCTS working age	-	2.29
Council tax - annual uplift	-	3.91
Council tax - Social Care precept	-	2.62
Council tax - estimated (surplus) / deficit as at 31/03/22	-	0.36
<b>Business Rate Growth</b>	-	<b>46.97</b>
Business Rate Retention Growth	-	10.00
S.31 Grants (incl. C19 reliefs)	-	27.38
S.31 Grant for Top-Up	-	5.60
Collection Fund (surplus) / deficit estimate as at 31/03/22	-	3.99
<b>COUNCIL TAX AND BUSINESS RATE GROWTH</b>	-	<b>184.76</b>
<b>Total Funding before contributions from balances</b>	-	<b>431.99</b>
Contribution from earmarked reserves	-	2.50
<b>TOTAL RESOURCES</b>	-	<b>434.49</b>
<b>Prior Year Budget</b>		<b>390.15</b>
<b>Inflation</b>		
Pay Awards 23/24		5.85
Pay Awards 22/23 unbudgeted pressure		5.49
Contractual Inflation (inc. energy costs)		14.60
Contractual Inflation (2022/23 unbudgeted pressure)		3.42
Energy price inflation on Council Buildings		4.90
<b>Commitments &amp; Contingency:</b>		
Ringfenced Social Care Grant		9.69
Ringfenced Market Sustainability		2.62
Ringfenced Social Care Precept		2.62
Growth and Commitments		9.04
Debt Financing (approved programme)		4.40
<b>Budget Before Savings &amp; Efficiencies</b>		<b>452.78</b>
<b>Budget Gap before Savings &amp; Efficiencies</b>		<b>18.29</b>
<b>Savings</b>		
Effective use of resources and efficiencies	-	12.01
Income, Fees and Charges	-	2.53
Other Savings	-	2.31
<b>TOTAL SAVINGS</b>	-	<b>16.85</b>
<b>TOTAL BUDGET</b>		<b>435.93</b>
<b>TOTAL SHORTFALL</b>		<b>1.44</b>

\*rounding of lines may not exactly match totals

## **Un-ring-fenced grants**

### **Settlement Funding Assessment (SFA)**

32. 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. This will increase by £8.7m (5.7%) in 2023-24, supplemented by additional 'Section 31' grant which will be paid to the council as compensation for the freezing of the Non-Domestic Rates multiplier.

### **2023-24 Services Grant**

33. This was billed as a one-off grant for 2023-24, distributed on the same basis as SFA and the share for Southwark was £8m. The grant continues into 2023-24 – Southwark's share is £4.5m - a significantly reduced rate, reversing out the compensation for increases to employers' national insurance contributions and top-slicing for the supporting families programme and to pay for other parts of the settlement, such as increasing the RSG.

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

34. 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 reduced further, as the payment reflected four years' growth (as opposed to six years).
35. It had been expected that the NHB scheme would be stopped or replaced by an alternative scheme from 2021-22. However, this was delayed. It has now been confirmed that the scheme is being recycled together with the lower tier services grant, in order to create a minimum core funding increase for all authorities of 3%. The expectation was that the grant would reduce from £5.1m to £3m. However, the grant has been further reduced to £1.7m for 2023-24.

### **Lower Tier Services Grant**

36. The lower services grant of £1.4m in 2022-23 has been discontinued and repurposed to provide a funding guarantee to ensure that all councils see at least a 3% increase in their core spending power.

## **Ring-fenced grants**

### **Public Health Grant**

37. Southwark's allocation in 2022-23 was £29.5m. No allocations for 2023-24 have yet been announced.



## **Social Care Support Grant**

38. As part of the 2022-23 settlement, the government distributed £2.3bn nationally to support local authorities in addressing the rising cost and demand pressures on social care services, children's and adults. It was confirmed that this grant would continue into 2023-24, supplemented by the additional funding, originally intended for adult social care reform as announced in the Autumn Statement. The allocation for Southwark is £27.5m. The Independent living fund (Southwark's allocation - £0.18m) was a separate grant which will now be rolled into this grant.

## **Better Care Fund (BCF)**

39. The Better Care Fund was established in 2014-15, with the aim of supporting closer working between local authorities and the Clinical Commissioning Groups (CCG). The CCGs were replaced by the Integrated Care Boards (ICB) in July 2022, in line with the Health and Care Act 2022. The ICBs are intended to further enhance the partnership between the NHS and local authorities to deliver joined up health and care services to improve the lives of people in their area. Additional funding has been allocated through this pooled fund with further guidance expected.

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

40. The Improved Better Care Fund was originally announced as part of the 2016-17 settlement. Funding was subsequently increased in the spring of 2017 as a response to the national pressure on adult funding care crisis.
41. The PLGFS has indicated that this will remain cash flat in 2023-24 at £17.8m.

## **Market Sustainability and Improvement Funding**

42. In 2022-23 this grant was for market sustainability to support local authorities to prepare their markets for reform and to move towards paying providers a fair cost of care. This continues into 2023-24 and includes new grant funding to address discharge delays, social care waiting times and workforce pressures. This ring fenced grant has increased from £1m to £3.7m.

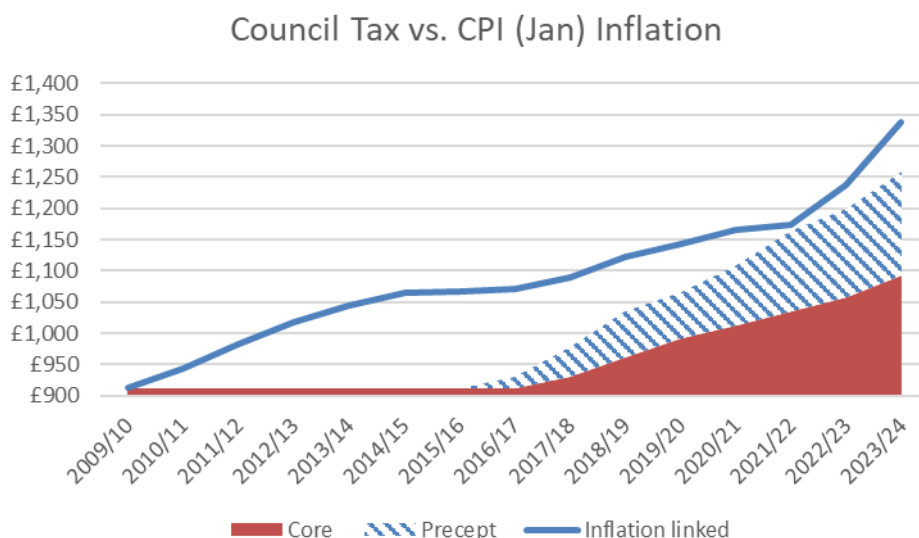
## **Revenue Funding from Local Taxation**

### Council Tax

43. 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 2017-18 when financial pressures and the cumulative impact of reduced government funding meant that it was no longer sustainable to hold this position.
44. In the autumn statement, it was announced that the cap on council tax would be increased by 1% to 2.99%, with the assumption that local authorities will use this additional flexibility to fund council services.

45. The authority has been able to maintain the eighth lowest level of council tax in London in 2022-23, despite having incurred some of the largest reductions in government grants. Throughout this period, the government applied a cap on any council tax increases. The purpose of this cap is to ensure that ‘excessive’ council increases occur only where councils have a clear mandate from local people. This level has not been exceeded by Southwark to date. The table below shows that council tax would still remain below the charge it would have been if CPI had been applied each year since 2010-11, if the increased flexibility is applied.

**Table 2: Comparison of Actual (and proposed) Council Tax increases vs. Inflation**



46. The Council Tax Relief Scheme continues to provide support for our financially vulnerable residents. The government have announced that £100m support for local councils to provide additional support of up to £25 for those residents in receipt of local council tax support, with some flexibility to determine local approaches to support other vulnerable households. Southwark council’s share of this allocation is £628k.

Adult Social Care precept

47. Since 2016-17 the Government has provided flexibility to local authorities to increase council tax to provide a contribution towards the significant financial pressures in social care. The Government guidance was :

- a 2% increase in the precept in 2016-17;
- a 6% increase over the three year period 2017-20. A 3% precept was applied in 2017-18 and 2018-19 and 0% in 2019-20;
- a 2% increase in 2020-21.
- A 3% increase with local discretion to spread across 2021-22 and 2022-23 (the council applied the full 3% in 2021-22)

48. The government has now extended this flexibility with a further 1% increase in the precept in each of the next two years. This equates to a further increase of £1.2m per annum. The social care spending plans assume this level of additional funding will be available.
49. The government's spending power calculations assumes that all authorities with social care responsibilities will increase the precept in line with the guidance.

#### Southwark Element of the Council Tax

50. All except two London Boroughs, including Southwark, increased their council tax in 2022-23, with 21 of those choosing to do so by the maximum amount permissible. This is indicative of the cumulative impact of financial stress across local authorities in London.
51. In the context of pressures on council finances, the resilience of reserves and the historical year on year reductions in spending power, council tax remains a key source of income for the council. An increase of 2.99% in council tax amounts to £3.9m income.
52. The impact of an increase in council tax of 4.99% (2.99% plus 2% Social Care Precept) will mean that residents in Band D properties will see a council tax bill rise of approximately £1.15p per week (excluding any increase levied by the GLA). Around 77% of the chargeable dwellings in the borough are banded at D or lower.
53. The Mayor of London has published a draft budget for 2023-24, including a proposal to increase the GLA Council Tax precept by 7.1% - equivalent to £27.89 annually for a band D property. (This is indicative as the provisional settlement allows increases under the referendum rule of up to £38.55p). This means the total impact of council tax increases (both Council and GLA) for those living in Band D properties will be approximately £1.68 per week.

#### Council Tax Collection

54. As reported in the 2023-24 Council Tax Base report at December cabinet whilst there continues to be some growth in the number of dwellings, it is at a lower level than recent years. The report recommends that the collection rate be maintained at 97.2%, but given the current economic climate, this target is particularly challenging for the forthcoming year. The revenues collection teams will be reviewing approaches to collection and enforcement, where possible, to maintain levels of performance.

#### Business Rates Baseline

55. The central government agenda has been 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.

56. The 2023-24 budget includes a forecast assumption that the council's Business Rate Retention income will grow by £10m.
57. The economic recession, energy cost crisis and business rate revaluation adds to the challenges of managing any volatility in business rate yields. A review of the financial risk reserves is required to mitigate against this unpredictability.

### **Household Support Fund (HSF)**

58. The December cabinet report detailed the central government funding for the cost of living crisis by way of the Household Support Fund grant in 2022-23.
59. It was announced at the autumn statement that the Household Support Fund would be extended again, at the same rate, for another year until March 2024. No allocations have been announced at the provisional settlement but it is expected that the grant will council will receive a further £5.4m in 2023-24. This will be allocated to the Southwark Council Cost of Living Fund (SCCOLF).
60. The SCCOLF will be a critical resource for the most vulnerable residents. The latest ONS data on the cost of living<sup>1</sup> reported that the proportion of people finding it difficult to afford energy, rent or mortgage payment is increasing. And that this increase has a disproportionate impact. Around half of those with a personal income of less than £20,000 p.a. said they found it difficult to afford energy and housing costs compared with 23% of those earning more than £50,000. 44% of white adults reported finding it difficult to afford their energy bills compared with 69% of Black and Black British adults and Asian or Asian British adults (59%). 60% of those renting reported finding it more difficult to afford their energy bills compared with 43% who had a mortgage. Over 70% of adults who paid for energy by pre-payment reported difficulty affording it and disabled adults were more likely to find it difficult to afford energy bills (55%) with a third, finding it difficult to pay housing costs.

### **Holiday Activities and Food Programme (HAF)**

61. In 2021, the government announced a three year funding package for holiday activities and food programmes. The first year of this funding was for 2022-23 and is to coordinate and provide free school holiday provision, food and enriching activities for those children from low income households. The council have been allocated £1.5m of grant funding to deliver the HAF programme. The majority of the funding has been directly awarded as grant funding to local holiday provision providers to deliver the programme. The funding of this programme is to continue in 2023-24 and 2024-25.

### **Homelessness Prevention Grant (HPG)**

62. The Homelessness Reduction Act 2017 aimed to prevent homelessness before

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<sup>1</sup> [Impact of increased cost of living on adults across Great Britain - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

it occurred, wherever possible. Following this Act, the Flexible Homelessness Support Grant was introduced, (replacing the Temporary Accommodation Management Fee) to support local authorities to invest in preventative measures. The Homelessness Reduction Grant was introduced in 2020-21 to enable authorities to continue to meet the ongoing homelessness preventive costs. In 2021-22, these two grants were combined into the Homelessness Prevention Grant (HPG), to help deliver strategies to prevent homelessness and rough sleeping. Southwark received £5.5m in 2022-23.

63. Southwark are due to receive £5.7m in 2023-24 and £5.8m in 2024-25 which includes transitional grant protection. Increases in 2024-25, are lower in London than for other authority types whilst London faces growing pressures in the system. Looking beyond 2025, the government is planning to change the arrangements, creating an uncertain future, which may impact future grant allocations.

### **Special Educational Needs and Disabilities (SEND)**

64. The accumulated deficit on the Dedicated Schools Grant was £21.7m at 31 March 2022 with a projected further overspend of £3m by 31 March 2023. The council is in discussions with the Department for Education (DfE) to eliminate the historic deficit with the support of Safety Value funding. The deficit recovery plan that enables access to the grant will be difficult to comply with, as it is based on current DfE inflation estimates, which are lower than the Office for National Statistics (ONS) and Bank of England estimates. There is a risk that any shortfall in funding may impact on the general fund. The council is waiting for final details from the DfE and this inflationary risk remains with the council.

### **Inflation and Pay Costs**

65. Inflation is a key risk to the council's budget setting process for 2023-24 with November CPI running at 10.7%. The autumn statement assumptions expect inflation to be 9.1% overall in 2022-23 and to fall back down to 7.4% in 2023-24. However, the ONS<sup>2</sup> data shows that although inflation is easing, this is due to lower price rises in transport and motor fuel. But it is still at a 40 year high and the inflation rate for food and energy costs is still rising and rose by 16.5% in the year to November 2022. The rising inflationary rate of energy will put increasing pressure on council budgets in 2023-24. Whilst rising rates of food inflation will have a greater effect on low income households who spend a greater proportion of their household budget on food. This in turn will create further demand on council services.
66. The provisional settlement increased the revenue support grant element of government funding by inflation. But other government grants were cash flat, or were replaced by other ring fenced grants. The impact of extraordinary high levels of inflation has not been fully addressed for 2023-24. In addition, there was no funding for increased inflation for 2022-23. So these additional costs remain unfunded.

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<sup>2</sup> 15 December 2022. [Cost of living latest insights - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/cost-of-living/latest-insights)

## **Efficiencies and Improved Use of Resources**

67. 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 total budget proposals include efficiency savings of £12.0m (detailed in Appendix B).

## **Income Generation**

68. 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. The total budget proposals include additional income generation of £2.5m (detailed in Appendix C).

## **Savings Impacting on Service Delivery**

69. 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 D propose savings of £2.3m with potential to impact on service delivery.
70. Comprehensive equalities analysis of the impact of these savings will be considered before the budget is finalised.

## **Commitments**

71. The commitments include investment in teams to coordinate and support the council's work on climate change and equalities, investment of the Adult Social Care precept in adult social care and increasing funding for Temporary Accommodation.
72. A detailed list of all commitments can be found in Appendix E. The overarching theme of these commitments is to improve preventative services and to ensure that service budgets are sustainable, particularly in the context of the reduced availability of reserves to support budget pressures.

## **Fees and Charges**

73. Under Part 3C of the constitution, cabinet is responsible for the approval of new fees and charges and agreement of charging levels in line with the medium term resources strategy.
74. The council's Fairer Future Medium Term Financial Strategy 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. Detailed fees and charges schedules appear at Appendix F.

### **Use of Reserves and Balances**

75. 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.
76. 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.
77. The budget proposals for 2023-24 include a contribution of £2.5m from general reserves to balance the budget.
78. 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 is appropriate and affordable. In previous years, this judgment has been facilitated by the availability of unused contingency funds as budgets have met their targets.

### **Planned Corporate Contingency**

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

### **Consultation**

80. 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.

81. Since then the council has held the ‘Southwark Conversation’ in 2017 in which over 3000 residents responded as well as consulting on the Council Plan 2018-2022 during 2018 and again at the refresh in 2020. Together these have shaped the key priorities for the council over the coming years.
82. The council consulted in 2021 on the Climate Change strategy which is a key component of the refreshed Borough Plan and provided a framework for the council to engage with communities.

### **Next Steps**

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

Date	Meeting	Report	Purpose
23 January 2023	Overview and Scrutiny	P&R strategy	Comment on and make recommendations in respect of the cabinet’s proposed 2023-24 budget
6 February 2023	Cabinet	P&R strategy	Recommend a balanced budget for 2023-24 to Council Assembly
22 February 2023	Council Assembly	P&R strategy	Approve a balanced budget for 2023-24
24 February 2023	Council Tax Setting Committee	Setting the Council Tax 2023-24	Set the Council Tax. Committee required this year due to timing differences with the GLA budget setting process.

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

84. 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.
85. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Borough Plan. As with the budget for 2023-24 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.
86. 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 crosscutting and organisation-wide impacts.
87. 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.

88. 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 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**

89. There are no direct climate change implications arising directly from this report, which provides an update on the budget setting process for 2023-24. The individual proposals contained within this report and its appendices will be subject to appropriate processes to assess and mitigate risks and to maximise potential benefits. Further details of the financial implications of the council's climate change strategy can be found in the Climate Impact Statement at Appendix G.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Director of Law and Governance**

90. 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.
91. 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.
92. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.
93. 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.

94. 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

95. 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 17 January 2023 gives the opportunity for debate prior to presentation of budget figures to cabinet on 6 February 2023. 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 23 January 2023.

### REASONS FOR LATENESS

96. The Report was delayed due to the timing of the Provisional Local Government Finance Settlement, subsequent analysis of the impact and the need to take into account the latest updates from the budget challenge process.

### BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources Strategy: 2023-24 Updated Financial Remit	160 Tooley Street PO Box 64529 London SE1P 5LX	Tim Jones 020 7525 1772

### APPENDICES

No:	Title
Appendix A	Departmental Narratives
Appendix B	Proposed Efficiencies and Improved Use of Resources
Appendix C	Proposed Income Generation
Appendix D	Proposed Savings Impacting on Service Delivery
Appendix E	Proposed Commitments
Appendix F	Fees & Charges
Appendix G	Climate Impact Statement

### AUDIT TRAIL

<b>Cabinet member</b>	Councillor Stephanie Cryan Cabinet Member for Communities, Equalities & Finance
<b>Lead officer</b>	Duncan Whitfield – Strategic Director of Finance and Governance

<b>Report author</b>	Timothy Jones – Departmental Finance Manager
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<b>Version</b>	Final	
<b>Dated</b>	13 January 2023	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Director of Law and Governance	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
Cabinet Member	Yes	Yes
<b>Date final report sent to constitutional team</b>		13 January 2023

**CHIEF EXECUTIVE**

**Overview**

- A.1. The Chief Executive’s department comprises the Strategy and Economy, HR and Organisational Development, and Planning & Growth divisions.
- A.2. Strategy & Economy brings together the Chief Executive’s office, the Leader’s office, strategy and change, policy, performance and partnerships, communications, local economy and emergency planning. The division supports the Leader, Cabinet, Chief Executive and corporate management team in translating political vision into projects and programmes. This includes leadership of how we together with our community develop Southwark 2030, our shared vision for the borough. It leads on economic strategy and how we build a fairer, shared economy where everyone can play their part. The division includes the emergency planning team, ensuring the Council is best able to respond to emergency incidents and build community resilience. Most notably taking a lead role in the response to the Covid-19 pandemic on our community.
- A.3. HR and Organisational Development provides people-focused strategic and operational services, which are focused on enabling the council to achieve its goals. The function includes an important focus on delivering Southwark Stands Together and ensuring the council becomes an ever more inclusive, anti-racist employer.
- A.4. Planning and Growth brings together planners, project managers, regeneration and colleagues across the council dedicated to shaping place and investment to improve economic prosperity.
- A.5. The division leads on the council’s delivery of regeneration and building strong local communities, bringing about thousands of new homes, jobs and opportunities across the borough and making our neighbourhoods places in which people are proud to live and work.
- A.6. The department has identified a number of savings options summarised below for the forthcoming year 2023-24 amounting to £878k. Details of the individual savings options are reflected in the budget schedules.
- |  |       |
|--|-------|
| ○ Efficiencies and Improved Use of Resources | £62k  |
| ○ Income Generation                          | £708k |
| ○ Savings impacting on service delivery      | £108k |
- A.7. The 2023-24 Fees and Charges for the department are proposed to be increased in line with inflation or benchmarked against other London Boroughs where appropriate and details are reflected in the Fees and Charges schedules for the department.

## **Equalities Analysis**

- A.8. As specific proposals are brought forward the impacts on residents and staff will be assessed for equalities impact, although an initial equalities impact assessment has not highlighted any areas of concern. Any proposals affecting staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.

## **CHILDREN'S AND ADULTS' SERVICES**

### **Overview**

- A.9. Children's and Adults' Services represents approximately two thirds of the council's budget. The department provides a wide range of services, including social care, education and public health, to all sections of the population in Southwark.
- A.10. The budget proposals for 2023-24 are made up of a combination of efficiencies that are a continuation of tried and tested approaches as well as proposals that relate to change in the way services are delivered to achieve better value for money. The proposals aim to ensure minimal impact on statutory and front line services and some of them focus on redesigning the back office functions as well as maximising income generation. However, there are also a number of items that are savings and are expected to impact on service provision. In the current economic climate, the cost of living crisis and higher than 'normal' inflation increases, these are difficult financial decisions to make, but are consistent with the Council's vision of a fairer future for all.
- A.11. For several years now, the Council, in partnership with the NHS and voluntary sector colleagues, have provided a safe social care service with good outcomes and within budget. In 2022-23, this has only been possible with the use of reserves as well as non-recurrent contributions from the NHS. The sector continues to struggle with the combined effects of austerity, demand pressures, workforce challenges, continued funding uncertainty, as well as taking on significant burdens as a result of the cost of living crisis. There is also a growing concern within the service that an increasing number of schools are falling into financial difficulties.
- A.12. In addition, the Dedicated Schools Grant (DSG) is also expecting an unfavourable variance which is largely driven by the pressures on the High Needs (HN) block. This will result in an accumulated deficit on the balance sheet of around £24.7m by the end of this financial year. The council is in discussions with the Department of Education (DfE) to eliminate this deficit within the support of 'Safety Valve' funding. In order to achieve this, the council proposed a deficit recovery plan to bring the High Needs block back onto a sustainable footing.

### **Equalities Analysis**

- A.13. The equalities analysis is currently being undertaken for each proposal. Consultations have been and will be undertaken for proposals relating to service changes where appropriate. The impact is mitigated by alternative offers of services, support or personal budgets, as per service user choice, in line with the Care Act eligibility and national legislative thresholds and government guidance.

A.14. 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. The equality analysis is under way and will be collated to look for any cumulative impacts. In line with the process across the council, information on equality analysis will be shared with decision-makers for consideration before any decisions are taken.

A.15. Southwark Council's Fairer Future Promises are reflected in the proposals set forth as is a shift upstream to prevention and early help, recognising the evidence base and the outcomes that can be achieved by offering our residents good universal services.

## **HOUSING AND MODERNISATION (H&M)**

### **Overview**

- A.16. The department comprises a diverse range of services funded from both the general fund and the ring-fenced housing revenue account (HRA) for landlord services. In delivering the council's Fairer Futures Commitments, the department aims to maximise investment in its housing stock, build new council homes at council rents, deliver consistently high quality services and continue to support the most vulnerable residents, particularly those in need of temporary housing.
- A.17. A high proportion of the housing general fund budget is either demand driven or of a fixed contractual nature, for example, temporary accommodation and the customer contact centre, which leaves relatively little scope to make any meaningful savings towards meeting the budget gap without having a detrimental impact on services.

### **Asset Management**

- A.18. General fund services comprise aids and adaptations, handypersons, empty homes and private sector housing renewal and building safety. Corporate Facilities Management (CFM) is also within the division, bringing together housing and corporate buildings management, compliance and health and safety under one consolidated lead.

### **Central Services**

- A.19. Budgets held within this activity are of a department-wide nature including corporate recharges and costs that are not specifically attributable to a particular service, for example, financing and depreciation charges. Other budgets held centrally include contingency against irregular or exceptional events.

### **Customer Experience**

- A.20. The division is responsible for a diverse range of functions including the customer service centre (CSC), customer resolution, Freedom Pass (concessionary travel), registrars and citizenship, coroners and mortuary services.

### **Resident Services - Temporary Accommodation and Housing Solutions**

- A.21. Southwark is a leading authority on homeless prevention recognised nationally. However the cost of TA remains unremitting, driven by the growing national homelessness crisis, unaffordable private sector rented accommodation and government restrictions on Local Housing Allowance (LHA) rates meaning welfare benefits no longer cover the cost of private rented accommodation. These factors along with the unprecedented fallout of the pandemic has had a very significant impact on the council's TA budget. Furthermore, the Housing



Solutions service is under similar budgetary pressure with the need for additional staff resources to cope with the demand and the rising cost of upfront incentives payable to landlords to support homeless households into private sector leased accommodation.

### **Equalities Assessment Summary**

- A.22. The department undertakes equality analysis/screening on its budget proposals ahead of final decisions being taken. This helps to understand the potential effects that the budget proposals may have on different groups and whether there may be unintended consequences and how such issues can be mitigated. Analysis is also undertaken to consider any cross-cutting and organisation-wide impacts and continues through the cycle of planning and implementation of these proposals
- A.23. In line with our Public Sector Equality Duty, any changes to services arising from the proposals in Appendices B-E 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.

## **ENVIRONMENT AND LEISURE**

### **Overview**

A.24. The Environment and Leisure department delivers services that make a real difference to the everyday lives of all residents and visitors. The department is focused on providing high quality services to the borough's residents and shaping those services to support the wellbeing of our residents and support the objectives of other parts of the Council.

A.25. The department aims to make Southwark's neighbourhoods great places to live, places that are clean, safe and vibrant and where activities and opportunities are accessible to all. As well as our front-line environmental services we are proud to work with partners to improve health and wellbeing for all our residents through a rich leisure and cultural programme.

A.26. Many of the operational activities of the department are frontline services for the benefit of all residents: they physically improve the environment; they provide opportunities for health and enjoyment, support knowledge and learning or help improve safety and confidence. The department has four directorates, Environment, Leisure, Communities and Climate Change.

A.27. The 2022-23 net budgets for the department is £94m

### **2023-24 Savings**

A.28. For the forthcoming year, 2023-24, the department has identified a number of savings options and these are reflected in the detailed budget schedules for the department.

### **Fees and Charges**

A.29. The 2023-24 Fees and Charges for the department are proposed to be increased in line with inflation or benchmarked against other London Boroughs where appropriate and details are reflected in the Fees and Charges schedules for the department.

### **Equality Analysis**

A.30. As specific proposals are brought forward the impacts on residents will be assessed for equalities impact, although an initial equalities impact assessment has not highlighted any significant concern. Any proposals affecting staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.

## **FINANCE AND GOVERNANCE**

### **Overview**

A.31. The Finance and Governance Department includes the Director's office, which provides strategic leadership for the department and Section 151 responsibilities; Exchequer Services, which encompasses revenues and benefits and housing rent collection, as well as the financial transaction processing teams; the Law and Governance division responsible for electoral, constitutional, governance and legal services and the Professional Financial Services.

A.32. In supporting the Fairer Future promises of the council, the department's vision is to "make a positive difference everywhere we engage" and to be "efficient and effective in all that we do". Specifically, Finance and Governance endeavours to help the council to "manage every penny as carefully as local families look after their own household budgets".

### **Efficiencies, Income generation and other savings**

A.33. Over 70% of the departments expenditure budget is staffing costs and we are continuously reviewing services to ensure they are operating efficiently and are adapting to changing demands and caseloads so as to ensure they are fit for the future. The majority of savings and efficiency proposals for 2023-24 focus on streamlining processes, channel shift and optimising digital delivery.

A.34. Income generating proposals include increased legal fees within Law and Democracy.

A.35. Other savings across the division include a proposal to cease the annual revenue contribution to the Brexit reserve, and a remodelling of the Local Support offer.

### **Commitments**

A.36. The department is proposing a small number of commitments to cover additional costs arising from changes to elections and health and social care legislation and an increase in external audit fees set by the PSAA.

### **Equality Analysis**

A.37. As specific proposals are brought forward, and at each stage of implementation thereafter, the impacts on different categories of staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.

## **CORPORATE**

### **Overview**

A.38. The Corporate budgets include technical accounting budgets such as Minimum Revenue Provision (MRP), treasury income and costs, pension related costs and budgets which impact across the wider council. The £4m contingency budget also sits within corporate to support the wider budget risks.

### **Commitments**

A.39. The council is required to contribute a proportionate share to cover the costs of the London-wide Freedom Pass scheme. The annual value of this contribution is based on usage estimates and dropped significantly in recent years due to the pandemic. Whilst 2023-24 estimates still show a reduction of £250k in the council's contribution, forecasts show that over the following two years the amount will increase back to pre-pandemic levels and beyond, resulting in a net growth requirement over the three year period.

### **Equality Analysis**

A.40. As specific proposals are brought forward, and at each stage of implementation thereafter, the impacts on different categories of staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.