

<b>Item No.</b> 13.	<b>Classification:</b> Open	<b>Date:</b> 10 July 2023	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Policy and Resources Strategy: Financial Remit 2024-25 to 2026-27	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Stephanie Cryan, Communities, Democracy and Finance	

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

This report begins the council's three year 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 2024. The council has a statutory duty to set a balanced budget each year and despite the impacts of a decade of reductions in funding due to austerity, and since then the impact of the pandemic and the cost of living crisis, we meet that duty.

In this report we also consider the emerging pressures on the budget. These include the cost of living crisis and the climate emergency including the capital budget to meet carbon neutral by 2030 met through council borrowing, which 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 5.5% inflation on contractual costs. We will continue to keep an eye on the impact of inflation as we go through the budget process.

We are currently estimating the budget gap to be £24m in 2024-25, assuming council tax increases of 2.99% and ASC precept of 2%. However we will not know the full scale of the gap until we receive our provisional funding settlement in December.

The report considers the most likely financial position to be faced by the council in 2024-5, 2025-26 and 2026-27. The report sets out an approach for the budget process, 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. We will also be looking at options to generate income between now and 2026-27.

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. As always we will be calling for greater certainty for local government as part of the financial settlement to allow us to have a longer term view on where we need to focus our resources.

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 Southwark 2030.

## **RECOMMENDATIONS**

That cabinet note:

1. The three year Medium Term Financial Strategy (MTFS) with an estimated General Fund budget gap of £24m in 2024-25 rising to £50m, cumulatively, by 2026-27 based on the assumptions set out in paragraphs 30-43;
2. The Strategic Director of Finance, with the support of other Strategic Directors, will seek to prepare indicative savings options and growth proposals for a three year period from 2024-25 to 2026-27;
3. That Cabinet will receive further reports in the autumn as more information regarding funding is made available.

## **BACKGROUND AND PURPOSE**

4. Each year, the council updates the policy and resources strategy covering a period that normally reflects the duration of the government's financial settlement. As part of this 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.
5. 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 Southwark Plan.
6. The council has been operating within a very difficult macro-economic climate for over 13 years, seeing significant funding reductions due to the impact of austerity, whilst simultaneously being required to take on additional burdens and having to cope with higher demand for services and support. This period was followed by the Covid-19 pandemic and currently, by the cost of living crisis, both have created further demand and cost pressures. Over this extensive period, the council has maintained essential services, adapted to new ways of working and balanced the budget as well as adhering to the principles of financial sustainability. And through good financial management has kept the council tax as low as possible – the eighth lowest in London and ninth lowest across the country.
7. This report notes the current position and provides an initial forecast of the most likely funding gap for each year 2024-25. The intention, for the first time, is to present an early view of the following two years, 2025-26 and 2026-27. This will

enable a three year Medium Term Financial Strategy (MTFS) to be initiated. Alongside this three year MTFS, will be a forward view of the council's procurement plans across the organisation. These will be incorporated into the budget challenge process that assesses the council's proposed commitments and savings over the next three years. In instigating three year financial plans, it needs to be noted that confidence in these forecasts is naturally greater in the earlier periods (discussed in paragraphs 8-10).

## **KEY ISSUES FOR CONSIDERATION**

### **Local government funding**

8. The main strategic funding decisions of central government, as they relate to local government, are normally made at each Spending Review with detailed allocations at the subsequent annual local government finance settlements. For 2023-24, the government set out its intentions for local government finance in a policy statement, ahead of the local government settlement. The statement recognised that councils needed greater certainty to plan budgets in the future, so set out the intention of a two year settlement ( 2023-24 and 2024-25) allowing for more stability and longer term planning. However, at the provisional settlement, the proposed funding allocations were for 2023-24 and a set of principles, for funding in 2024-25.
9. These broad indicators for 2024-25 did not translate into individual local authority allocations. In the Spring 2023 budget, the Chancellor, set out a plan for stabilising the UK economy and reducing inflation. The Chancellor's plans spanned two separate budget planning periods. The first for 2023-24 to 2024-25 before the general election, which retained the targets set out in the 2021 Spending Review. The second planning period, 3 years from 2025-2028, where average government spending is planned to rise by 1% p.a.
10. For local government, this suggests a potential cash reduction over the second 3 year period 2025-28, as other government departments have already secured rises above the announced 1%. Funding plans are highly speculative at this stage, exacerbated by an expected general election in autumn 2024, which may change the overall direction for public spending and priorities.

### **Inflation and interest rate rises**

11. Inflation (including pay inflation) remains a key risk in the council's budget setting process. The ONS reported that CPI inflation, fell to 8.7% in April 2023, down from 10.1% in March 2023, which remains higher than expected and higher than the government's 2% target. Although the 2023-24 settlement increased the revenue support grant element of government funding by inflation, other government grants were mainly reduced in real terms and the increased funding directed towards ring fenced grants. In addition, there was no additional funding to compensate for higher than expected inflation in 2022-23. Over the next 3 years, central government funding again, may well fall short of adjusting for the full impact of inflation.
12. As inflation remains well above the government's target, the Bank of England have raised the central rate by 0.5% to 5%, with the prospect of borrowing costs reaching

5.5% or higher before the end of 2024. This will increase the council's cost of borrowing and impact adversely on the general fund budget.

## **Local spending pressures**

### *Cost of Living*

13. Taxes have continued to rise to their highest ever level. Households will continue to feel pain in the longer term, as even if inflation comes down, prices will remain high. Food prices increased by 19% to April 2023, and 25% for several basic essential foods. Earnings are rising but still lag behind inflation and the freezing of tax and national insurance thresholds will add further pain. This will create further hardship for those most vulnerable. In 2022-23, demand for emergency support from Southwark residents doubled by the end of the year with over 1,900 households were provided with emergency payments. Families who are struggling to pay bills may also struggle to pay council tax which will have an impact on the council's debt position.
14. The council has pledged to continue to tackle the cost of living crisis for residents through a number of programmes in 2023-24, using both government grants and council resources. These initiatives include:
  - Further resources added to the Southwark Cost of Living Fund (SCOLF) for 2023-24
  - Support for fuel costs in response to the government scaling down universal support
  - Continuing access to the Southwark Energy Savers Service
  - Free school meals during the holidays for those primary age children receiving free school meals
  - Re-launch of the community pathway programme to ensure resources are targeted to those most in need
  - Expansion of the support given through the council's emergency schemes to include those on low incomes who are not entitled to benefits as well as those that are eligible
  - Continue the council's free healthy school meals provision
  - Continuing to invest in the local voluntary sector.
15. In 2023-24, the council committed £11m (£5.7m from the government's Household Support Fund) to set up new support packages and continue supporting the most vulnerable residents in the crisis. There is currently no indication of whether the government funding will be extended beyond March 2024. Medium term planning to support residents is made more difficult if government funding is not announced soon for 2024-25.

### *Climate emergency*

16. The council has published a Climate Emergency Strategy and Action Plan setting out how the council will become carbon neutral by 2030 and work to ensure the borough is also carbon neutral by 2030. The action plan is very ambitious and recognises that the resources are not in place to deliver it. It is estimated that the

cost of the borough being carbon neutral is £3.9bn which would require central government to increase funding available to meet this challenge.

#### *Funding the Capital programme*

17. The council has sustained a significant capital programme for the development and improvement of assets and infrastructure across the borough. Wherever possible, this is funded through capital receipts and grant provision but all costs over and above these funding streams are resourced through borrowing.
18. Last year, officers highlighted the impact of rising interest rates, which had been at historic lows for a prolonged period. Rising costs of borrowing will impact on the medium term financial plan. The ten year PWLB maturity rate is currently 5.25%, compared with 1.64% in June 2021, therefore the cost of borrowing for the capital programme is approximately 2.2 times greater. This will inevitably impact on the affordability and the profiling of the council's capital programme.
19. Over and above this, the capital programme continues to experience levels of inflation that well 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.

#### *Dedicated Schools Grant (DSG)*

20. Demand pressures on the Dedicated Schools Grant (DSG) budget created an adverse variance on the DSG outturn in 2022-23, with the 'High Needs Block' remaining a high risk area in the medium term. In order to manage the accumulated DSG deficit the service entered the Department of Education's (DfE) Safety Valve programme. This was established by government in recognition of their historic underfunding of need. Key to this programme is the agreement to ensure an in year balanced position within the timeframes agreed. In exchange of this achievement the DfE will provide additional funding to eliminate the accumulated deficit.
21. The first instalment (£9.2m) from the DfE was received in 2022-23, leaving an accumulated deficit of £14.5m as at 31 March 2023. The council is working hard to bring the service to a sustainable footing but achievement of this will continue to be affected by demand pressures. The service in conjunction with the High Needs subgroup of the School's Forum, HR, Finance and Commissioning have developed detailed action plans which underpin recovery.

#### *Housing Revenue Account (HRA)*

22. The Housing Revenue Account (HRA) has been impacted substantially by inflation, and the volume and cost of repairs, as well as an extended period of rent reductions and now a cap. In 2022-23 the use of £6.7m of reserves was necessary to balance the outturn position.

23. Over the medium and long term, there are a number of other significant underlying budget pressures in the HRA. New commitments have arisen from the management and maintenance of housing stock and new requirements arising from the Building Safety and Fire Safety Acts which will serve to exacerbate the pressure on both revenue and capital resources. The council needs to borrow to fund the Housing Investment Programme, which is set to increase significantly, at the same time as meeting investment in current stock, building and fire safety works, investment in heat networks together with the council's commitments to carbon reduction.
24. The continued growth in the council's debt, to finance the new homes programme has increased the revenue financing requirement by an extra £3.1m. These costs will continue to accelerate rapidly over the short-term and with interest rates over 3% higher than two years ago. The servicing of the council's housing debt, will consume a much greater share of HRA resources to the detriment of other service priorities.

#### *Other service pressures*

25. Temporary accommodation is likely to continue to add pressure to the general fund budget driven by the cost of living crisis and the local housing allowance (LHA) not covering rent costs across the borough. The net spend on temporary accommodation in Southwark is £17m.
26. London Council's<sup>1</sup> research found that only 6% of properties were affordable on LHA in South East London.

#### **UPDATED FINANCIAL REMIT 2024-25 to 2026-27**

27. This report sets out an initial three year financial outlook for 2024-5 to 2026-27. Each year, the budget remit report to July cabinet starts the budget challenge process, which culminates in the setting of the council budget in the following February. It provides a framework for budget discussions, through a medium term financial strategy (MTFS), giving an early view of the likely gap in council funding for the following year. The budget challenge process this year will focus on identifying savings over the three year period, together with identifying council-wide transformation programmes to reconfigure services and the corporate centre to support the council delivery plan priorities. Consultation with residents on how to achieve these priorities and more, is taking place via the Southwark 2030 project, with a report due in autumn 2023. The themes identified and actions required to achieve this will be incorporated into the budget process and MTFS.
28. This financial remit report is being compiled in a period of ongoing financial uncertainty. The report considers the most likely financial position to be faced by the council in 2024-25 based on the policy statements accompanying the local authority finance settlement in December 2022. For the following 2 years, assumptions are necessarily based on a prudent, best-estimate basis which will be refined over the 2023-24 financial year.

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<sup>1</sup> London PRS affordability briefing

29. The policy statement and the 2023-24 local government finance settlement set out broad assumptions for the 2023-24 and 2024-25 planning period. Thereafter the departmental plans are assumed to show no growth as a prudent view on likely outcomes. At this stage the 'most-likely' budget scenario is based on the following assumptions detailed in paragraphs (30-43). The updated MTFS can be found at Appendix 1, a summary of this is shown below at Table 1.

<b>Table 1 MTFS 2024-25 to 2026-27</b>					
		<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Resources	Un-Ringfenced Government Grants	(82.38)	(83.55)	(80.00)	(81.18)
	Ringfenced Government Grants	(78.68)	(82.62)	(83.65)	(84.71)
	<b>TOTAL GOVERNMENT FUNDING</b>	<b>(161.05)</b>	<b>(166.16)</b>	<b>(163.65)</b>	<b>(165.88)</b>
	Council Tax	(137.71)	(147.19)	(157.64)	(168.83)
	Business Rate Growth	(136.06)	(131.07)	(131.07)	(131.07)
	<b>COUNCIL TAX AND RETAINED BUSINESS RATES</b>	<b>(273.77)</b>	<b>(278.25)</b>	<b>(288.71)</b>	<b>(299.90)</b>
	Contribution from earmarked reserves	(2.50)	(2.50)	(2.50)	-
	<b>TOTAL RESOURCES</b>	<b>(437.32)</b>	<b>(446.92)</b>	<b>(452.36)</b>	<b>(465.78)</b>
	Prior Year Budget	<b>391.15</b>	<b>437.32</b>	<b>445.47</b>	<b>451.78</b>
Growth & Savings	Inflation	33.81	22.30	18.49	14.42
	Commitments & Contingency:	28.77	10.85	7.88	5.27
	Savings	<b>(16.41)</b>	-	-	-
	<i>Prior year savings not yet identified</i>			23.56	41.99
	<b>TOTAL SHORTFALL (cumulative)</b>	-	<b>23.56</b>	<b>41.99</b>	<b>50.76</b>

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

30. Revenue Support Grant (RSG) to be increased by 5.5% in 2024-5 as stated in the policy statement, and thereafter at 2%. The New Homes Bonus scheme will cease 31 March 2024, and it is assumed only legacy payments will be paid. The Services Grant is due to be discontinued after 2024-25 and monies recycled through the system. (This is shown separately in Appendix 1, but may be included within the RSG).

#### *Ring-fenced government grants*

31. The major social care grant funding streams, i.e. Improved Better Care Fund and Social Care Grants have been uplifted in line with baseline funding assumptions above. Central government assumptions at the Spending Review were that social care grants would increase significantly to accommodate the adult social care reforms and departmental spending limits show significant increases of funding to local authorities. However, as the reform has been delayed until October 2025, the

assumption remains that these will be uplifted in line with baseline funding, until such time as the reforms are implemented. Any change to this, will be incorporated into the MTFS as required.

32. The government have given estimates of the Public Health Grant for 2024-25. In the following two years the assumption is that this remains cash flat.
33. The Extended Producer Responsibility (EPR) scheme is designed to make producers responsible for the costs of managing packaging waste. This is to be phased in from 2024 with payments for household packaging waste and packaging in street bins managed by councils with a Scheme Administrator (SA) appointed to oversee the system. The SA will calculate costs and consider local authorities' performance and distribute payments to local authorities for the full net disposal costs of providing 'efficient and effective' systems for managing household packaging waste. There is no reliable assessment yet of the financial impact on local authorities, or how the Scheme will operate in practice, so the MTFS has assumed a net nil position until more details become available.

#### *Revenue Funding from Local Taxation*

34. 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. These major revenue income streams may come under collection pressures as the cost of living crisis progresses.
35. Council tax income for 2024-25 is budgeted at £147m. This assumes a tax increase of 2.99%, and a social care precept increase of 2%. Growth in the council tax base is estimated at 2%. These same rate rises have been applied to 2025-26 and 2026-27.
36. 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 2023-24, the adult social care budget will be enhanced by £17m per annum.

<b>Year</b>	<b>Precept</b>
2016-17	<b>2%</b>
2017-18	<b>3%</b>
2018-19	<b>3%</b>
2019-20	<b>0%</b>
2020-21	<b>2%</b>
2021-22	<b>3%</b>
2022-23	<b>1%</b>
2023-24	<b>2%</b>



37. In reviewing these estimates over the current and future years, these assumptions will be updated for:

- 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.

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

38. In addition to the baseline business rate assumptions, authorities are able to retain a share of any growth in business rates income above the government set target. Given the current economic climate we have assumed that this remains cash flat over the three years of the MTFS.

39. Current projections of surpluses or deficits on the collection of council tax and business rates range from a surplus of £2.8m to a deficit of £2.2m. So the current assumption is a balanced position. Any change in the current year (2023-24) outturn forecast on the collection fund will impact on the 2024-25 position.

#### *Inflation, Pay, Commitments and Debt Costs*

40. The MTFS has assumed a 4.5% pay award in 2024-25, 4% in 2025-26 and 3% in 2026-2027.

41. Inflation will be the key risk to the council's budget setting process. Contractual inflation is assumed at 5.5% in 2024-25, 4% in 2025-26 and 3% in 2026-27.

42. The current position on the MTFS includes the associated cost increases arising from the estimated increases in the ring fenced grants. It also recognises those already known commitments, such as the increases in IT licensing fees and the council's liability for funding the London-wide freedom pass.

43. Debt financing has been assumed to be £2.0m based on 4.5% overall rate in 2024-25, decreasing to £1.5m in 2025-26 and £1.0m in 2026-27; assuming that interest rate and borrowing costs will reduce over the longer term.

#### *Fees and charges*

44. 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 2024.

### *Local Government reform*

45. Promised reforms to local government funding have been delayed and are unlikely to be implemented before the general election. No assumptions have been made for 2025-26 and 2026-27. The council is likely to lose significantly as a consequence of the Business Rate Baseline Reset so reserves have been set aside to mitigate any impact. These assumptions will be continually reviewed and updated as more information becomes available. Furthermore, the government is developing plans to introduce a new body, The Office for Local Government (OFLOG) to assess local government performance. The implications of this are not yet clear, but subsequent reports to cabinet will provide further information as and when it becomes available.

### **Risks to delivery**

46. The MTFS covers a wide range of services over a three year period. It is natural therefore that circumstances and policies can change and develop over time. The particular financial risks and pressures facing the council have been detailed in paragraphs 8-26 above.
47. 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 register. High level risks have been assessed in February 2023 as including:
- Acute socio-economic factors - inflation and pay costs, interest rates
  - Cost of Living
  - Medium term financial planning and robustness of budgets
  - Schools and Education
  - Cyber security, IT, Data Information management;
  - Capital Programme and Major Projects;
  - Climate emergency.
48. 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.
49. 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.

### **Reserves**

50. As at 31 March 2023 the council had unallocated general fund reserves of £22.4m, net earmarked reserves of £209m. The net earmarked reserves are maintained to fund:
- Future financial risks, for example, the planned reform to business rates;
  - Council priorities and service improvements

- exceptional items or pressures which are difficult to predict and which are not included in revenue budgets or within the capital programme.
51. General Fund balances may be available in the short term to support the costs of exceptional circumstances, but the use of these reserves will compromise financial resilience and will need to be maintained at existing levels over the MTFS period.
  52. 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, or future risks. For 2024-25 and 2025-26, £2.5m has been earmarked to support the budget due to high levels of economic uncertainty. Excluding capital and technical sums such as insurance, usable revenue reserves amount to only a fraction of the council's turnover.
  53. 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.
  54. 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

55. The main governance steps to establishing the 2024-25 general fund revenue budget are outlined in the table below:

Date	Meeting	Purpose
July	Cabinet - Budget Remit Report	High-level scene setting, for MTFS
Summer	Strategic consideration of challenges and opportunities - Strategic Directors/Cabinet Members Cross-cutting themes	
September	Cabinet - Updated Financial Strategy	Update the financial remit and confirm the size of the budget challenges facing the council in the period to 2024-25 to 2026-27
Sept/Oct	Budget Challenge Round 1	
October	Cabinet – Capital Governance Review. Proposals to be implemented from April 2024	
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 2024-25
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 2024-25 budget and indicative budgets for future years
February	Cabinet - P&R Strategy	Recommend to Council Assembly balanced budget for 2024-25
	Council Assembly	Council Tax setting and approve a balanced budget for 2024-25 and agree indicative budgets for 2025-26 and 2026-27

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

56. 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.
57. 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.
58. 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.
59. 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.
60. 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**

61. 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.
62. The council has committed to doing everything that it can to make Southwark carbon neutral by 2030.
63. 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.

64. 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**

### **Assistant Chief Executive – Governance and Assurance**

65. 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.
66. 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.
67. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.
68. 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.
69. 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**

<b>Background Papers</b>	<b>Held At</b>	<b>Contact</b>
<b>Link (please copy and paste into browser):</b> <a href="#">Policy and resources strategy 2023-24 – revenue budget</a>	160 Tooley Street London SE1 2QH	Timothy Jones 020 7525 1772

## APPENDICES

No:	Title
Appendix 1	Draft Medium Term Financial Strategy

## AUDIT TRAIL

<b>Cabinet member</b>	Councillor Stephanie Cryan, Communities, Democracy and Finance	
<b>Lead officer</b>	Clive Palfreyman, Strategic Director of Finance	
<b>Report author</b>	Timothy Jones, Departmental Finance Manager	
<b>Version</b>	Final	
<b>Dated</b>	26 June 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>
Assistant Chief Executive – Governance and Assurance	Yes	Yes
Strategic Director of Finance	Yes	Yes
Cabinet Member	Yes	Yes
<b>Date final report sent to Constitutional Team</b>		26 June 2023

## APPENDIX 1: Draft Medium Term Financial Strategy

	2023-24	2024-25	2025-26	2026-27
<b>Un-Ringfenced Government Grants</b>	<b>(82.38)</b>	<b>(83.55)</b>	<b>(80.00)</b>	<b>(81.18)</b>
Revenue Support Grant	(42.18)	(44.49)	(45.38)	(46.29)
Top-Up	(32.87)	(33.53)	(34.20)	(34.88)
2023/24 Services Grant- SFA redistributed	(4.69)	(4.69)		
New Homes Bonus	(1.67)	(0.84)	(0.42)	-
One-Off NNDR Levy release (Final Settlement)	(0.97)			
<b>Ringfenced Government Grants</b>	<b>(78.68)</b>	<b>(82.62)</b>	<b>(83.65)</b>	<b>(84.71)</b>
Public Health Grant	(29.50)	(30.87)	(30.87)	(30.87)
Social Care Grant	(27.65)	(29.17)	(29.75)	(30.35)
Improved Better Care Fund	(17.85)	(18.83)	(19.21)	(19.59)
ASC Market Sustainability & Improvement	(3.68)	(3.75)	(3.83)	(3.90)
Extended Producer Responsibility (EPR)	-	-	-	-
<b>TOTAL GOVERNMENT FUNDING</b>	<b>(161.05)</b>	<b>(166.16)</b>	<b>(163.65)</b>	<b>(165.88)</b>
<b>Council Tax</b>	<b>(137.71)</b>	<b>(147.19)</b>	<b>(157.64)</b>	<b>(168.83)</b>
Council tax baseline funding	(128.61)	(137.43)	(147.19)	(157.64)
Council tax base - properties/LCTS working age	(2.29)	(2.75)	(2.94)	(3.15)
Council tax - annual increase	(3.91)	(4.21)	(4.50)	(4.82)
Council tax - Social Care precept	(2.62)	(2.80)	(3.00)	(3.22)
Council tax - estimated (surplus)/deficit	(0.28)	-	-	-
<b>Business Rate Growth</b>	<b>(136.06)</b>	<b>(131.07)</b>	<b>(131.07)</b>	<b>(131.07)</b>
Retained Business Rates	(98.08)	(98.08)	(98.08)	(98.08)
S.31 Grants	(27.38)	(27.38)	(27.38)	(27.38)
S.31 Grant for Business Rates Top-Up	(5.60)	(5.60)	(5.60)	(5.60)
Business Rates - estimated (surplus)/deficit	5.26	-	-	-
Support for deficits	(5.24)			
BRR - S.31 grants c/f	(5.00)			
<b>COUNCIL TAX AND RETAINED BUSINESS RATES</b>	<b>(273.77)</b>	<b>(276.81)</b>	<b>(285.63)</b>	<b>(294.98)</b>
<b>Total Funding before contributions from balances</b>	<b>(434.82)</b>	<b>(442.97)</b>	<b>(449.28)</b>	<b>(460.86)</b>
Contribution from earmarked reserves	(2.50)	(2.50)	(2.50)	-
<b>TOTAL RESOURCES</b>	<b>(437.32)</b>	<b>(445.47)</b>	<b>(451.78)</b>	<b>(460.86)</b>
<b>Prior Year Budget</b>	<b>391.15</b>	<b>437.32</b>	<b>445.47</b>	<b>451.78</b>
<b>Inflation</b>				
Pay Awards 23/24	5.85	8.55	7.94	6.19
Pay Awards 22/23 unbudgeted pressure	5.49			
Contractual Inflation (inc. energy costs)	14.60	13.75	10.55	8.23
Contractual Inflation (2022/23)	3.42			
Energy price inflation on Council Buildings	4.45			
<b>Commitments &amp; Contingency:</b>				
Ringfenced Social Care Commitments	14.93	6.74	4.04	4.27
Other Growth and Commitments	13.84	2.86	2.34	
Reverse one-off commitments	-	(0.75)		
Debt Financing (approved programme)	-	2.00	1.50	1.00
<b>Budget Before Savings &amp; Efficiencies</b>	<b>453.73</b>	<b>470.47</b>	<b>473.29</b>	<b>474.55</b>

<b>Budget Gap before Savings &amp; Efficiencies</b>	<b>16.40</b>	<b>23.56</b>	<b>18.43</b>	<b>8.77</b>
Effective use of resources and efficiencies	(12.81)	-	-	-
Income, Fees and Charges	(2.53)	-	-	-
Other Savings	(1.07)	-	-	-
<b>TOTAL SAVINGS</b>	<b>(16.41)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL BUDGET</b>	<b>437.32</b>	<b>470.47</b>	<b>473.29</b>	<b>474.55</b>
<i>Prior year savings not yet identified</i>			23.56	41.99
<b>TOTAL SHORTFALL (cumulative)</b>	<b>-</b>	<b>23.56</b>	<b>41.99</b>	<b>50.76</b>