

Item No. 14.	Classification: Open	Date: 5 December 2023	Meeting Name: Cabinet
Report title:		Policy and Resources: Budget Setting Update 2024-25	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Stephanie Cryan, Communities, Democracy and Finance	

FOREWORD – COUNCILLOR STEPHANIE CRYAN, CABINET MEMBER FOR COMMUNITIES, DEMOCRACY AND FINANCE

The Autumn statement on 22 November 2023 was disappointing. Economic growth remains weak and inflation and interest rates are expected to stay higher for longer and rather than compensating public services for the higher costs, the Chancellor opted to cut taxes. It was clear that councils will not receive any funding for the additional inflationary pressures in 2023-24 and there was no specific announcement for local government funding in 2024-25. The provisional settlement is due only at the end of December, when the council will receive specific notification of grant funding for next year.

Despite the lack of long-term certainty of funding from the Government we will be setting a three year budget to ensure we are delivering the services and support our residents want and need. This report takes into consideration both the autumn statement and the updated budget proposals for 2024-25 to 2026-27. We previously reported the scale of the challenge that we looked to be facing for the three year medium term budget planning process. We set out the emerging pressures in the context of high interest rate and inflation rates, and the resultant cost of living crisis and those requiring social care and those faced with homelessness.

The report has identified savings options that fit within the overall policy and financial framework, aligning resources to the council's key priorities including commitments around Southwark 2030, Southwark Stands Together, the climate emergency, our Council Delivery Plan and the additional demand pressures.

We have set out in this report £20.9m of savings in 2024-25 through a combination of efficiencies and other savings. These proposals will be consulted on with staff, affected residents and other stakeholders and partners as necessary.

After amending our assumptions following the autumn statement, together with the savings currently identified, the budget gap reported in October of £24m has reduced to £6.7m. This is after assuming a council tax increase of 4.99% in line with the governments policy statement in December 2022 (2.99% general increase, and 2% for social care).

Unlike central government, the council is legally required to set a balanced revenue budget without resorting to borrowing so I have asked that work to explore ways to manage this is continued. Further work is needed to set out detailed council wide transformation plans for the period beyond 2024-25.

Notwithstanding the challenges, 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 and to make Southwark a Fairer, Greener, Safer borough.

RECOMMENDATIONS

That cabinet note:

1. The updates from the autumn statement delivered on the 22 November 2023 and the budget challenge process;
2. The updated budget gap for 2024-25 of £6.7m; and for the following 2 years £4.5m and £4.6m respectively;
3. The proposed options to help achieve a balanced 2024-25 budget and indicative savings for 2025-26 and 2026-27 together with departmental narratives (Appendices A to E);
4. Appendix F which details the draft fees and charges schedules;
5. Strategic Directors will continue to work with their respective Cabinet Members to find additional savings option;
6. The intention is to prepare a balanced one year 2024-25 budget, together with indicative savings for the following two years, for recommendation by cabinet, in advance of approval by council assembly in February 2024;
7. Equality Impact Assessments are ongoing and that a cumulative impact assessment will be presented to cabinet as part of the budget update in February;
8. Officers will undertake further consultation for new budget options where necessary or appropriate;
9. The appendices A-F will be considered by the overview and scrutiny committee on 22 January 2024, prior to February 2024 cabinet.

That cabinet approve:

10. The write-off of one NNDR debt of £292,849.08 which is irrecoverable (Appendix G).

BACKGROUND AND PURPOSE

11. 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, which in recent years has been for one year only. The 2024-25 budget will be presented for approval, in line with the requirements of the Local Government Finance Act, by council assembly in February 2024 as part of council tax setting.
12. In addition, the council has undergone a three-year budget process which will be reported to February cabinet and council assembly. This will detail the predicted budgets, funding gaps and expected further savings required for the following two years, 2025-26 and 2026-27. This approach will enhance the council's commitment to financial planning and efficiency. Most importantly, it ensures that the policies and priorities set out in the council delivery plan are aligned to the projected financial resources.
13. During austerity, (2011-12 and 2019-20), the council lost government funding in cash terms of more than £146m. Since then, the council has faced the impact of the pandemic and currently a cost of living crisis. 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. The impact of constrained income streams at the same time as increased demand and the increased cost of delivering council services has created significant budget pressures over this 12-year period.
14. This report provides an update on the work undertaken to both reflect the work undertaken through the budget challenge process and the latest information on available resources following the autumn statement. It considers budget savings and commitments proposed through the budget challenge process for the full three-year period, 2024-25 to 2026-27, ensuring that the council's vision illustrated through Southwark 2030 and the council delivery plan are put at the heart of this budget. The report follows the October cabinet approach and takes a multi-year view to manage efficiencies within the council and to ensuring financial sustainability in the longer term. It also seeks to bring together reporting requirements into one document, enabling simpler and shorter formats, with the appendices providing the detail for cabinet to note or approve.

KEY ISSUES FOR CONSIDERATION

Autumn Statement – 22 November 2023

15. The initial spending assumptions and economic context were set out in the October cabinet report. The autumn statement provided no significant changes to the funding assumptions for local government. The increase in tax receipts through the freezing of thresholds has been used to deliver cuts to corporation tax and national insurance rather than compensate public services for higher costs.
16. Both inflation and interest rates remain high – October CPI has reduced to 4.6% from September CPI at 6.7%, though this is still above the government's 2% target. Central bank interest rates remain at 5.25%. The Office for Budget Responsibility (OBR) economic and fiscal outlook that was published alongside the statement downgrades economic growth in 2024 and 2025 to 0.7% and 1.4%, from the March 2023 forecast. Unemployment increases to 4.6% of the labour force and living standards expected to be 3.5% lower than the pre pandemic level.
17. The key announcements in the November autumn statement were:-
 - Overall, the public sector, as previously announced, will be given a 1% a year increases, in real terms. However, given that some sectors have been promised more, the OBR forecasts that local government is likely to have a reduction by 2.3% in real terms from 2025-26.
 - To deliver planned reductions whilst maintaining and improving public services would require a significant improvement in public sector productivity. The government announced a target of 0.5% p.a. in productivity improvements, through reductions in bureaucracy.
 - An increase in the local housing allowance (LHA) rates, to equal the 30th percentile of an area's market rents in 2024-25. The government's decision to reset LHA rates should alleviate the huge affordability pressures facing private renters on benefits. However, the Institute of Fiscal Studies (IFS) comments that the decision to then freeze rates for a year rather than permanently linking rates to rents means this is only a temporary solution. Families on benefits continue to face uncertainty on the affordability of their housing.
 - Support for small businesses. The standard business rates will be increased by September CPI (6.7%); the small business multiplier will be frozen for a fourth consecutive year. The current 75% relief for eligible retail, hospitality and leisure properties will be extended for 2024-25. Local Authorities will be fully compensated for the loss of business rate income because of these measures and will receive new burdens funding for administrative and IT costs.

- To reform the local planning system to allow councils to recover the full cost of planning fees for major planning applications in return for a requirement to meet faster timelines, otherwise fees will be refunded in full.
 - The National Living Wage will increase by 9.8% from April 2024, to £11.44 an hour and lower the age threshold from 23 to 21 years old.
 - Benefits will increase in line with the September CPI (6.7%) and the triple-lock for pensions will be honoured giving an increase of 8.5%. There will be changes to the work capability assessments for those unable to work due to illness or disability. The long term unemployed (over 18 months) will be required to take part in mandatory work placements or their benefits will be cut.
18. The Autumn Statement made no reference to permitted increases in council tax so the assumption remains from the December 2022 policy statement that the core referendum principle allows for increases in council tax up to 3%. Similarly, the assumption remains that the social care precept increase will continue at 2%.
19. It has been confirmed that there is no extension to the Household Support Fund grant for 2024-25. In 2023-24, Southwark received £5.5m of government funding to support vulnerable households, which will no longer be available.

The Budget Challenge Process

20. The budget challenge process commenced after the July 2023 cabinet which reported a potential budget gap of £24m in 2024-25 with a cumulative expected funding gap of £51m over the 3 year period to 2026-27.
21. The council has completed two budget challenge rounds to find savings as well as early identification of future demand and cost pressures. Currently the net impact of these reduces the 2024-25 funding gap to £6.7m.
22. The process has been conducted with regard to the full 3 year period, with a review of future council procurement plans to better assess the council's proposed commitments and savings over the medium term. These are being assessed together with identifying council-wide transformation programmes to reconfigure services and the corporate centre to support the council delivery plan priorities.
23. Consultation with residents on how to achieve these priorities, is taking place via the Southwark 2030 project, with a report due in March 2024. The themes identified and actions required to achieve this will be aligned to available financial resources.

Updated three year budget proposals

24. In accordance with instructions from the October 2022 cabinet, this report provides updated budget proposals for 2023-24. Taking into account the latest funding assumptions and assuming the options presented in schedules B-E are accepted in full, the current gap stands at £6.7m.
25. The remaining gap still presents a challenge, not least in the context of the savings that the council has previously had to make throughout the austerity period, the impact of unfunded increases in inflation and additional commitments to support residents with the cost of living crisis. Strategic Directors will continue to work with their respective Cabinet Members to find additional savings options to present a fully balanced 2024-25 budget for the February 2024 cabinet meeting, in advance of February council assembly.
26. Table 1 below compares the current 'most likely' budget scenario against the current year budget (2023-24). It itemises changes in resources available (e.g., government grant and council tax income) and provides a high-level summary of efficiencies and improved use of resources, income generation and savings that impact on service levels. More detailed information on specific proposals can be found at Appendices B to E.

Table 1: Change in Key Budget lines 2023-24 to 2026-27

		2023-24	2024-25	2025-26	2026-27
Resources	Un-Ringfenced Government Grants	(82.38)	(83.55)	(80.00)	(81.18)
	Ringfenced Government Grants	(78.68)	(82.62)	(83.65)	(84.71)
	TOTAL GOVERNMENT FUNDING	(161.05)	(166.16)	(163.65)	(165.88)
	Council Tax	(137.71)	(146.99)	(158.75)	(170.01)
	Business Rate Growth	(136.06)	(131.07)	(131.07)	(131.07)
	COUNCIL TAX AND RETAINED BUSINESS RATES	(273.77)	(278.06)	(289.82)	(301.07)
	Contribution from earmarked reserves	(2.50)	(2.50)	(2.50)	-
	TOTAL RESOURCES	(437.32)	(446.72)	(455.97)	(466.96)
Growth & Savings	Prior Year Budget	391.15	437.32	446.72	455.97
	Inflation	48.74	26.40	24.07	18.18
	Commitments & Contingency:	13.84	10.64	6.69	6.17
	Savings	(16.41)	(20.93)	(17.02)	(8.72)
	<i>In-Year Gap</i>		6.72	4.49	4.64
	<i>Prior year savings not yet identified</i>			6.72	11.20
	TOTAL SHORTFALL (cumulative)	-	6.72	11.20	15.84

Government Grants

27. The un-ringfenced government grants include the Revenue Support Grant (RSG), the business rates top up and legacy grants. The autumn statement indicated no change from the October assumptions, which suggest a reduction in cash terms for 2025-26 and 2026-27. This represents a significant real terms reduction in funding with inflation currently running at 4.6%. The distribution of grant will not be known before the provisional local government finance settlement in late December. The publication of the 'Final Settlement' in January 2023 enables local authorities to finalise their budgets and to set their council tax by the statutory deadline (11 March).
28. The ring-fenced grants include the Social Care grants, Improved Better Care Fund (BCF), the Public Health Grant. No change has been assumed following

the Autumn statement.

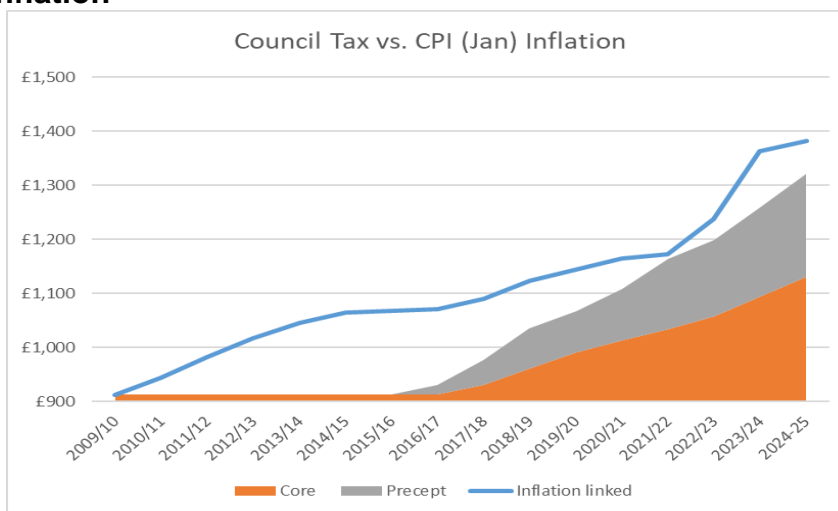
29. The overall position remains the same as reported to October cabinet for government grants. It should be noted that the unringfenced grants make up only around 50% of the total government grant funding which constrains local autonomy to spend in areas of local need. The actual allocations will be reported to February cabinet following the local government settlement announcement.

Revenue Funding from Local Taxation

Council Tax

30. The council is committed to keeping council tax low. The Southwark element of council tax was frozen from 2008-09 until 2017-18. After this financial pressures and the cumulative impact of reduced government funding meant that it was no longer sustainable to hold this position.
31. In the December 2022 policy statement, it was announced that the cap on council tax would remain at 2.99%, with the assumption that local authorities will use this additional flexibility to fund council services.
32. The authority has been able to maintain the eighth lowest level of council tax in London in 2023-24, despite having incurred some of the largest reductions in government grants. Table 2 shows that council tax would still remain below the charge it would have been if CPI had been applied each year since 2010-11.

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



33. The Council Tax Relief Scheme continues to provide support for our financially vulnerable residents and the council has committed to making no substantive changes to the scheme for 2024-25.

Social Care precept

34. 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
 - A 2% increase in 2023-24.
35. The December 2022 policy statement extended this flexibility for a further year with an increase to 2%. The government's spending power calculations assumes that all authorities with social care responsibilities will increase the precept in line with the guidance.

Council Tax

36. All except two London Boroughs, including Southwark, increased their council tax in 2023-24, 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.
37. 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 £4.1m income.
38. As reported in the 2024-25 Council Tax Base report (also on the agenda), growth in the tax base is slightly higher than previous years as the number of new buildings completed and projected for completion has increased, and the total amount of discounts, exemptions, and relief reduces after high levels of support offered to residents during Covid.
39. 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

40. The 2024-25 budget includes a forecast assumption that the council's Business Rate Retention income will remain the same as in 2023-24. As the council no longer receives support for pandemic-related collection fund deficits, this shows a decrease in resources for 2024-25: these assumptions remain the same since October. The economic recession and energy cost crisis adds to the challenges of maintaining business rate yields. Careful review of financial risk reserves may be required to manage any volatility.

Inflation and Pay Costs

41. Inflation continues to be a key risk to the council's budget setting process for 2024-25 with October CPI running at 4.6% The autumn statement assumptions expect inflation to be 7.5% overall in 2023 and to fall back down to 3.6% in 2024 and 1.8% in 2025.
42. Taking this forecast into account, the current general fund budget forecast includes the following assumptions;
 - i) Contractual inflation (5%)
 - ii) Pay inflation (6%)

Efficiencies and Improved Use of Resources

43. The council is committed to keeping 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 £12.8m (detailed in Appendix B).

Income Generation

44. 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 £7.6m (detailed in Appendix C).

Savings Impacting on Service Delivery

45. 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 £0.6m with potential to impact on service delivery.
46. Comprehensive equalities analysis of the impact of these savings will be considered before the budget is finalised.

Commitments

47. The proposals include £5.7m of commitments, many of which are driven by inflationary pressures.
48. A detailed list of all proposed commitments can be found in Appendix E.

Fees and Charges

49. 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.
50. 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. The draft schedules have used the September CPI at 6.7% to update many of the fees and charges (Appendix F). The final schedules of proposed fees and charges for 2024-25 will be brought to cabinet for approval in February 2024.

Use of Reserves and Balances

51. 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.
52. 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.
53. The budget proposals for 2024-25 include a contribution of £2.5m from general reserves to balance the budget.
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 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

55. 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.

Debt Write-offs

56. The constitution requires that all debt write-offs greater than £50k are subject to cabinet approval.
57. A business rates debt of £292,849 has been deemed irrecoverable. All possible action has been taken to recover the debt but the company has gone into liquidation. There was no dividend paid to unsecured creditors and the company was dissolved in February 2023. This can be met from the council's bad debt provision. Details are in appendix H.

Consultation

58. Business rate payers will be consulted on the budget proposals in early January 2024. One hundred organisations will be selected using a method that captures the range of financial liabilities of organisations paying NNDR in Southwark.

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

59. 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.
60. 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.
61. 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.
62. 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.

63. 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

64. There are no direct climate change implications arising directly from this report, which provides an update on the budget setting process for 2024-25. 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.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Assistant Chief Executive (Governance and Assurance)

65. 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. Council assembly is responsible for agreeing the council budget in accordance with Part 3A of the council's constitution. Cabinet responsibilities under Part 3B of the constitution include agreeing a draft budget for council assembly. This report sets out the progress that has been made in relation to making that recommendation, which will be made at a future cabinet meeting.
67. The report includes reference to the proposed fees and charges that will be agreed at a future cabinet meeting. These are agreed on an annual basis and are included in the cabinet's reserved activities in Part 3C of the constitution. Fees and charges are set on the basis of a range of statutory duties and powers including the Local Government Act 2003 and the Localism Act 2011. Ordinarily these will be set on a cost recovery basis.
68. There is reference in the report to the statutory requirement (under section 65 Local Government Finance Act 1992) to consult representatives of non-domestic ratepayers in relation to the council's proposals for expenditure in the forthcoming financial year. The results of such consultation will need to be conscientiously taken into account by the cabinet and council assembly in finalising the budget proposals.
69. 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.

70. 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 so that the implications can be considered when the budget recommendations are made.

71. 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.

72. This report also seeks agreement to a write-off of a business rates debt. Because this is over £50,000 it is a matter reserved to the cabinet to determine in accordance with Part 3C of the constitution.

REASONS FOR URGENCY

73. 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 5 December 2023 gives the opportunity for debate prior to presentation of budget figures to February cabinet. 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 in January 2024.

REASONS FOR LATENESS

74. The report was delayed due the timing of the autumn statement, 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
Agenda item 9, October 2023 cabinet report	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	Draft Fees & Charges
Appendix G	Debt write off

AUDIT TRAIL

Cabinet member	Councillor Stephanie Cryan, Communities, Democracy & Finance	
Lead officer	Clive Palfreyman, Strategic Director of Finance	
Report author	Timothy Jones – Departmental Finance Manager	
Version	Final	
Dated	30 November 2023	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
	Comments Sought	Comments included
Assistant Chief Executive (Governance and Assurance)	Yes	Yes
Strategic Director of Finance	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		30 November 2023