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| <b>Meeting Name:</b>                        | Cabinet   |
| <b>Date:</b>                                | 22 July 2024  |
| <b>Report title:</b>                        | Policy and Resources: Financial Remit report                  |
| <b>Cabinet Member:</b>                      | Councillor Stephanie Cryan, Equalities, Democracy and Finance |
| <b>Ward(s) or groups affected:</b>          | All   |
| <b>Classification:</b>                      | Open  |
| <b>Reason for lateness (if applicable):</b> | N/a   |

## **FOREWORD - COUNCILLOR STEPHANIE CRYAN, CABINET MEMBER FOR EQUALITIES, DEMOCRACY & FINANCE**

In February, Council Assembly agreed a three-year budget, which will allow us to better plan and allocate resources to meet the increasing demands on our finances. We come into the 2024-25 financial year with a balanced budget position. For 2025-26 and 2026-27, there remains a gap of £5.41m in 2025-26 and £5.38m in 2026-27.

Setting a three-year budget strategy allows us to better plan and identify savings that can be made over the longer term through transformation programmes across the whole council, rather than looking at one year savings which have tended to be more departmental based.

This report asks cabinet to approve a new general fund budget process in line with the three-year strategy and to also approve a new process for the capital programme which will help ensure that we are delivering in line with our council delivery plan commitments and the ambitions for Southwark 2030.

We continue to see the financial impact of the disastrous mini budget which means that it has become more expensive to deliver some of our capital projects, so it is right and proper that we review and reprioritise this in line with the new process and in line with key priorities across Southwark.

At the time of writing the report we do not know the outcome of the General Election, but our ask of a new Government is not a new ask, it is that we need the assurance and stability of multi-year settlements to enable us to plan our finances and resources to continue to deliver for our residents. We have already started that process in Southwark with our commitment to a three-year budget strategy, and greater certainty for our

financial settlement will enable us to deliver even more for our residents if we have the confidence of long-term funding.

## **RECOMMENDATIONS**

### **Recommendations for the Cabinet**

That cabinet note:

1. The three-year Medium Term Financial Strategy (MTFS) agreed by Council Assembly in February 2024
2. The new general fund revenue budget process for 2025-26
3. The new capital governance process for new capital bids
4. The focus on the financial sustainability of the housing revenue account (HRA)

## **REASONS FOR RECOMMENDATIONS**

5. That Cabinet are kept informed of the change to the budget setting process with the introduction of a three-year budget strategy.

## **ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

6. N/a.

## **POST DECISION IMPLEMENTATION**

7. N/a.

## **BACKGROUND INFORMATION**

8. The Prime Minister, Rishi Sunak, unexpectedly announced on 23 May 2024, a general election on 4 July 2024. The Institute for Fiscal Studies (IFS)<sup>1</sup> commented that, whoever is in office after the general election, the fiscal environment will be heavily constrained with limited funds available. Taxes are at a record high level for the UK, but following austerity, the pandemic and the more recent cost of living crisis, public services are under significant pressure. At the same time, the electorate have endured an unprecedentedly long squeeze on living standards.
9. The new government will need to carry out a Spending Review by the end of 2024, to set out detailed plans for (at least) 2025-26. The starting point for that review will be the provisional spending totals pencilled in by the (then) Chancellor Jeremy Hunt. This equates to unprotected budgets such as local government facing real term cuts per person of up to 4% per year.

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<sup>1</sup> IFS [Constraints and trade-offs for the next government | Institute for Fiscal Studies \(ifs.org.uk\)](https://www.ifs.org.uk/publications/1144)

10. Promised reforms to local government funding have been delayed and it was assumed that they would not be implemented before the general election, and therefore no assumptions have been made for 2025-26 and 2026-27. However, although this is unlikely to be an immediate priority for the new government, 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 in the short term. These assumptions will be continually reviewed and updated as more information becomes available.
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. As part of the Policy and Resources Strategy, and in line with requirements of the Local Government Finance Act, the 2024-25 budget was approved by Council Assembly for the next financial year on 21 February 2024, as part of the council tax setting process.
12. In addition, the council approved a three-year budget process, to enable long term financial sustainability. This approach will enhance the council's commitment to financial planning and efficiency and ensure that the policies and priorities set out in the council delivery plan are aligned in the medium term to the projected financial resources. Through this new process, savings and commitments were established for the full three-year period, 2024-25 to 2026-27. A balanced budget for 2024-25 (as required by legislation) together with the remaining funding gaps and expected further savings required for the following two years, 2025-26 and 2026-27. The draft budgets for 2025-26 and 2026-27 have been based on a prudent estimate of local authority funding.
13. This report adds further detail to the budget process for 2025-26 and 2026-27. It is anticipated that an initial new three year budget 2025-26 to 2027-28 (a further added year) will be reported to cabinet after the Spending Review, together with any updates to the funding position of local government.

## **KEY ISSUES FOR CONSIDERATION**

### **Three year budget 2024-25 to 2026-27 – the Medium Term Financial Strategy (MTFS)**

14. Council assembly approved the three year budget (Table 1) in February 2024. For the current year, 2024-25, there is a balanced budget position. For 2025-26 and 2026-27, there remains a gap of £5.41m in 2025-26 and £5.38m in 2026-27, after the three year savings and commitments had been identified. The remaining savings will be met through further efficiencies and the council's transformation programme which will be agreed at the Corporate Change Board.

| <b>Table 1</b>  |                |                |                |                |
|---|----------------|----------------|----------------|----------------|
|   | <b>2024-25</b> | <b>2025-26</b> | <b>2026-27</b> | <b>2027-28</b> |
| <b>Un-Ringfenced Government Grants</b>                  | <b>(84.5)</b>  | <b>(79.3)</b>  | <b>(79.3)</b>  | <b>TBA</b>     |
| Revenue Support Grant                                   | (45.0)         | (45.0)         | (45.0)         |                |
| Top-Up  | (34.3)         | (34.3)         | (34.3)         |                |
| Services Grant  | (0.8)          | -              | -              |                |
| New Homes Bonus   | (4.4)          | -              | -              |                |
| <b>Ringfenced Government Grants</b>                     | <b>(88.9)</b>  | <b>(88.9)</b>  | <b>(88.9)</b>  | <b>TBA</b>     |
| Public Health Grant                                     | (31.1)         | (31.1)         | (31.1)         |                |
| Social Care Grant                                       | (33.1)         | (33.1)         | (33.1)         |                |
| Improved Better Care Fund (iBCF)                        | (17.8)         | (17.8)         | (17.8)         |                |
| ASC Market Sustainability & Improvement Fund            | (6.9)          | (6.9)          | (6.9)          |                |
| <b>TOTAL GOVERNMENT FUNDING</b>                         | <b>(173.5)</b> | <b>(168.2)</b> | <b>(168.2)</b> |                |
| <b>Council Tax</b>                                      | <b>(145.3)</b> | <b>(158.8)</b> | <b>(170.0)</b> | <b>TBA</b>     |
| Council tax baseline funding                            | (137.4)        | (148.2)        | (158.8)        |                |
| Council tax base growth                                 | (3.8)          | (3.0)          | (3.2)          |                |
| Council tax - annual increase                           | (4.2)          | (4.5)          | (4.8)          |                |
| Council tax - Social Care precept                       | (2.8)          | (3.0)          | (3.2)          |                |
| Council tax - estimated (surplus)/deficit               | 2.9            | -              | -              |                |
| <b>Business Rate Growth</b>                             | <b>(134.8)</b> | <b>(136.8)</b> | <b>(136.8)</b> | <b>TBA</b>     |
| Retained Business Rates                                 | (102.8)        | (102.8)        | (102.8)        |                |
| S.31 Grants   | (28.2)         | (28.2)         | (28.2)         |                |
| S.31 Grant for Business Rates Top-Up                    | (5.8)          | (5.8)          | (5.8)          |                |
| Business Rates - estimated (surplus)/deficit            | 1.9            | -              | -              |                |
| Support for deficits                                    |                |                |                |                |
| BRR - S.31 grants c/f                                   |                |                |                |                |
| <b>COUNCIL TAX AND RETAINED BUSINESS RATES</b>          | <b>(280.1)</b> | <b>(295.5)</b> | <b>(306.8)</b> | <b>TBA</b>     |
| <b>Total Funding before contributions from balances</b> | <b>(453.6)</b> | <b>(463.7)</b> | <b>(475.0)</b> | <b>TBA</b>     |
| Contribution from earmarked reserves                    | (2.4)          | (2.5)          | -              |                |
| <b>TOTAL RESOURCES</b>                                  | <b>(456.0)</b> | <b>(466.2)</b> | <b>(475.0)</b> | <b>TBA</b>     |
| <b>Prior Year Budget</b>                                | <b>437.3</b>   | <b>456.0</b>   | <b>466.2</b>   |                |
| <b>Inflation</b>  |                |                |                |                |
| Pay Awards  | 9.5            | 10.0           | 6.3            |                |
| Pay Awards 22/23 unbudgeted pressure                    | -              | -              | -              |                |
| Contractual Inflation                                   | 9.8            | 9.0            | 6.3            |                |
| Contractual Inflation (Social Care & PH)                | 9.7            | 8.5            | 5.6            |                |
| Contractual Inflation (2022/23 unbudgeted pressure)     | -              | -              | -              |                |
| Energy price inflation on Council Buildings             | -              | -              | -              |                |
| <b>Commitments &amp; Contingency:</b>                   |                |                |                |                |
| Other Growth and Commitments                            | 8.7            | 3.7            | 2.7            |                |
| Reverse one-off commitments                             | (0.8)          | -              | -              |                |
| Debt Financing (approved programme)                     | 2.5            | 2.0            | 2.0            |                |
| <b>Budget Before Savings &amp; Efficiencies</b>         | <b>476.8</b>   | <b>489.1</b>   | <b>489.1</b>   | <b>TBA</b>     |
| <b>Budget Gap before Savings &amp; Efficiencies</b>     | <b>20.8</b>    | <b>22.9</b>    | <b>14.1</b>    |                |
| <b>Savings</b>  |                |                |                |                |
| Effective use of resources and efficiencies             | (13.1)         | (9.4)          | (6.1)          |                |
| Income, Fees and Charges                                | (7.5)          | (6.7)          | (2.6)          |                |
| Other Savings   | (0.2)          | (1.4)          | (0.1)          |                |
| <b>TOTAL SAVINGS</b>                                    | <b>(20.8)</b>  | <b>(17.5)</b>  | <b>(8.7)</b>   | <b>TBA</b>     |
| <b>TOTAL BUDGET</b>                                     | <b>456.0</b>   | <b>471.6</b>   | <b>480.3</b>   |                |
| <i>In-Year Gap</i>                                      |                | 5.41           | 5.38           |                |
| <b>TOTAL SHORTFALL (cumulative)</b>                     | <b>-</b>       | <b>5.41</b>    | <b>10.79</b>   |                |

15. Setting a balanced budget, as resources decline and demand for services increases, becomes more challenging every year. It has required substantial efficiency savings, changing delivery methods and generating additional income, whilst protecting front line services and ensuring value for money. This has been managed through a yearly budget challenge process.
16. In preparing the three-year budget 2024-25 to 2026-27, this same process was used but departments were asked to deliver the full three-year savings and commitments. This has allowed for a longer planning horizon and has the advantage of reducing the yearly burden of finding additional savings, from a reducing budget base. The additional – and much reduced - savings yet to be found in years 2 and 3 are planned through longer term transformation projects including rationalising the council’s office accommodation; streamlining processes through the introduction of a new Enterprise Resource Planning (ERP) IT system and efficiencies in the procurement of goods and services. These will be delivered corporately through a newly formed Corporate Change Board.
17. With the reduced need for a yearly ‘line by line’ budget analysis, the council can improve the efficiency of the process and increase capacity to focus on particular high-risk areas. In order to achieve this, there is a need to ensure savings that are embedded in the three-year plan are achieved, that high demand, high risk areas are mitigated effectively and that the long-term transformation projects are effective at delivering the required additional savings. Monitoring and mitigating these risks will be key to achieving the three-year medium-term strategy. Table 2 summarises the risks and mitigations required to manage departmental spending in the medium term.

**Table 2: Potential Risks and Mitigations**

| Risk   | Mitigation  |
|--|---|
| 2024-25 budget overspends require additional savings                   | Close budget monitoring of high risk areas<br>Enhanced monitoring process with emphasis on greater ownership and accountability of savings<br>Swift mitigating actions to reduce potential overspends by year end |
| Savings agreed in three-year plan are no longer achievable             | Departments to agree alternative/substitute savings with lead cabinet member  |
| Unavoidable budget pressures due to contract and salary inflation      | Departments will be expected to manage within the agreed budgets but corporate finance will fund both contract and salary inflation   |
| New commitments/growth arise which have not been budgeted for          | Replacement savings to be agreed to ensure overall departmental spending remains within agreed budget   |
| Slippage in transformation projects delays required savings in 2025-26 | Additional 2025-26 savings required<br>Additional transformation savings required in 2026-27 and beyond   |

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

18. The financial sustainability of the Housing Revenue Account (HRA) will be a key priority for the council in 2025-26 and in the medium term. It is a high risk area. The 2023-24 budget monitoring reports and the outturn report have provided full details of the financial sustainability issues facing the HRA. A recovery plan has been drafted in 2 phases. Phase 1 seeks to swiftly reduce revenue spend through a range of activities in order to prevent further deterioration in the financial position. To support this, additional budget monitoring for 2025-26 has been put in place to ensure that there is an enhanced focus on the HRA budget, including a review of the HRA in November 2024 by the council's overview and scrutiny committee. Phase 2 seeks to restore HRA budgets to a sustainable level and increase reserves to a prudent level. The plan outlines the rebuilding of reserves from 2028-29.

## **The new capital programme bids process**

19. The council undertook a full review of all capital projects and a full recalculation and re-profiling of associated funding and costs to ensure that the programme remained affordable and aligned to council priorities. An updated capital programme was reported to January 2024 cabinet.
20. Cabinet also agreed to develop a refreshed set of governance proposals to ensure that all future capital bids remain affordable and in alignment with key council principles. Appendix A details the new capital governance process.

## **Next Steps**

21. The main governance steps to establishing the 2025-26 budget and three-year MTFS are outlined in the Table 3.

| Table 3 Next Steps |                                     |  |
|--------------------|-------------------------------------|--|
| Date               | Meeting                             | Purpose  |
| July               | Cabinet – MTFS report               | High-level scene setting, for MTFS   |
| September          | Cabinet – Revenue monitoring report | Review of forecast outturn position<br>Review of savings<br>Mitigations  |
| September          | Cabinet – Capital monitoring report | Review of forecast outturn position<br>Any new capital bids  |
| November           | Overview and Scrutiny committee     | MTFS proposals<br>HRA<br>Procurement plan  |
| December           | Cabinet – MTFS report               | Draft Budget 2025-26<br>Procurement Plan   |
| January            | Cabinet – Revenue monitoring report | Review of forecast outturn position<br>Review of savings<br>Mitigations  |
| January            | Cabinet – Capital monitoring report | Review of forecast outturn position<br>Any new capital bids  |
| January            | Cabinet – HRA Budget                | HRA Budget<br>HRA rent setting   |
| January            | Overview & Scrutiny                 | Review of MTFS   |
| February           | Cabinet - MTFS                      | Recommend to Council Assembly<br>balanced budget for 2025-26 and MTFS  |
|                    | Council Assembly                    | Council Tax setting and approve a<br>balanced budget for 2025-26 and agree<br>indicative budgets for 2026-27 and 2027-<br>28 |

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

22. 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.

23. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Borough Plan. 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. A budget equality analysis has been undertaken for the 2024-25 budget proposals. Any further savings or transformation savings will need to be assessed for EIA.

### **Climate change implications**

24. None

### **Resource implications**

25. None

### **Consultation**

26. None

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Assistant Chief Executive – Governance and Assurance (NBC 20240703)**

27. 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.
28. 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.
29. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.
30. 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.

31. It is essential that cabinet give due regard to the council's duty under the Equality Act 2010 and the implications for protected groups in the context of that duty in relation to this decision and future decisions on the budget proposals.

## BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|-------------------|---------|---------|
| None              |         |         |

## APPENDICES

| No:        | Title                      |
|------------|----------------------------|
| Appendix A | Capital Governance Process |

## AUDIT TRAIL

|   |   |                          |
|---|---|--------------------------|
| <b>Cabinet member</b>   | Councillor Stephanie Cryan, Equalities, Democracy and Finance |                          |
| <b>Lead officer</b>   | Clive Palfreyman, Strategic Director of Finance               |                          |
| <b>Report author</b>  | Timothy Jones, Director of Corporate Finance                  |                          |
| <b>Version</b>  | Final   |                          |
| <b>Dated</b>  | 2 July 2024   |                          |
| <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   | N/a   | N/a                      |
| Cabinet Member  | Yes   | Yes                      |
| <b>Date final report sent to Constitutional Team</b>                    |   | 3 July 2024              |