

Item No. 17.	Classification: Open	Date: 20 November 2012	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy 2013/14-2015/16: Scene Setting Report	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance Resources and Community Safety	

FOREWORD - COUNCILLOR RICHARD LIVINGSTONE, FINANCE, RESOURCES AND COMMUNITY SAFETY

This report sets the scene for the council's deliberations in preparing the 2013/14 general fund revenue budget and asks Cabinet to agree the next steps in the budgeting process.

There is currently a significant level of uncertainty for the council in preparing that budget. Despite the unprecedented cuts we have faced from central government in the last two years, a majority of Southwark's budget still comes from the government's annual settlement with the authority. In the past, we would normally expect this in early November but this year it appears likely that this will not be communicated to us until late December. Furthermore, the changes in local government financing being introduced for 2013/14 add a further layer of unpredictability to the level of the settlement we are to receive. The only matter that does appear clear is that Southwark's budget from government will be cut still further and difficult decisions will need to be taken in the budgeting process as a consequence.

Against this picture, we are also anticipating further budgetary pressures on the council:

- Despite a cut of 32% in the government grants for children's services that the council experienced two years ago with their amalgamation into the Early Intervention Grant, we potentially face a further 27% cut in this grant this year: £5.5 million. The council will need to consider how to address this shortfall as part of the 2013/14 budget process.
- The impact of government's welfare reform agenda and the continuation of the poor state of the economy are likely to create new funding pressures on the council. In particular, our resources for addressing homelessness and the support we need to give vulnerable families could see increased levels of demand.
- Whilst our workforce have foregone wage increases (with the exception of those earning less than £21,000 a year) for the last two years, it is unlikely that this salary freeze can be sustained for a further year.

But it is not all doom and gloom. In 2011, the council set a notional three-year budget, ending in 2013/14. Good progress has been made in the first two years and sound stewardship of the council's finances has put us in a strong position to face the pressures outlined above. The budget process for 2013/14 will therefore be building on that platform and use the draft budget set in February 2011 as a starting point in its development.

RECOMMENDATIONS

That cabinet:

1. Note the changes to local government funding arrangements outlined in this report.
2. Note the continuing uncertainty over the financial position for 2013/14 and future years, and uncertainty over the date of the provisional finance settlement which will not be announced until after the Chancellor of the Exchequer delivers his autumn statement on 5 December.
3. Note the provisional 2013/14 budget from February 2011, updated for known changes.
4. Reaffirm their commitment to the ten fairer future promises as set out in the Council Plan and Medium Term Resources Strategy (MTRS) and the seven budget principles to guide and underpin the work of officers in arriving at a balanced budget proposal for February 2013.
5. Instruct officers to continue to work on budget options for a balanced budget in 2013/14 for presentation to the cabinet in January 2013, for onward recommendation to council assembly.

EXECUTIVE SUMMARY

6. This report is a scene setting report for the 2013/14 budget process. The budget will be prepared in the context of a number of fundamental changes and issues which affect the resources available to and demands upon the council. These matters are listed here and explored further in the report:
 - Changes to the local government financing system, including localisation of business rates
 - Changes to formula funding that affects the calculation of the council's baseline spending
 - Changes to the treatment of specific grants, such as the Early Intervention Grant (EIG)
 - Welfare reform including localisation of Council Tax benefit and the introduction of Universal Credit
 - Council Tax reform including changes to exemptions and discounts such as that for second homes
 - Council Tax freeze grant for 2013/14
 - The impact of the census and mid year population estimates.
7. Due to the change and uncertainties outlined above, the council does not have any certainty over the funding available for 2013/14 or for any year beyond.
8. The budget for 2013/14 will therefore be prepared in the context of the three year budget framework, agreed by council assembly in February 2011, which was based on a two year settlement with substantial uncertainty in year 3 (being 2013/14), due to the funding review.

9. As part of the scene setting for 2013/14 there are known pressures or matters to be taken into consideration. These matters are listed here and explored further in the report:
 - Social Fund and Welfare Hardship Fund
 - Public Health Transfer
 - Pay Award
 - Inflation
 - Use of Balances
 - New Homes Bonus
10. The process for agreeing the budget moving forward includes presentation of best available information to cabinet in December 2012, then draft budget proposals at meetings in January and February 2013, before consideration by council assembly on 27 February 2013.

BACKGROUND INFORMATION

11. The period from February 2011 which established the three year framework has seen considerable changes to the council, with the savings amounting to £62.1m and investment in council priorities, and investments in commitment and growth of £24.4m
12. Latest monitoring including the Q2 revenue monitoring report elsewhere on the November cabinet agenda indicates the council is continuing on track to deliver the savings and investments planned for 2012/13.
13. In the absence of any more certain information the proposals for 2013/14, as set out in February 2011, and updated for known changes, gives a high level budget position.

KEY ISSUES FOR CONSIDERATION

Changes to the local government financing system, including localisation of business rates

14. Local authorities are currently funded through a combination of redistributed business rates from the pool and revenue support grant, the total being known as formula grant.
15. For 2012/13 Southwark have estimated that £189.8m (NNDR1) will be collected and paid into the pool. Southwark's formula grant for 2012/13 is £217.1m
 - £213.0m from redistributed business rates
 - £4.1m from revenue support grant
16. Business rates are currently collected by local authorities, and paid to the government, and then reallocated through the grant formula. Under the current system, up to the year 2012/13, each year each authority calculates the amount that will be paid into the national pool, and based on this figure the government send each local authority a payment schedule. All NNDR collected is paid back to the government.

17. The government is changing the way in which local government is funded through a retained business rates system. Under the proposals included in the consultation, authorities would keep the business rates that they collect, subject to a threshold/baseline set by the government. From 2013/14, each year the government will calculate for each local authority a baseline funding level and an individual authority business rate baseline.
18. Under the new arrangements the government will assess the baseline funding level for each local authority. The difference between this baseline and the government's estimated business rate yield for the council will be made up by grant. Clearly the baseline funding level is fundamental to any estimate of the resources that will be available to the council in future years. This baseline will not be known until sometime after the autumn statements.
19. Authorities below the threshold will be described as "top up" authorities, and will receive additional funding up to the threshold. These top ups will be funded from tariffs taken from authorities generating business rates above the threshold. Southwark is likely to be a top up authority.
20. While the government has indicated the way in which it will estimate any council's business rate yield (based on an average over 5 years) this figure is still to be confirmed to the council.
21. The risk inherent in the new system is that any uncollected business rates, or unfavourable variation from government estimates of rateable values, will impact directly on council resource available and therefore on service provision.
22. Under current arrangements the council is protected by 'floor arrangements' and there is no clarity as to whether or at what level this may be retained under the new arrangements, although the business rates retention scheme will include a safety net to protect local authorities from significant reductions in business rates, likely to be set at 10%.
23. This means that shortfalls from 0-10% will not be protected and will have to be borne by the local authority. It would be possible for a local authority to lose just below 10% for a number of years and never receive any safety net payment.
24. The safety net will be funded by a levy on those councils that experience a disproportionate benefit from business rates baseline growth. However as there is a risk that there will be insufficient levy to fund the safety net in the early years, the government have decided that it is important to be prudent and will hold back some resources to enable the safety net to be fully funded.
25. The government proposed to refund any unused resources to local authorities in the same proportion as it was clawed back.

Changes to formula funding that affect the calculation of the council's baseline spending

26. Overall, since the 2010 Spending Review the government have reduced the overall "formula grant" control total by £2.5bn (10.8%). The impact is even greater at a national level for local government, ('Other Services'), which includes Southwark, which has reduced by £2.4bn (12.3%).

Changes to the treatment of specific grants

27. The baseline funding level is based on the previous formula which is being amended and adapted to include a number of grants which were previously specifically provided.
28. The original 2010 Spending Review control totals assumed that fire revenue grants would be rolled into formula grant, it has been decided that these should remain as specific grants.
29. The original 2010 Spending Review control totals assumed that neighbourhood planning grant would be rolled into formula grant, it has been decided that these should remain as specific grants.
30. Capitalisation is the means by which central government permits local authorities to treat revenue expenditure as capital. The total amount of capitalisation available for 2013/14 and 2014/15 will have to be funded directly from the local government settlement.

Early Intervention Grant

31. Early Intervention Grant (EIG) was paid to councils in 2011/12 and 2012/13 as a separate un-ringfenced grant. The EIG was paid at 32% less than the combination of previous grants it replaced (Area Based Grants and Surestart Grants).
32. In 2012/13 Southwark's EIG is £20.5m and funds core, high priority Children's Services including Children's Centres, provision of support to get young people in education, employment and training, early intervention services, statutory specialist services and voluntary sector commissioning. The EIG also includes funding for the Two Year Old pilot offer which facilitates vulnerable families accessing free part-time early education places. This grant is un-ringfenced and the DfE guidance states that this grant can be used flexibly to meet local priorities.
33. From 2013/14 settlement the EIG has merged into the council's formula grant. The provisional merged EIG allocation reduces the EIG by £5.5m or 27%. This is for two reasons:
 - the government has proposed a top slice of £150m for unspecified early intervention initiatives (estimated at around £1.2m reduction for Southwark);
 - the transfer of funding for two year olds into the ring-fenced Dedicated Schools Grant (estimated at around £4.5m for Southwark). This reduction exceeds the current spend on two year placements and is £2.0m more than the current two year old component of the EIG.
34. In 2013/14, this EIG reduction will increase by an estimated further £2m to fund the Two Year Old offer. From September 2013, the provision of places for two year olds is increasing to 20% of vulnerable families, and to 40% in September 2014. Effectively, the EIG is being reduced to pay for the Two Year Old offer; there is no "new" money to fund this.
35. DSG is a ring-fenced grant and therefore, although the council will seek to maximise the Two Year Old offer the flexibility to use this funding for wider

Children's Services such as early intervention, has been significantly restricted. This means that "other services" currently funded from EIG will need to be reviewed to make savings.

The local authority central spend equivalent grant (LACSEG) transfer

36. The LACSEG transfer (£1.2bn) is intended to ensure that there is sufficient funding available to enable academies to be full funded. The transferred amount will then be redistributed as a separate un-ringfenced grant to local authorities and academies proportionate to the pupil numbers for which they are responsible.

Rolled in specific grants

37. Additionally, the government are rolling in most of the remaining specific grants, adding a net £5.112bn to the overall control total. This includes the total removal of police grants, as the police will not be funded through redistributed business rates, a total of £8.2bn will be added to the other services control total.
38. The table below shows the proposed national transfer value, Southwark's indicative transfer and equivalent value of 2012/13 specific grants. The grants being rolled into the overall control total are shown in the table below:

Name of grant	Southwark 2012/13 Allocation £m	Southwark Proposed transfer £m	Change in Southwark allocation £m
Council Tax Freeze Grant	2.3	2.3	0
Early Intervention Grant	20.5	14.9	(5.6)
GLA General Grant	0	0	0
GLA Transport Grant	0	0	0
Homelessness Prevention	1.7	1.5	(0.2)
Lead Local Flood Authorities (Part)	0.2	0.2	0
Learning Disability & Public Health	10.6	10.8	0.2
Total excl Council Tax Support	35.3	29.7	(5.6)
Council Tax Support (new in 2013/14)	0	18.1	18.1
Total grants "rolled in"	35.3	47.8	12.5

39. Broadly the grants rolled in match current allocations, with the exception of the Early Intervention Grant. The Council tax Support Grant is new and is excluded from the direct comparison with 2012/13.

Welfare reform including localisation of council tax benefit and the introduction of universal credits

40. On 2 August 2011 the government commenced a further consultation on the localising of support for council tax from 2013/14. The government's proposals transfer the responsibility for developing local schemes for council tax benefit to local authorities, whilst at the same time reducing the amount paid to local authorities by 10%. Local councils are required to develop schemes which protect pensioners and the vulnerable, and thus increasing the impact on working people.

41. Instead of receiving council tax benefit subsidy (CTB) to match payments, local authorities will receive a fixed amount. It is the government's current intention to roll this into the overall control total, and indicative figures suggest that this will be some £18.1m. However this is based on 2010/11 data and is likely to change to reflect more current CTB data.
42. The transition from subsidy to a discount will have a significant effect on the council tax base. Current estimates suggest that the current cost income to the collection fund is the equivalent to 20,600 band D equivalent properties.
43. This will reduce the current taxbase by around 20,500 properties and will reduce the amount collected through council tax (Southwark element) by some £18m. In theory the shortfall will be met through the sum rolled into the overall control total.
44. However, the reduction in tax base does mean that the council's budget planning options have been limited. Under current practices the increased yield from a 1% increase in council tax is some £912k, the reduced tax base means that this will be reduced to around £732k, a reduction of some £180k.
45. On Saturday 13 October the government announced that 'emergency funding' of £100m would be made available to local authorities to mitigate the impact of the changes, subject to a number of conditions being met. A report containing Southwark's proposals for the Local Council Tax Reduction Scheme was considered by on 23 October 2012, but the late information on the 'emergency funding' means that as written the council's scheme would not be eligible to receive any transitional funding. The cabinet instructed officers to engage with government to clarify the qualifying conditions for securing the funding within the framework of Southwark's preferred council tax reduction scheme (CTRS). The recommended scheme is subject to the agreement of the council assembly and is due to be presented on 28 November 2012.

Housing benefit under occupancy

46. The Welfare Reform Act 2012 introduces a raft of changes to welfare support and benefits entitlement commencing in 2013. The government's stated intentions are to reduce the nation's benefit bill, simplify the benefit system and 'make work pay'. The government has yet to provide the detail behind some of the proposals which makes assessment and planning for their impact more problematic, but initial indications suggest that preventing homelessness will become more difficult as the private rented sector in Southwark and across London will no longer be a feasible option for many households. Temporary accommodation schemes such as Private Sector Leasing (PSL) which are currently self-financing will now become a net cost to the council's general fund, albeit still cheaper than Bed and Breakfast provision, which will itself become increasingly more difficult to procure at reasonable cost.
47. Southwark has a good record of preventing homelessness, but has seen an increase of around 100 cases in each of the last two years. There is the potential for this to rise considerably and it is affected by a number of external factors that are hard to predict and over which the authority has little or no control, such as private sector landlords' reaction to the changes, resident mobility and employment opportunities. The introduction of housing benefit caps and social size criteria affecting those tenants currently under occupying by virtue of the Department of Works and Pension's (DWP) new 'bedroom

standard', means they will lose a proportion of their existing benefit entitlement. Initial estimates indicate around 14% of Southwark tenants are likely to be affected.

Universal Credit

48. Universal Credit is a new welfare benefit that will replace six of the main means-tested benefits and tax credits. The Government plans to introduce the Universal Credit over the period 2013 to 2017, and will be paid as a single benefit for people aged 18 to 64 years old.
49. The benefits that will be replaced are:
 - the means tested part of Jobseeker's Allowance
 - the means tested part of Employment and Support Allowance
 - Income Support
 - Child Tax Credits
 - Working Tax Credits
 - Housing Benefit (Rent element only)
50. There is a possibility that benefit claimants could find themselves "trapped in poverty" when universal credit is implemented, many households could be worse off, or only marginally better off, when the system changes. The new system incentivises more people to take part time jobs, but it does not encourage the move up into full-time work and help people move out of poverty.
51. The shift from fortnightly to monthly payment in arrears has raised concerns that families on low-incomes will run out of money before the end of each month, resulting in them taking out loans to bridge the gap, and putting them into debt.
52. A further risks from universal credit is that many families could lose track of what the benefit is intended to pay for and spend it inappropriately, leading to arrears and further debt.

Council tax reform including changes to exemptions and discounts such as that for second homes

53. On 31 October 2011, the government began a consultation on technical reforms of council tax. The reforms being proposed are largely around discounts and exemptions on second homes and empty dwellings, giving authorities full control on the level of discount they grant with a minimum of 0%.
54. A report containing Southwark's proposals for the technical reforms of council tax Reduction Scheme was agreed by Cabinet on 23 October 2012 for recommendation to Council Assembly in November 2012. This includes removing the current 10% discount on council tax for second homes, which is estimated to yield around £95k additional income per year.
55. A report containing further council tax technical reforms is presented to this Cabinet meeting showing the introduction of an empty homes premium resulting in council tax of 150 per cent for properties that have been empty and unfurnished for more than two years from 1 April 2013. The introduction of the local discounts may generate approximately £1m per annum at current council tax levels. These potential increases are not currently reflected the indicative 2013/14

budget figures presented in this report, due to uncertainty over owner behaviour in response to these changes.

56. The effect of these decisions will be reflected in the Council Tax setting report to Council Assembly in January 2013.

Council tax freeze grant for 2013/14

57. As part of the 2011/12 local government grant settlement the government announced the council tax freeze grant, which was given to all authorities which set a zero percent increase in council tax, for the equivalent of a 2.5% increase in council tax. Southwark received £2.2m. This grant will be paid throughout the four years of the spending review, and has now been subsumed into formula grant. This grant will cease in 2015/16.
58. On 22 February 2011, council assembly agreed an indicative budget for 2012/13 and 2013/14 with provisional council tax increases of 2.5% in each year.
59. In October 2011 the government announced a new council tax freeze grant for 2012/13 only, for those authorities who agree to set a zero percent council tax increase. The grant is equivalent to a 2.5% increase in council tax (some £2.3m). This grant is for one year only, and will cease in 2013/14.
60. For 2013/14 the council had indicative budgets requiring an increase in council tax of 2.5%. On 8 October 2012 the government announced that it would be making £228m available to English councils to fund a council tax freeze in 2013/14, equivalent to a 1% increase in council tax. Southwark would receive around £750k. The amount of council tax freeze grant takes account of the reduced yield caused by the introduction of a discount to administer council tax support. Local authorities taking this grant will also receive the same amount in 2014/15 to avoid a cliff edge. The government also announced that authorities increasing council tax by more than 2% will have to hold a referendum.
61. If Southwark freeze council tax for 2013/14, band D will have remained at £912.14 since 2008/09. While this is positive for council tax payers, it limits flexibility for the council and will lead to a budget gap when the grant finishes.

The impact of the census and mid year population estimates

62. On 16 July 2012 the Office for National Statistics (ONS) released the first data from the 2011 census. The data shows that on 27 March 2011, the population in England was 53.0 million, an increase of 3.6 million (7.3%) in the 10 years since the last census, rising from 49.4 million in 2001.
63. The census data shows an estimated population for Southwark on 27 March 2011 of 288,300, an increase of 31,600 (12.3%) since the 2001 adjusted census estimate of 256,700. Since the 2001 census, Southwark's population as a percentage of the England total has risen from 0.52% to 0.54%
64. In September 2012 ONS published the 2011 mid year estimates, based on adjusted 2011 census figures, Southwark's population is reported as 288,700, a slight increase on the census, again representing some 0.54% of the national (53.0m) total.

65. This data was followed by the 2011 based population projections, for 2013 the ONS estimated that Southwark's population will be 303,900 representing some 0.56% of the national (54.1m) total. This data is likely to be used in the 2013/14 grant formula.
66. This increase however is unlikely to improve Southwark's share of the formula used to determine the 2013/14 baselines. Although Southwark's percentage of the national total has increased over the census and the 2011 mid year estimates, it is still below the 0.57% from the 2008 based 2012 projection used in the 2012/13 formula grant calculation.
67. The table below shows Southwark's share of the national population from recent ONS data.

	England '000	Southwark '000	Southwark as % of England
2008 Mid year estimates	51,446.2	278.0	0.54%
2008 based 2012 projection (used in 2012/13 formula grant calculation)	52,954.0	301.2	0.57%
2008 based 2013 projection	53,332.0	305.3	0.57%
2010 Mid year estimates	52,234.0	287.0	0.55%
2010 Based 2013 projection	53,563.0	310.5	0.58%
2011 Census	53,012.5	288.3	0.54%
2011 Mid year estimates	53,107.2	288.7	0.54%
2011 Based 2013 Projection (likely to be used in 2013/14 formula grant calculation)	54,068.4	303.9	0.56%

68. The table illustrates the turbulence in ONS estimated and forecast data. The 2010 mid year estimates show Southwark's population as 287,000, lower than the census figures, but the 2013 forecast based on these estimates shows Southwark at 310,500 (58% of the national total), some 6,600 higher than the 2011 based 2013 projection, the 2008 based 2013 projection is also 1,400 higher than the 2011 based forecasts

Social Fund and Welfare Hardship Fund

69. As part of its welfare reforms the government are transferring some of the elements included in the social fund, currently administered by the Department of Work and Pensions (DWP) to local government.
70. The current scheme contains Crisis Loans (for items, living expenses and alignments), Budgeting Loans and Community Care Grants.
71. The new scheme has Crisis Loans (for items and alignments only) and Community Care Grants.

72. Indicative figures announced by the government show that Southwark will receive £1.651m (£1.363m programme funding and £288k for administration) in 2013/14.
73. Although the government do not want or expect local authorities to replicate the current scheme, it is their intention that funding should be concentrated on those facing greatest difficulty in managing their income.
74. The council is undertaking an options appraisal around the social fund, to be considered by cabinet.
75. The council is considering various measures to help mitigate the impact of various welfare changes on the people of Southwark. At the meeting on 23 October the cabinet agreed that an economic wellbeing strategy should be implemented to mitigate the impact on claimants facing a reduction in benefit, to include a programme of benefit maximisation undertaken via the council's Rightfully Yours service.
76. The cabinet further asked that financial inclusion and responsibility are promoted through the provision of budgeting, employment and arrears advice in partnership with relevant external organisations and support networks including London Mutual credit union, Jobcentre Plus and local advisory services.
77. Officers were instructed to consider how to establish a welfare hardship fund to mitigate some of the impact of the benefits changes to protect the most vulnerable, as part of the 2013/14 budget proposals.

Public Health Transfer

78. The Health and Social Care Bill proposed that responsibility for public health will transfer from the NHS to local government on 1 April 2013. This obtained royal assent on 27 March 2012.
79. Local authorities will receive a ring fenced grant for public health to meet the cost of these new responsibilities; however it is unclear whether the resources allocated to fund these new responsibilities will be sufficient to meet the costs. London Councils have been lobbying on this issue, and a report was presented to London Councils Leaders Committee on 16 October 2012.
80. Latest figures sent by Southwark PCT to the Department of Health show that public health expenditure in Southwark is estimated at £30m per annum. It is expected that the grant funding announced in December 2012 will be equivalent to current spend levels and will therefore not impact on budget proposals. However, this funding is not yet confirmed. Public health targets have also yet to be announced in full and any unfunded pressures arising from this will become apparent during 2013/14 revenue monitoring.

Pay award

81. Public sector pay has been frozen since 2011/12, with 2012/13 being the second year of the two year public sector pay freeze announced by the government in the emergency budget on 22 June 2010. The indicative 2013/14 budget agreed in February 2011 as part of the 2011/12 budget setting process included pay award inflation at 2% (£3.6m). The November 2011 Autumn Statement set public

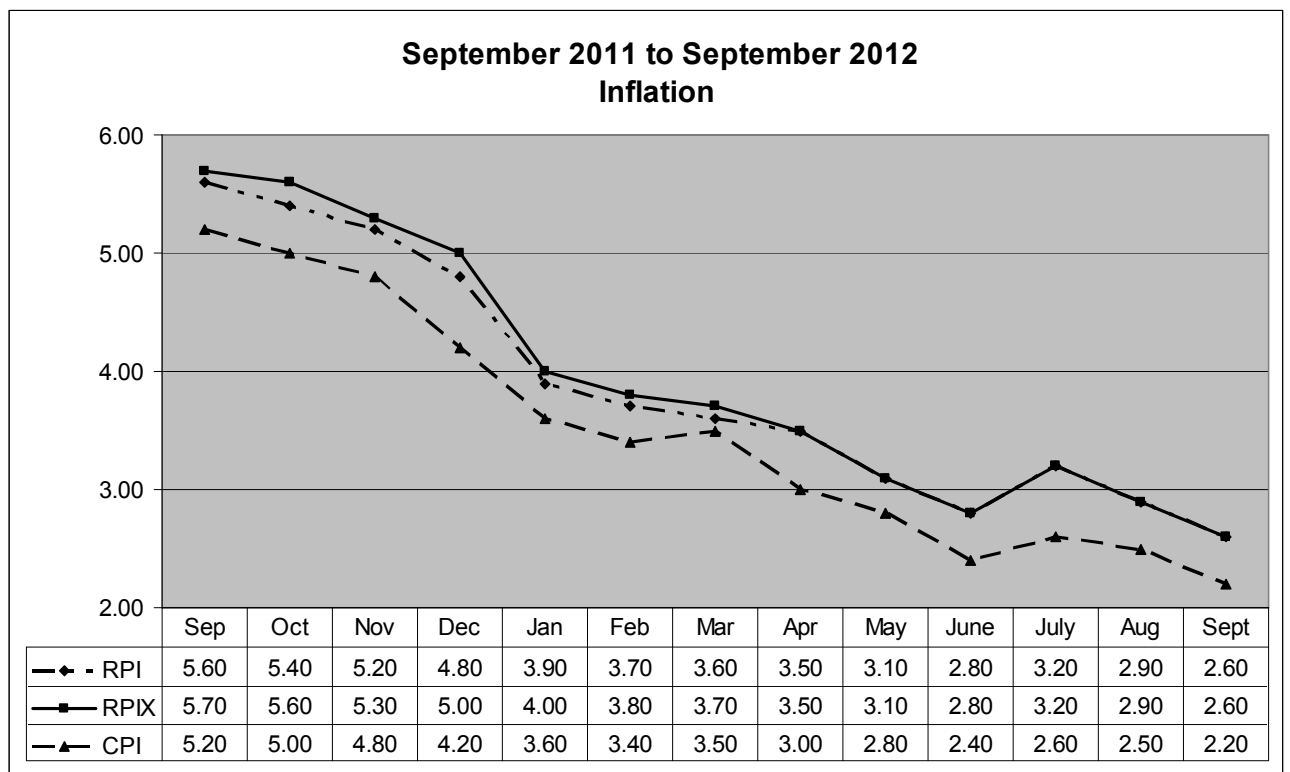
sector pay increases at an average of one per cent for the two years after the current pay freeze comes to an end (i.e. for 2013/14 and 2014/15).

82. Current estimates therefore include 1% for the 2013/14 pay award at £1.8m

General inflation

83. Due to pressure on budgets, no allowance for general inflation effects has been provided for in the budget since 2010/11. On 16 October 2012, ONS announced the inflation statistics for September. The reported indicators show CPI at 2.2% (down by 0.3% from 2.5% in August), RPI 2.6% (down by 0.3% from 2.9% in August), and RPIX 2.6% (down by 0.3% from 2.9% in August).

84. The chart below shows the movement in inflation from September 2011 to September 2012.



85. Over the course of the year all inflation rates have reduced by over 50%.

86. Running costs budgets amount to some £165m for 2012/13, with CPI currently at 2.5% and RPI at 2.9% after taking account of alternative inflation of £2.4m, explained in paragraph 87 below, Southwark are absorbing inflationary pressures of £1.2m and £1.9m respectively.

Alternative inflation

87. The council also calculates “alternative inflation” which covers things like long term contracts tied to industry specific rates of inflation (e.g. contracts, utilities, etc). Alternative inflation does not have a single rate and current provisional estimates show alternative inflation at £2.4m for 2013/14.

Use of balances during the 2011/12 – 2013/14 budget framework

88. Following the unprecedented reductions in government grant for 2011/12, and the short notice given by the government to identify savings, £3.4m was taken from reserves to support the 2011/12 budget setting process.
89. For 2012/13 an additional £1.0m was taken from reserves.
90. The indicative budget from February 2011 indicated that £0.7m would be contributed to reserves. However current estimates indicate that it is likely that the 2013/14 budget will require a further contribution from reserves, of up to £6.9m. However this is subject to the considerable uncertainty over funding streams for 2013/14, and final savings and growth proposals.

New Homes Bonus

91. The government intends to maintain the government's commitment to continue the incentive for local authorities to deliver housing growth, and to do this future funding will be taken from the overall revenue spending review control total at a level to meet the full commitment of the scheme. For each of the seven years of the reset period, the government will be removing £2bn, £345m of which will be held back to fund capitalisation and safety net support, leaving £1.7bn available to fund New Homes Bonus. In the early years New Homes Bonus will be significantly less than the adjustment, and surplus funding will be returned to local authorities in proportion to their baseline funding levels.
92. Essentially, from 2013/14 New Homes Bonus is a revenue resource. To deliver the council's planned contribution of NHB to fund the capital programme would require a further £6.3m savings to be identified.

Latest 2013/14 provisional indicative budget

93. In February 2011 Council Assembly was presented with a three year notional balanced budget that reflected the best understanding at that time of funding available to the council. The table below shows the 2013/14 budget set at that time, and also presents known changes that have taken place. It also reflects the level of funding that will be required from government under the new financial arrangements that will be required for this level of spending to be achievable, including retained business rates.

Provisional indicative budget for 2013/14

2013/14 indicative budget	as at February 2011 ¹ £m	As at November 2012 £m
Revised previous year budget (2012/13)	312.6	310.4
<u>Inflation</u>		
Pay award: 2% assumed for 2013/14 in 2011/12, now 1% assumed in line with 2011 Autumn statement,	3.6	1.8
General inflation (running costs) - now assumed as 0%	3.4	0.0
Inflation based on contractual commitments (linked to industry specific rates)	2.6	2.4
<u>Commitments, Savings & Growth</u> ²		
Commitments	5.4	5.4
Growth	3.4	3.4
Efficiencies and improved use of resources	(12.7)	(12.7)
Income generation	(0.1)	(0.1)
Savings impacting on service delivery	(11.3)	(11.3)
<u>Other adjustments</u>		
Rolled in specific grants	33.0	33.0
Reversal of one-off items from 2012/13	(1.5)	(1.5)
Fall out of 2012/13 Council Tax freeze grant (one year only)	2.3	2.3
Council Tax freeze grant 2013/14 (two year funding)	0.0	(0.7)
Fall out of contribution (from) / to balances	2.1	4.4
Total Budget	342.8	336.8
Funded by		
<u>Government Grants</u> ³		
Formula grant	(217.1)	(211.1)
Specific Grants	(33.0)	(27.4)
<u>Council Tax</u>		
Council tax ⁴	(93.4)	(73.3)
Council tax support grant	0.0	(18.1)
Total Funding	(343.5)	(329.9)
Budget shortfall	(0.7)	6.9
Contribution (from) / to balances	0.7	(6.9)

Note 1-Updated to include changes arising from 2012/13 budget

Note 2 - As detailed in the Budget Setting report appendices (Council Assembly 22 February 2011)

Note 3 - Revised 2013/14 assumes £6m reduction in overall government funding. Specific grants are reduced by £5.4m to reflect the loss of Early Intervention Grant

Note 4 - Revised 2013/14 takes account of reduced tax base for discounts for council tax support, funded through council tax relief grant. This does not include the any potential increase in collection from changes to local discounts.

94. Overall, the proposed changes set out above will pass significant risk to local authorities.

Business rates localisation	Non collection previously borne by the government Uncertainty around backdated appeals.
Localisation of support for council tax	Continued economic downturn could increase number of households receiving CTS with no corresponding increase in funding.
Technical reforms of council tax	Non collection may result in a worse position than if not changes
New Homes Bonus (NHB)	The amount clawed back from Southwark may be higher than actually received in NHB and repayment of surplus clawback. Whatever actually transpires, there will be a real loss of funding to either general fund or capital programme, or both.
Rolled in grants – EIG	Loss of £5.6m grant funding, this will be paid through DSG for two year old education, but as this is a new duty there is not a transfer of function to DSG funded services, as such this a real overall reduction in resources of £5.6m
LACSEG	Impact yet to be assessed, but again will be a real cut to funding.
Social Fund	Grant funding may be insufficient to cover costs of fulfilling government guidelines
Public health transfer	Transferred funding may be insufficient to cover cost of service.

Housing revenue account (HRA)

95. The HRA self-financing regime commenced in April 2012 and provides more certainty around the level of funding available and freedom to plan and manage investment of the housing stock over a much longer-term horizon.
96. The benefits of self-financing for residents are the opportunity for business planning to be guided by local priorities, rather than central government rules. In Southwark, although the level of rent that tenants pay will continue to be set in accordance with the national formula, the anticipated surpluses generated within the HRA are the opportunity for greater investment in the stock for the benefit of existing tenants; opportunities for meeting growing demand locally for housing accommodation by building new council homes; and opportunities for creating new services and improving existing ones.
97. The council has committed £0.5 billion to the housing investment strategy to deliver warm, dry and safe homes over a five-year period. This programme is fully funded and will enable the council to meet its obligations towards the Government's decent homes standard. Significant investment has also been allocated to four high investment needs estates, along with its other landlord obligations.
98. There are also a number of risks inherent in self-financing as the council takes on the responsibility of financing the future management, maintenance and capital investment of its stock without recourse to government support. The

national welfare reforms present a number of specific challenges across the piece but specifically in relation to housing provision. The full impact of these reforms cannot be accurately quantified at this stage, but will impact on homelessness/ temporary accommodation resulting in additional costs/ loss of income for both the HRA and the general fund from April 2013.

Capital programme

99. In July 2011, Council Assembly agreed the recommendations of the cabinet for a refreshed 10-year general fund capital programme 2011-21 of £351m. This was refreshed and agreed by cabinet on 25 September 2012 to give a programme for 2012-22.
100. The general fund capital programme 2012-22 reflected new and emerging priorities, latest information on existing projects and a refreshed estimate of resources. The total programme included expenditure of £387m with projected funding of £389m. Within this there has been some £60m of new additions to the programme including;
 - transformation of Adult and Learning Disabilities accommodation
 - additional funding for the primary school estate strategy
 - works to non principal roads network
 - compliance and planned preventative maintenance works
 - upgrade IT infrastructure and core enablement projects
101. In October 2011 cabinet agreed a five year Housing Investment Programme to the value of £326m, and the 25 September 2012 report to cabinet reported forecast expenditure of £403m. This programme will be key in delivering the council's priority of ensuring all council homes are warm, dry and safe.

Community impact statement

102. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with last year's budget, each department will undertake equality analysis on its budget proposals.
103. Undertaking equality analysis will help the council to understand the potential effects that the budget proposals may have on different groups. The analysis will also consider if there may be any unintended consequences and about how these issues can be mitigated. Analysis will also be undertaken to consider any cross-cutting and organisation-wide impacts.
104. The equality analysis undertaken will build on previous analysis including the equality impact assessments carried out as part of 2012/13 budget setting and the equality analysis undertaken on decisions to implement the budget this year. The development of equality analysis will commence now to ensure that it informs decision making at each stage of the budget process.

Consultation

105. This report is an introduction to the planning for the third year of a three year budget framework, agreed in February 2011. The budget agreed in February 2011 was supported by an exhaustive consultation undertaken in the autumn of 2010.

Next steps

106. Taking account of all the information contained in this report a further report will be presented to Cabinet on 11 December 2012. This is unlikely to include details of the provisional 2013/14 finance settlement, but will include budget options following the second phase of the council's budget challenge process. This will be in advance of the Overview and Scrutiny Committee meeting to discuss the budget proposals on 7 January 2013. A full report will be presented to cabinet on 29 January 2013, and if required on 12 February 2013. The budget will be proposed to council assembly on 27 February 2013.
107. A timetable of scheduled meetings leading up to council tax setting on 27 February is shown below.

11 December 2012	Cabinet	Policy and Resources Strategy 2013/14 - 2015/16 – Provisional Local Government Settlement (Title needs to be changed)
7 January 2013	Overview and Scrutiny Committee	As above
23 January 2013	Council Assembly	2013/14 Tax Base
29 January 2013	Cabinet	Policy and Resources Strategy 2013/14 - 2015/16 - revenue budget
12 February 2013	Cabinet	Policy and Resources Strategy 2013/14 - 2015/16 - revenue budget
27 February 2013	Council Assembly	Policy and Resources Strategy 2013/14 - 2015/16 - revenue budget
27 February 2013	Council Assembly	Setting the Council Tax 2013/14

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Legal Services

108. The constitution determines that cabinet consider decisions regarding the strategic aspects of the regulation and control of the council's finances. The council has an obligation under Section 32 of the Local Government and Finance Act 1992 to calculate and agree an annual budget. The issues contained in this report will assist in the future discharge of that obligation.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Budget setting reports for 2011/12 Council Assembly 22 February 2011 http://moderngov.southwark.gov.uk/ielistDocuments.aspx?CId=132&MId=3454&Ver=4	Report on the council's website	Everton Roberts 020 7525 7221
Budget setting reports for 2012/13 Council Assembly 29 February 2012 http://moderngov.southwark.gov.uk/ielistDocuments.aspx?CId=132&MId=4038&Ver=4	Report on the council's website	Lesley John 020 7525 7228
Local Council Tax Reduction Scheme Cabinet 23 October 2012 http://moderngov.southwark.gov.uk/documents/s32581/Report%20Local%20Council%20Tax%20Reduction%20Scheme.pdf	Report on the council's website	Everton Roberts 020 7525 7221
Local Taxation reform – second Home Discount Cabinet 23 October 2012 http://moderngov.southwark.gov.uk/documents/s32545/Report%20Local%20Taxation%20reform%20Second%20Home%20Discount.pdf	Report on the council's website	Everton Roberts 020 7525 7221

APPENDICES

No.	Title
None	

AUDIT TRAIL

Cabinet Member	Councillor Richard Livingstone, Finance, Resources and Community Safety	
Lead Officer	Duncan Whitfield, Strategic Director of Finance & Corporate Services	
Report Author	Jennifer Seeley, Deputy Finance Director	
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Dated	9 November 2012	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team	9 November 2012	