

<b>Item No.</b> 6	<b>Classification:</b> Open	<b>Date:</b> 20 January 2014	<b>Meeting Name:</b> Overview and Scrutiny Committee
<b>Report title:</b>		Policy and Resources Strategy 2014/15 to 2016/17: Provisional Settlement	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Richard Livingstone, Finance Resources and Community Safety	

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

At the meeting on 22 October 2013, Cabinet were informed of the pressures created by the continued cuts to its grant from government, and of the outcomes of the consultation with Southwark residents on how the council should prioritise which services to protect and which to seek savings from.

This report sets out the resulting budget for 2014/15, in the face of the budget shortfall of £25.4m reported in October. This round of cuts by government means that Southwark council has lost £249.28 for every man, woman and child living in the borough since May 2010.

Reflecting the outcomes of the consultation, work has been undertaken to ensure as much of the necessary savings have been made from finding further efficiency savings and from back-office activity whilst protecting frontline services as far as possible.

The council's sound financial management since 2010 has meant that we have been able to deflect some of the pain of the government cuts in this budget. In this budget, further savings are being proposed through the decision taken to purchase the offices at 160 Tooley Street, tighter management of contracts, spending money from our capital budget to proactively maintain highways rather than having to reactively repair them and through the reorganisation of how we deliver services.

However, such savings will become increasingly difficult to achieve in future years as the opportunities to make the relatively painless reductions have already been taken. This is particularly concerning given the further £33.5m cut proposed by government in its illustrative 2015/16 allocation, which represents a further 11 per cent cut from the 2014/15 budget considered in this report. I met with Brandon Lewis MP, Under-Secretary of State for London, Local Government and Planning, on 14 January to make him aware of the likely impact this would have on Southwark.

To make matters worse, councils in London have lost New Homes Bonus in the 2014/15 round through a top-slicing of this money which is not being applied elsewhere. Furthermore, the opportunity to generate additional money from growth in business rates has been hampered by government's decision to only hand 30% of such money back to Southwark. Additionally, the council faces spending pressures in essential areas of its work to protect vulnerable children and families, in part as a result of government's decisions on welfare changes.

However, this budget is not all bad news. This budget enables this council to fulfil its commitment to ensuring that every primary school child in this borough receives a free healthy school meal. It also sees the completion of our work to ensure that everyone who works for the council, directly or through contract, receives the Living Wage. It helps our most vulnerable young people, with additional funding for young adults with Learning Disabilities and to support adoption and fostering.

Finally, I want to take this opportunity to thank all the staff across the council who have assisted in the work of pulling this budget together. In these difficult times, the dedication of our employees has helped us continually innovate to ensure that we are protecting the council's delivery of front line services.

## **RECOMMENDATIONS**

That cabinet:

1. Note the current balanced general fund budget proposals for 2014/15 following work undertaken to identify savings and efficiencies, and including increased levels of inflation and commitments identified by departments since the report submitted to 22 October 2013 cabinet.
2. Note that the government's Autumn Statement was delivered on 5 December 2013.
3. Note that the provisional settlement for Southwark council was received on 18 December 2013, and that the final settlement is expected to be confirmed in early February 2014.
4. Note that this report is to be considered by the Overview and Scrutiny committee on 20 January 2014 and that any recommendations arising which are agreed by cabinet will be incorporated into the final report to cabinet on 11 February 2014 for recommendation to Council Assembly on 26 February 2014.
5. Note that this report includes the 2014/15 provisional settlement figures, and with the use of reserves of £6.2m presents a balanced budget for 2014/15.
6. Note the further £33.5m funding reduction announced within the illustrative figures for 2015/16 and the impact on the council following four successive years of significant savings.
7. Note an additional £800k contribution from reserves to the Welfare Hardship Fund set up in 2013/14 and that officers are to examine how funds can be more quickly directed to help those in financial difficulty.
8. Instruct officers to take steps early in the new financial year to plan for the additional resources, efficiencies and savings that will be required to deliver a balanced budget in 2015/16, based on the illustrative figures supplied.
9. Make representation to Ministers on 2015/16 draft settlement and its impact on the council.

## **BACKGROUND AND PURPOSE**

10. In October 2013, cabinet received a report on the Policy and Resources Strategy 2014/15 to 2016/17. This scene setting report set out options for the revenue budget for 2014/15 and the outcomes from the budget consultation exercise that was undertaken over the summer of 2013.
11. The report was prepared in the context of anticipated changes in funding arrangements for the council in 2014/15 and beyond, including cost pressures and corporate savings opportunities known at the time. The report highlighted an estimated shortfall in resources of £25.4m in 2014/15, subject to the Chancellor's Autumn Statement and the provisional grant settlement expected in December 2013.
12. Arising from the report, cabinet instructed officers to explore options to address the 2014/15 budget gap to include the scope for additional business rates growth retention, improved council tax collection and recovery, use of New Homes Bonus (NHB) to support general fund services, and other strategic financing opportunities.
13. This report contains proposals associated to these options. It also provides an update on the current funding position following on from the Autumn Statement and the provisional grant settlement for the council. It also includes detailed budget options for both new commitments and for savings that would enable the council to achieve a balanced budget for 2014/15.
14. The report also sets out the likely funding position for 2015/16 and the additional pressures that this will to bear on council services.

#### **KEY ISSUES FOR CONSIDERATION**

15. Since October, officers have gathered further and more current information on future funding arrangements and cost pressures and savings opportunities. The key issues for consideration at this stage refer to:
  - Chancellor's Autumn Statement
  - Provisional grant settlement (including New Homes Bonus; specific and special grants; etc.)
  - 2013/14 General Fund monitoring position
  - Strategic financing options to help reduce the budget gap
  - New and emerging commitments
  - The outlook for 2015/16 and beyond

#### **AUTUMN STATEMENT**

16. On 5 December 2013, the Chancellor presented his Autumn Statement. The Statement set out the parameters for Local Government funding in 2014/15 and 2015/16. The Statement confirmed that there will be a continued reduction in central government funding for local authorities over the next two years, as set out in the 2013 Spending Review, announced by the Chancellor on 26 June.
17. In addition, the statement referred to a number of other relevant issues including :
  - A cap of 2% on inflationary increase in business rates.

- Up to £1,000 rebate for businesses with Rateable Value (RV) up to £50,000
- A new reoccupation relief to encourage use of vacant town centre shops.
- A further extension of the doubling of the small business rate relief (SBRR) to April 2015.
- Formally announcement of extending free school meals to all children in reception and years 1 and 2
- funding for the Pupil Premium will rise to £2.5 billion in 2014/15.

#### **Business Rates Increase cap**

18. The 2013 autumn statement announced that the government will support all businesses by capping the RPI increase in business rates to 2% in 2014/15. Business rates for 2014/15 were forecast to rise by 3.2%, in line with September 2013 RPI. This is expected to cost £270m nationally in 2014/15 and £255m in 2015/16.

#### **Business Rates Discount**

19. The introduction of a discount for two years of up to £1,000 against business rates bills for retail premises (including pubs, cafes, restaurants and charity shops) with a rateable value of up to £50,000 in 2014/15 and 2015/16. This is estimated to cost nationally, £350m in 2014/15 and £425m in 2015/16.

#### **Re-occupation relief**

20. The introduction of a temporary reoccupation relief gives a 50% discount from business rates. This discount will apply to new occupants of previously empty retail premises for 18 months, to help reduce the number of boarded up shops on high streets. The relief will be granted to businesses moving in to long-term empty retail properties on or after 1 April 2014 and on or before 31 March 2016. This is expected to cost £5m in 2014/15 and £10m in 2015/16.

#### **Further extension of the doubling of the small business rate relief (SBRR)**

21. The announcement of a further extension of the rate of the SBRR to April 2015 means that approximately 360,000 of the smallest business will continue to receive 100% relief from business rates until April 2015, with a further 180,000 benefiting from tapering relief. This is expected to cost £500m nationally in 2014/15.

22. The Department of Communities and Local Government (DCLG) intend to refund local authorities for the cost of the additional relief in 2013/14 through grant, with 60% of the lost income payable in year using estimates and the balance paid after year end based on final outturn position. It is expected that business rates discount, re-occupation relief and SBRR will be refunded to local authorities in 2014/15 on the same grant basis.

#### **Valuation appeals**

23. There are currently 168,000 business rates appeals cases outstanding nationally as at September 2013. The government announced their commitment to resolve 95% of outstanding cases by July 2015.

24. The government will consult in 2014 on changes to provide greater transparency over how rateable values are assessed, improve confidence in the system and allow well founded challenges to be resolved faster, preventing backlogs building up in future

#### **Free school meals**

25. The government will make funding available to offer every pupil attending a state-funded school in reception, year 1 and year 2 a free school lunch from September 2014. Pupil Premium rates and eligibility will be unaffected.
26. The government will also provide £759k capital funding to increase capacity in school kitchens as well as funding to enable further education and sixth form colleges to provide free meals to disadvantaged young students, in the way that school sixth forms are already required to do.
27. This is estimated to cost £620m in 2014/15 and £755m in 2015/16. The Autumn Statement and Provisional Settlement do not explain how the funding will be made available (e.g. paid to parents, direct to schools or to local authorities).

#### **Council Tax**

28. At Spending Review 2013, the government announced that it intended to set the Council Tax referendum threshold at 2% for 2014/15 and 2015/16, with a grant equivalent to a 1% increase provided to local authorities in England that decide to freeze or reduce their Council Tax in 2014/15 and 2015/16. Any local authorities wishing to increase Council Tax beyond the threshold would have to consult local people.
29. The autumn statement 2013 announced a national council tax discount of 50% for annexes from April 2014. This will support extended families living together, for example with children saving for a new home or elderly parents. It is not clear how funding will be made available to local authorities for the loss from this scheme.

#### **New Homes Bonus**

30. The government's Spending Review 2013 proposed a £400m increase to the local growth fund, subject to consultation. This would be created by top slicing 35% from New Homes Bonus and transferring it to Local Enterprise Partnerships (LEPs).
31. Following consultation the chancellor announced that, other than for London authorities, the local growth fund will no longer contain a top slice from all New Homes Bonus. This means that from 2015/16, £70 million of the New Homes Bonus awarded to London boroughs will be pooled within the London LEP, which is chaired by the Mayor of London.

#### **Delivering savings from cutting fraud**

32. To enable savings of over £2.3 billion through reductions in fraud, error and debt to be delivered, the government announced that a Single Fraud Investigation Service would be formed to investigate fraud across the whole of the welfare system.
33. Alongside this service, DCLG and the Department of Work & Pensions (DWP) will invest in local government's capacity to tackle non-welfare fraud. Additional funding will be provided in 2014/15 and 2015/16 to enable new fraud investigation posts to be created, to focus on corporate fraud.

#### **2014/15 PROVISIONAL SETTLEMENT FOR SOUTHWARK COUNCIL**

34. On 18 December 2013, the government announced the provisional settlement for 2014/15 and 2015/16. These figures give Southwark's Settlement Funding Assessment (SFA) at £227.4m. This is some £900k higher than the indicative allocation issued in July 2013 as part of the consultation, and included in the

report to October cabinet. However 2013/14 council tax freeze grant has been rolled into SFA in 2014/15, so the two figures are in fact comparable and will not materially affect the current 2014/15 budget position.

35. A more detailed analysis of the provisional settlement is included in Appendix G.
36. Overall Southwark's 2014/15 SFA has been reduced by £26.9m (10.6%). It represents the second highest settlement funding reduction in London. The cash reductions range between £27.1m for Tower Hamlets to £4.7m for Richmond-upon Thames.
37. The government's announcement gives the national spending power reduction for 2014/15 at 2.9%, (1.8% in 2015/16). This is because it excludes the Greater London Authority (GLA). The national figures including the GLA are 3.1% in 2014/15 and 2.0% for 2015/16.
38. For 2014/15, Southwark have the third highest spending power reduction. The spending power reductions range between £18.7m for Lambeth to £1.2m for Richmond-upon Thames.

#### **Retained Business Rates**

39. The fact that the formula and methodology used to determine the SFA are frozen until 2020 means that Southwark is likely to be locked into a long period of receiving among the largest level of cuts in London.
40. The government have passed on most of the risks of the business rates system to local authorities, apart from the risk of reduced business rates yield below the safety net. There is also the inherited risk of reduced revenues as a result of historic valuation appeals being upheld by the valuation office.
41. Before the introduction of the retained business rates system, appeals did not form any part of any calculations or returns, neither were appeals factored into the government's calculations of the business rates baselines.
42. It seems, though still subject to some discussion, that local authorities will have to bear the risk of the pre 31 March 2013 appeals, as well as those after 1 April 2013. The government have received the revenues from the pre 2013/14 appeals cases, but as the government did not set up provisions for losses on appeals, any appeals that are that are subsequently upheld will be a loss to the individual local authority and not the government.
43. The Strategic Director of Finance and Corporate Services has earmarked part of the Financial Risk Reserve to help protect the council from the risks and variations inherent in the new funding system and especially risks underlying business rate retention.

#### **Specific And Special Grants**

44. In 2013/14 the council will received £39.8m in specific and special grant funding. The provisional settlement figures show that this is expected to increase to £42.3m in 2014/15. This increase of £2.6m includes an estimated £1.5m for free healthy school meals. Details of all the expected grants are shown in appendix A.

### **2013/14 REVENUE MONITORING POSITION**

45. The Revenue Monitoring Report for Quarter 2 2013/14 was presented to cabinet on 19 November 2013. The report demonstrated the results of the efforts that departments have put in to control cost pressures and deliver council commitments in line with the General Fund budget agreed by Council Assembly in February 2013.
46. As at the end of September 2013, the council was anticipating a favourable variation at the end of the financial year of approximately £208,000 against the agreed budget of £334m, after taking into account expected movements to and from reserves.
47. The report stated that there were no current calls on the 2013/14 contingency budget of £5m. This budget acts to mitigate financial risk inherent within the 2013/14 budget savings target of £24.9m and any unforeseen and immediate demand or cost pressures. In the event that this contingency is not required in 2013/14 and as for previous years, it will be made available to balances to support the next year's budget, as set out elsewhere in this report.
48. A report on the revenue monitor as at quarter 3, is due to be presented to cabinet in February 2014. At this time of writing there are no significant matters which that are likely to impact on the Quarter 2 projections.

## **STRATEGIC FINANCING OPTIONS**

49. The following paragraphs provide additional detail and quantification of savings in the areas of the budget officers were instructed to investigate at 22 October 2013 cabinet. Consideration of these matters is in line with the results of the Spending Challenge consultation undertaken over the summer when the public were more supportive of savings in central and corporate services or those areas with a 'managerial' label.

### **Additional business rates growth**

50. For the transition to the business rates retention system, the government calculated for each local authority a baseline funding level for 2013/14, which is then uplifted by 3.26%, the government's estimate of RPI for September 2013, to £104.5m. The actual inflation rate for September was 3.15%, this would give a revised baseline funding level of £104.4m, a reduction of £0.1m. For comparison purposes RSG would be adjusted, leaving no reduction in indicative funding.
51. In addition to the rate of inflation used to uplift the baseline, actual retained business rates income for 2014/15 will be dependent on the assessed rateable values, effect of appeals and collection rates. An NNDR1 return to estimate this will be submitted by the council to DCLG in January 2014. The net rate yield from the NNDR1 report is then adjusted to take account of the central government (50%) and GLA (20%) shares.
52. The budget report of June 2013 included £2.0m of additional business rate growth. Current projects are that the council may expect to receive an additional £500k in 2014/15.

### **Improved council tax collection and recovery**

53. The council continues to target council tax collection. The budget as presented in June 2013 assumed a 1% per annum increase in tax base giving £0.7m and a 0.25% increase in collection rate giving £0.2m. As further information is received on the tax base, it is anticipated that a further £0.75m could be collected.

Improving council tax collection was supported by comments made in the Spending Challenge.

54. In 2013/14 the council was required to introduce a Council Tax Reduction Scheme (CTRS). This was a decision reserved to Council Assembly. The current budget proposals assume that there will be no changes to the CTRS scheme for 2014/15. This will be proposed to Council Assembly as part of the Council Tax Base and NNDR base report to Council Assembly in January 2014. That report will consider the equality impacts of continuing with the scheme without amendment.
55. Council Assembly also agree the council tax discount and exemption scheme. The current budget proposals assume that there will be no changes to the discount and exemption scheme for 2014/15. This will be proposed to Council Assembly as part of the Council Tax Base and NNDR base report to Council Assembly in January 2014.

#### **Increased use of future NHB to support revenue**

56. The draft budget position as presented in June 2013 already anticipated £2.9m of in-year NHB in addition to the existing budgeted £1.5m revenue contribution, giving a total of £4.4m. It would be possible to apply the entirety of the anticipated 2014/15 NHB allocation to the revenue budget, which would give a total increase of £8.7m.
57. At present NHB receipts beyond £1.5m per year are planned to be applied to the capital programme. If this proposal is agreed within this report, the effect will be modelled into the capital programme and reported to cabinet as part of the refresh planned for February 2014 as part of the quarter 3 capital monitoring and refresh report.

#### **Acquisition of Tooley Street**

58. The 2013/14 budget included savings from the acquisition of Tooley Street of £1.5m. It was agreed that these savings would be reviewed annually.
59. The budget model presented in June and October included an additional £1.1m saving from the acquisition of Tooley Street.
60. Further modelling has now been completed, and the internal treasury associated costs of the acquisition are now fully funded for 2014/15. It is now estimated that a further £900k of savings, taking the total up to £2.0m can be released in 2014/15 as a result of the acquisition.

#### **Reduction in contingency**

61. In 2010/11 Council Assembly approved a contingency budget of £4.0m to provide for service pressures that could not be quantified. This was increased to £5.5m in 2011/12 in light of the national Emergency Budget, and reduced by £0.5m in 2013/14 to its current level of £5.0m.
62. Current revenue monitoring indicates that the contingency will not be required in full in 2013/14, and it is proposed that for 2014/15, this contingency should be reduced back to its 2010/11 level, a reduction of £1.0m. This effect would carry forward to future years.

#### **Contributions to balances**



63. In 2007/08 Council Assembly agreed an annual base budget contribution to the Regeneration and Development reserve of £1.0m to contribute toward the cost of the regeneration of the Aylesbury Estate. This contribution was increased in 2008/09 to £2.0m. It was reduced to the current level of £1.0m in 2009/10, and the contribution has continued since.
64. It is proposed that given the progress on the Aylesbury regeneration project, this budget contribution is no longer necessary and may be deleted from 2014/15, a saving of £1.0m, which would carry forward to future years.

#### **Government funding for free healthy school meals**

65. On 17 September 2013, the Deputy Prime Minister said that all infants at schools in England will get free school lunches from September 2014. This will apply to children in reception, Year 1 and Year 2. There have been no further announcements as to how this will be calculated or funded, although it is possible that this will be by way of a specific grant, potentially with savings requirement as the funding is passed to local councils.
66. On the basis that this is a part year (Autumn and Spring terms) effect in 2014/15 and applies to around 50% of the children who currently receive a free healthy school meal from Southwark, a figure around £1.5m has been modelled by the council, and is reflected in this report.

#### **NEW AND EMERGING COMMITMENTS**

67. In addition to the strategic financing opportunities to meet the funding shortfall reported in October 2013, a number of other factors have acted to increase demand for financial resources as set out below.

#### **Pay Award**

68. The November 2011 Autumn Statement set public sector pay increases at an average of 1% for the two years after the then pay freeze came to an end (i.e. for 2013/14 and 2014/15).
69. Provision for a 1% pay award was included in the 2013/14 budget. Current estimates include 1% for the 2014/15 pay award at £1.8m, an increase of £0.2m from that reported in October 2013. This increase is due to projections on the increased staff costs following the addition of Public Health services and the in-house Customer Service Centre staff.
70. For 2014/15, the Executive of the Trade Union Side have formally tabled their detailed pay claim for 2014 for "*a minimum increase of £1 an hour on scale point 5 to achieve the Living Wage and the same flat rate increase on all other scale points*". The National Employers have undertaken to consult councils through a series of regional pay consultation briefings that they aim to conclude by 31 January 2014.
71. Quantifying the claim for Southwark council is difficult as it does not transpose easily, for example the council does not use all points of the national spine because we have adopted the London Living Wage. A broad estimate of £1 per hour for all staff is £9.4m.

#### **General Inflation**

72. Due to pressure on budgets, no allowance for general inflation effects has been provided for in the budget since 2010/11. On 17 December 2013, ONS announced the inflation statistics for November. The reported indicators show CPI at 2.1% (down by 0.1% from 2.2% in October) and RPI at 2.6%, (no change from October).
73. Over the course of the last year inflation rates started fairly steady, but then experienced sharp reductions in April and increases over the summer. Rates have fallen back sharply since September 2013, and are now at September 2012 levels.
74. Running costs budgets amount to some £165m for 2013/14, with CPI currently at 2.1% and RPI at 2.6% after taking account of alternative inflation, of £2.4m, explained in paragraph 76 below, Southwark are absorbing inflationary pressures of £1.1m and £1.9m respectively.

### **Alternative Inflation**

75. The council calculates "alternative inflation" for long term contracts tied to industry specific rates of inflation. Alternative inflation does not have a single rate and current provisional estimates show alternative inflation costs at £3.9m for 2014/15.
76. Earlier budget reports have assumed that contractual inflation would remain fairly close to 2013/14 levels of £2.4m, given the relatively stable level of inflation during the previous twelve months.
77. Current departmental estimates show that 2014/15 contractual inflation is likely to be some £1.5m higher than for 2013/14. The main driver for this is that in 2013/14 a number of new contracts had been let, consequently no indexation was required, 2014/15 includes the inflationary uplift for these contracts.

### **Concessionary fares**

78. Concessionary fares is the name given to scheme for the London Freedom Pass which is issued to all older and disabled Londoners to give free travel on almost all public transport in London. The Freedom Pass scheme is administered by the organisation London Councils and costs are recharged to individual London boroughs on the basis of journeys travelled.
79. The concessionary fares charge to London Boroughs for 2014/15 was agreed by London Councils' Transport and Environment Committee on 12 December 2013. Overall the cost of concessionary fares will rise in 2014/15 by 4.1%. This increase is not a composite inflation rate, and is calculated from each of the inflationary increases from each of the individual transport operators. As individual London boroughs have a different profile of usage across the individual transport operators, the inflation rate will not necessarily be the same for all councils.
80. The change in charge to individual authorities is not simply inflation, as actual usage of the freedom pass is also a factor in the calculation of the 2014/15 charge.
81. In June 2013 the council modelled £500k possible increase. The increase to Southwark in 2014/15 will actually be some £880k (7.4%), this comprises of £443k for inflation and £437k for increased usage. This higher figure has now been included in the budget figures.

	2013/14	Inflation	Usage	2014/15	Increase	
	£'000	£'000	£'000	£'000	£'000	%
Bus	9,195	270	258	9,723	528	5.70%
Underground	1,693	113	48	1,854	161	9.50%
Tram	36	3	5	44	8	22.20%
DLR	47	11	1	59	12	25.50%
Overground	120	19	45	184	64	53.30%
<b>Total TfL charges</b>	<b>11,091</b>	<b>416</b>	<b>357</b>	<b>11,864</b>	<b>773</b>	<b>7.00%</b>
Other non TfL charges (ATOC, non TfL buses)	772	27	80	879	107	13.90%
<b>Total charge</b>	<b>11,863</b>	<b>443</b>	<b>437</b>	<b>12,743</b>	<b>880</b>	<b>7.40%</b>
Administration charge (0.1%)	12			13	1	7.40%
<b>Total cost of freedom pass</b>	<b>11,875</b>			<b>12,756</b>	<b>881</b>	<b>7.40%</b>

## OUTLOOK FOR 2015/16 AND BEYOND

### Settlement Funding and Spending Power

82. The funding position for future years is still subject to considerable uncertainty. As part of the provisional settlement figures the government published some indicative funding figures for 2015/16.

83. These figures indicate that Southwark's Settlement Funding Allocation (SFA) will be reduced by a further £33.5m against 2014/15 levels, making it the highest cash loss in London.

84. For 2015/16, Southwark have the highest settlement funding reduction which is the 11<sup>th</sup> highest percentage decrease. The cash reductions range between £33.4m for Southwark (14.7%) to £4.9m for Richmond-upon-Thames (10.6%).

85. By 2015/16 this will equate to the loss of £114.7m in funding allocation from government since 2011/12. This is shown in cash terms so it does not account for real inflation and other cost pressures.

86. The table below shows the spending power for Southwark, London and England since 2011/12, it can be seen that over the four year period Southwark and London have borne a disproportionate share of the reductions.

	2011/12		2012/13		2013/14		2014/15	
	£m	%	£m	%	£m	%	£m	%
Southwark	33.7	8.4	16.9	4.6	4.7	1.3	17.7	4.8
Inner London	303.3	7.8	175.1	4.9	42.9	1.2	179.5	4.8
London	514.8	5.9	325.3	4.0	99.9	1.2	327.7	3.9
England	2,578.5	4.7	1,742.9	3.3	923.4	1.7	1,668.6	3.1

87. For 2015/16, Southwark have the second highest spending power reduction (5th highest % decrease). The cash reductions range between £19.7m for Newham (6.1%) to £3.3m for Bromley (1.4%).

### New Homes Bonus

88. The government's proposal to transfer 35% of London authorities' New Homes Bonus (NHB) to the Local Enterprise Partnerships (LEPs), (paragraphs 30 and 31

refer), will have a significant effect on the amount of resources Southwark will have available to provide services.

89. 35% of Southwark's estimated 2015/16 NHB is £4.7m, this taken with some £6.0m supplementary business rates, currently paid to GLA to fund crossrail means that Southwark will have lost resources totalling around £10.7m that is available to non London authorities.
90. Southwark's response to the consultation was firmly against the top slicing, citing the concern that the resources being taken from Southwark may not be invested back into Southwark.
91. The government will consult in 2014 on measures to improve further the incentive of the New Homes Bonus, in particular withholding payments where local authorities have objected to development, and planning approvals are granted on appeal.

#### **Social Fund Grant**

92. The social fund grant, to help councils provide Crisis Loans and Community Care Grants, is expected to be withdrawn in 2015/16. For Southwark this represents a loss of £1.63m, based on the 2014/15 grant level.

#### **Government funding for free healthy school meals**

93. As the terms of the funding are not known, it is unclear whether this will have an effect in 2015/16 or future years.

#### **Overall**

94. The extent of the reductions required may require fundamental changes in the management and structures of local authorities. Steps must be taken early in the new financial year in the context of spending round and funding announcements.

### **2014 /15 BUDGET OPTIONS**

95. When setting the revenue budget the S151 officer is required under section 43(4) of the Local Government Finance Act 1992 on behalf of their local authorities, to assess the "revenue budget requirement" for the forthcoming financial year. The revenue budget requirement is a statutory definition of expenditure to be met from all sources including government grant, council tax income and other sources. The current estimates are for a revenue budget requirement of £322.1m in 2014/15, some £11.9m less than in 2013/14, the table in paragraph 183 gives details.
96. This report sets out below an outline of the options for savings and new and emerging commitments for council services. Detailed schedules of budget proposals for 2014/15 are attached as appendices B to E.

### **CORPORATE COMMITMENTS**

#### **London Living Wage**

97. The council has been pursuing London Living Wage (LLW) in contracts. The 2014/15 budget proposals include £1.0m which will be used to support LLW being embedded within relevant contracts to be retendered or re-let.

### **Pension Fund Contributions**

98. The council maintains a pension fund of around £1bn to meet its current and future pension liabilities. In prior years pressure on the fund has meant that additional contributions have been required from the council's general fund budget.
99. Initial results from the Triennial Review, presented to the Pension Advisory Panel in December 2013, indicated the pension fund has seen considerable improvement in its funding position. This is due primarily to greater than expected investment returns and as a result there is no need to increase the contributions from the general fund for 2014/15.

### **Welfare Hardship Fund**

100. An additional one off contribution from reserves to the welfare hardship fund of £800k is proposed for 2014/15. This fund will mitigate some of the impact of the benefits changes to protect the most vulnerable in the community. This fund sits separately from the Social Fund.
101. Following experience in 2013/14 the Leader has asked for an urgent review of the council's welfare hardship fund with officers to quickly examine how funds can be more quickly directed to help those in financial difficulty.
102. After nine months, around £85,000 out of a fund of £800,000 has been distributed to local people who are experiencing hardship as a result of the government's welfare changes. The review is expected to seek the views of local food banks, the citizens advice bureau and other local authorities to explore how individuals and families in desperate need can access the money the council has set aside to help them. The review will seek to understand how local people can access the welfare hardship fund, and how to get assistance to those in the most difficult circumstances, as quickly as possible.

### **DEPARTMENTAL BUDGETS: COMMITMENTS, EFFICIENCIES, INCOME AND SAVINGS OPTIONS**

103. The Policy and Resources Strategy 2014/15 to 2016/15 reported to cabinet on 22 October 2013 contained a detailed report giving results and analysis from the spending challenge consultation held during the summer.
104. People were asked to demonstrate which services they wished to 'protect', or 'increase' and to identify those services in which, if savings had to be made, they would be prepared to see savings. The table below summarises the main messages.

<b>Percentage of responses</b>	<b>Protect</b>	<b>Increase</b>	<b>Make Savings</b>
Children's Services	30%	23%	8%
Adult Services	19%	20%	11%
Public health	11%	9%	11%
Environment (E&L)	11%	14%	11%
Culture Libraries and Leisure (E&L)	17%	14%	6%
Housing and Community Services	6%	11%	14%
Central Support Services (F&CS and CE)	6%	9%	39%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

105. As far as possible, the budget proposals seek to reflect the main messages received through the consultation. The corporate savings and efficiencies identified in paragraphs 50 to 66 reflect the consultation preference to see efficiencies in central and support areas rather than public facing services.
106. The next sections identify commitments, efficiencies, income and savings for each of the departments.

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

107. The Children's and Adults department budget represents two thirds of the council's total net revenue expenditure. In 2014/15 the department is proposing savings of £9.590m, use of contingencies of £1.840m and commitments of £6.388m, resulting in an overall net budget reduction of £5.042m. The department provides universal services as well as those targeted at more vulnerable families, children and adults delivered through four divisions: children's social care, education, strategy and commissioning, and adults' social care.
108. The Children's Social Care Division supports delivery of statutory social care functions, including protecting vulnerable children and those at risk of harm, providing services for looked after children, foster care, adoption, youth offending and children with disabilities.
109. The Education Division supports the delivery of universal services, including early years (0-5 years), school improvement, admissions, after school play and youth services, alongside more specialist services for children and young people with additional needs such as SEN or those excluded from school. It is also responsible for the Post 16 phase of learning to ensure Southwark young people are engaged in employment or training, in school or with other providers.
110. The Strategy, Commissioning and Business Improvement (SCBI) Division provides support for statutory partnership boards such as the Southwark Safeguarding Children's Board and Health and Well Being Board, performance data and intelligence to support targeted service delivery, manages the multiple inspection processes, and commissions and quality assures placements and services for vulnerable children and adults. In addition the division leads on specialist parenting services, compliance and departmental governance and the free healthy school meal programme.
111. The Adults' Social Care Division provides support for the vulnerable adults in our community. These are frail older people, including those with dementia, disabled people of all ages, people with a learning disability and people with mental health problems. This includes residential and nursing home placements, services to allow people to maintain independence and support them living in their own homes, home care, day care, intermediate care, advocacy and support, equipment to aid daily life, transport and meals on wheels. People who are eligible for social care increasingly have personal budgets, including direct payments, where they self-direct the support they need to meet agreed outcomes.
112. In delivering these savings we have sought to minimise the impact on statutory social care functions for the most vulnerable children, young people and adults and so maintain the council's responsibility to keep vulnerable children and adults safe.

113. The key drivers to achieving the reductions are to:
- Maximise service effectiveness, drive down costs and ensure high quality, sustainable provision within the available remaining resources
  - Protect front line services by reducing back office costs, flattening the management structure and increasing productivity
  - Reshape our retained services around the council's core statutory duties for education and social care
  - Reduce subsidies to non-statutory, discretionary services
  - Further improve commissioning and procurement to increase value for money
  - Further reduce duplication in supplies and services and ensures we focus on priority services to vulnerable groups.
114. Further, the overall aim is to deliver a fairer future for older and disabled people by creating a sustainable system that continues to support the most vulnerable and deliver value for money. This requires a change in the way the council works across the whole system of adult social care. It will mean different relationships between the council and the community, where families and older and disabled people will be expected to do more for themselves, with less reliance on the council. It means moving to a model where older and disabled people can contribute and exercise greater control over their own lives, improving their health and well being. This will also mean containing growth in demand, focussing council support to the most vulnerable, providing services differently but always with an aim to maintain and improve quality.

### **Children's Social Care**

115. The proposed savings for Children's Social Care totals £450k to be delivered through improved commissioning of children's disability spend and looked after children residential contracts; and utilisation of the Dedicated Schools Grant and staff savings. This lower level of savings is in recognition of the risks of continuing to reduce Children's Social Care budgets whilst the number of children and families in need continues to grow. The government has also imposed a more rigorous inspection framework which incorporates increased expectations on local authorities to improve outcomes for the most vulnerable children and families.
116. In 2014/15, Children's Social Care growth bids of £2.8m are required to support increased activity across foster agency care placements, residential home placements and increased numbers of destitute families in receipt of financial assistance. During 2014/15, Children's Services is using £1.64m of contingencies support this increased activity. It is anticipated that the transformation of children's social care and continued management action will reduce the overall costs and therefore reduce future budget pressures. Management action includes a recruitment campaign to increase the number of in house foster carers, increasing the number of children adopted, and a management review of services for destitute families to improve efficiency and reduce duplication.
117. In addition, growth bids totalling £1.6m are proposed for reviews of rates paid to foster carers to improve recruitment and retention and reduce our use of independent fostering agencies and residential care. There are additional costs associated with the requirement to provide a stronger offer of post adoption support, and the requirement for payments to friends and families carers and Special Guardianship Orders to be linked to local fostering rates.

### **Education**

118. The proposed savings for Education total £1.555m. Over the last three years every area within Education has been restructured and wherever possible the aim has been to maintain front line services and ensure services are targeted at the most vulnerable. In 2014/15, the majority of savings fall within the Early Help Division (£1.210m) and include downsizing the management costs of the Children's Centres; increasing Dedicated Schools Grant utilisation; ending of one-off support and rationalising the BookStart offer. A further £300k is to be saved through realigning the Youth and Play Service and £45k through a deletion of a vacant post.
119. There is growth of £100k to support staffing costs associated with the implementation of the Children's and Families Bill from September 2014. This is a significant reform of the needs assessment process for individuals aged 0-25 years covering special education needs, social care and health needs.
120. These savings in the council's budget also need to be seen in the context to ongoing national reforms to the Dedicated Schools Grant (DSG) which funds schools and centrally retained education services such as Special Educational Needs, Early Years entitlement for two, three and four year olds and educating children other than at school. The main budget challenge for 2014/15 is the increasing numbers of children in special educational needs provision whilst the DSG funding for high needs remains static.

#### **Strategy, Commissioning and Business Improvement (SCBI)**

121. The entire SCBI team has been restructured over the past three years; at the same time as delivering significant commissioning saving across Children's and Adults' Services. The proposed savings within SCBI total £655k; of this £500k relate to staff savings through a sharper approach to commissioning; £100k through reducing printing costs and £55k through the utilisation of the Public Health grant. This team will also implement the commissioning savings totalling £300k already included within the Children's Social Care budgets referred to above.
122. There is a commitment of £900k for the full year financial effect of the full roll out of the Free Healthy School Meals for Southwark Primary in years 5 and 6.

#### **Adults' Social Care**

123. The savings for Adults' Social Care total £6.930m, as described below.
124. Savings are proposed of £2.675m for services for people with learning disabilities which will promote independence and increasing choice, will be delivered through:
- Redesigning high cost provision to promote personalisation
  - Programme of individual reviews for people with personal budget
  - New individual support funding arrangements for adults in shared accommodation.
125. In addition, a saving of £200k is proposed for mental health day services continuing promoting and extending personalisation.
126. A number of efficiency savings are proposed totalling £4.055m including:
- Prompt hospital discharge from hospital
  - Reduction in the building repair and maintenance budgets to reflect current building portfolio.



- Reduction in the use of specialist consultants and staff savings through management restructure and vacant post deletions
- Commissioning savings for out of borough and spot placements costs and decreasing the transitional funding for market development
- Reduced demand on residential and nursing home placements
- Reduction in take up of the welfare catering service.

127. For 2014/15, growth of £988k is required to fund the increasing number of young people with Learning Disabilities receiving support.

128. During 2014/15 Adults' Social Care will be working through the future streamlining opportunities created by the integration of health and adults social care arrangements through the pooled Better Care Fund and financial risks of the Care Bill both will be implemented in 2015/16.

### **Public Health**

129. The public health activities in 2013/14 are delivered through £21.8m ring fenced grant from the Department of Health. The key service areas are:

- sexual health services including contraception and sexual health advice and testing, £8.1m (Children's and Adults' Services);
- improving public health including smoking cessation, exercise referrals, health checks and school nursing, £3.4m (Children's and Adults' Services);
- drugs and alcohol misuse services including treatment and intervention services, £7.2m (Environment and Leisure);
- community sports contribution, £100k (Environment and Leisure);
- the staffing costs for the shared specialist public health team that includes staff transferred from the NHS and a budget held to mitigate for the financial risks associated with activity/costs for public health, £3.1m (Chief Executives).

The vast majority of this expenditure is on third party service providers.

130. Funding for public health is expected to increase by £1.1m in 2014/15 and the council will take the opportunity of bringing public health functions into the council to support health and wellbeing programmes currently undertaken by the council, and apply this funding to activities which support public health elsewhere in the council.

### **Children's Services (incorporating both Education and Children's Social Care) summary equalities impact.**

131. One of the key aspects of the work of children's services will be to minimise the impact of the budget reductions proposed, particularly with regard to groups covered within the council's Approach to Equality. Southwark is one of ten local authorities nationally with the highest percentage of children in need, and yet has suffered one of the highest reductions in central government core funding. In addition, the reduction of or loss of a considerable number of targeted grants focused on the most vulnerable groups will significantly add to the potential negative impact. Children's services will need to manage these reductions in light of its continuing statutory duties.

132. Safeguarding children and young people is our highest priority and any service reductions here or in related areas will need to be very carefully considered in relation to children at risk of harm in the community, and for the potential impact on vulnerable groups. Because of the downturn in the economy and welfare reform changes, we are starting to see in specialist children's services an increased demand for services to families in difficulty. Effective support for

schools to meet a wider range of lower-level needs and so prevent problems escalating will be required, particularly with the high level of need that our young people have in Southwark and the vulnerability of some schools. The potential growth of academies is a challenge to central services due to the potentially destabilising effect on income to maintain these services.

133. Actions to mitigate the impact of budget reductions will be considered very carefully following the council's decision. This will include looking at efficiency savings including streamlining back-office processes and reducing the number of support staff, reviewing management structures to reduce the number of managers and protect front-line service delivery, smarter procurement to drive down the costs of purchased services and stripping out any funding duplication. Contracts with external providers will be scrutinised for potential savings without impacting on key groups. In addition, other mitigating actions will be put in place, including exploring alternative delivery models, such as working in partnership with schools and other partners to deliver services in a different way, as well as understanding the local impact of initiatives or actions taken at a national level. This process has already started and has been a critical aspect of developing the initial budget proposals.
134. A further more detailed report will be produced on the potential impact of the proposed budget reductions for specific groups so these can be fully considered before any decisions are taken. This will include detailed equality analysis for each service affected by the council's decision, which will underpin individual service development and reconfiguration.

#### **Adult Social Care - summary equalities impact**

135. Budget proposals for adult social care are in the context of work to develop a system that supports people to live independently and well for as long as possible, accessing care and support services that are personalised and based on their choices and moves away from a model of dependency. The system needs to consider redesign and reconfiguration across all client groups to be sustainable, continue to support the most vulnerable and deliver value for money.
136. The two equality strands that will experience major impact from proposals are older people and disabled adults with eligible care needs as outlined through Fair Access to Care Services (FACS) criteria. Older and disabled adults without eligible needs may also experience an impact from proposals to re-shape open access services in the borough.
137. The key impact is around services not continuing to exist or being offered in a different way. We are going to focus resources on time-limited interventions that help people, such as re-ablement services, and supporting them to understand how they can best help themselves and make key contributions to the wider community. In addition, changes to services will potentially have an impact on carers, the majority of whom are women.
138. We propose a range of mitigating actions to try and minimise any potential negative impact. These include:
- Continue progress with development of personal budgets (including direct payments in cash) so that people understand how much is to be spent on their care and support and can then make decisions about the ways they wish to use their money;

- Focus on how we can support the development of a diverse provider market in Southwark so there are appropriate services available on which people can spend their personal budgets;
- Develop and improve partnerships involving individuals, communities, voluntary and private sectors, the NHS and the council's wider services to best implement proposals;
- Improve procurement and commissioning processes, and streamlining back office functions thereby focusing resources on frontline services;
- For open access services, explore models where a small injection of cash to 'pump-prime' services could support organisations to become financially self sustaining, and promote community cohesion, in line with the wider corporate approach to the voluntary sector;
- Develop proposals for effective, targeted interventions that can provide help and support for carers, recognising the key role that they play, both in delivering care and in preventing people's care needs from increasing.

139. The overall approach for adult social care services in Southwark will have a positive impact on equality strands:

- Personal budgets offer an opportunity for people to access personalised support services that take account of cultural preferences, e.g. being able to choose a carer of your own gender – evidence suggests this is particularly true for BME communities, lesbian, gay and bisexual communities and for transgender people
- Moving away from residential provision and to supported living in the community is designed to support people to live independently at home and connected with their communities for as long as possible
- A single point of informed contact supports better use of resources and targeted information and advice for people at an early stage, regardless of whether they receive state support for care.

140. However, this also needs to consider:

- Developments in the local provider market so culturally specific services are available
- Particular support that some groups, such as older people or those with mental health needs, may require to access the benefits of personal budgets
- Particular support for people who may have spent a considerable time in residential care
- Appropriate support for those who continue to need respite services
- People who need to access information in different ways (e.g. website, email, telephone) and those who may not have English as a first language.

141. We recognise that we will need to work closely with partner across the council, particularly in areas like housing and employment, to understand the cross-cutting impacts of the need to reduce spend in these areas and our desired outcome of helping more people to live independently and well at home and in the community.

#### **CHIEF EXECUTIVE'S OFFICE**

142. The Chief Executive (CE) department is made up of human resources, corporate strategy, regeneration and planning.

143. The department will continue to deliver on the fairer future vision by having a relentless focus on rationalising support services so more money is protected at the frontline and working alongside others to provide the organisation with the

tools to innovate and modernise service delivery. It will also be focused on delivering functions that help achieve local strategic priorities. This will mean working to ensure the benefits of regeneration can spread across the borough including in strategic areas such as Elephant and Castle and the Aylesbury but also within Peckham, Nunhead and Camberwell.

144. The proposed indicative budget for the department in 2014/15 is £18m. It is proposed to deliver savings of £1.421m through service re-configuration, review and management restructuring, and additional income.

#### **Chief Executive – summary equalities impact**

145. Although the services provided by the CE department are largely back office, these enable a consistent approach to equality across the whole council, ensuring equality is taken into account in all decision making processes where relevant. The CE department also ensures that effective policy and robust performance measures are in place to evidence the council's compliance with the public sector equality duty in both its role as employer and service provider. In terms of direct customer contact, Southwark's significant regeneration schemes and planning services provide a platform for addressing strategic equality priorities, with regard to community development, improvements in the built environmental and in maximising economic growth opportunities.
146. Savings are proposed to be realised through service reconfiguration and reducing support costs. Therefore any impacts would fall primarily on staff rather than service users. As specific proposals are put forward, and at each stage of implementation thereafter, the different impacts on different categories of staff will be assessed. Service heads are committed to deliver savings as far as possible to maintain the level of service.
147. Residents across all housing tenures, visitors and businesses in the borough are all beneficiaries of regeneration schemes. Regeneration activity is targeted towards the more deprived areas and disadvantaged groups in the borough. There is a risk that proposals could disproportionately impact on the most disadvantaged and vulnerable groups and geographical areas in the borough and mitigating action has been identified. Where external funding has been reduced, the mitigating action is to retarget available budgets to schemes that support people with the highest level of need as far as possible. The department also proposes to maximise income on commercial properties and through restructuring planning application fees. As with all proposals equality impacts will continue to be assessed through out.

#### **ENVIRONMENT AND LEISURE**

148. The Environment & Leisure department delivers services that make a real difference to the everyday lives of all residents and visitors. The majority of our operations are frontline services: they physically improve the environment, they provide opportunities for health and enjoyment or they help improve safety and confidence. The Strategic Director is the Electoral Registration Officer and Returning Officer, so the department includes the electoral services team. The other services can be broadly grouped into:
- Public Realm covering parks and open spaces, parking, highways, transport planning, cleaner greener safer initiatives, cemeteries and crematorium services
  - Sustainable Services covering waste management and refuse collection, street cleaning and recycling, carbon reduction and energy projects

- Community Safety covering Safer Southwark Partnership, drug and alcohol teams, emergency planning, environmental health, community wardens, antisocial behaviour unit, environmental enforcement, private sector housing renewal, noise and CCTV
  - Culture, Libraries, Learning and Leisure covering arts, heritage, leisure centres, sports, libraries and adult learning.
149. The department's vision is to make Southwark's neighbourhoods great places to live, that are clean, safe and vibrant and where activities and opportunities are accessible to all. The department's approach to achieving savings follows the budget principles by focusing on core provision of quality services, efficiency savings, smarter procurement and robust contract management. The department is also seeking to increase income by raising demand for services.
150. The budget for environment and leisure services in 2013/14 is £75m. The department has already achieved £7.3m savings during 2011/12, £5.5m during 2012/13 and is on target to achieve £2.6m savings for 2013/14. For 2014/15 it is proposed to make efficiencies and savings of £2.3m, including additional income of £815k.
151. It is proposed to make efficiency savings of £275k in Public Realm. This includes £200k through refinancing the highways contract and reclassifying 28 day work. This is linked to capital programme growth. There will also be savings by bringing the tree maintenance services in-house.
152. In Sustainable Services, the operation of the combined heat and power element of SELCHP will trigger income from the Renewable Obligation Certificate scheme from central government. This is expected to generate £200k.
153. The Community Safety budget is proposed to reduce by £476k. This includes £216k which was set aside because of the uncertainty over government and mayoral funding. The actual cuts made were subsequently less than anticipated, so this money is being returned. In addition, the restructuring and re-organisation of some services will lead to further savings, £260k of which relate to the departmental budget.
154. It is proposed to make efficiency savings of £391k within the Culture, Libraries, Learning and Leisure division. These have been made possible through savings from the leisure management contract as well as the introduction of self service in libraries.
155. An additional £100k savings is proposed by further reducing the costs of departmental management and support services, including the centralisation of the departmental procurement function.
156. There are plans to generate additional income of some £815k for 2014/15. Public Realm is proposing to generate £680k from its various services without increasing prices but through a greater volume of transactions. Culture, Libraries, Learning and Leisure will benefit from rental becoming payable on the cafe in Canada Water, and Sustainable Services propose to increase refuse container hire charges in line with the most appropriate London average. This is expected to generate an additional £100k.
157. In delivering these savings and income generation, the department has sought to minimise the impact on service delivery. The budget proposals have been

developed in line with the cabinet's budget principles, and they will deliver the best value for money possible whilst maximising the use of existing assets. The department's proposals are based on service need and demand with the aim of protecting front-line services and supporting the needs of our residents.

### **Environment and Leisure – summary equalities impact**

158. Our approach to achieving savings across the Environment, Culture and Community Safety portfolios is in line with the cabinet's budget principles, and we have sought to do all we can to protect front line services and offer continuity of services to our most vulnerable residents.
159. However the majority of our services in this area are front line and directly delivered to all residents and changes and reductions to delivery are inevitable in order to meet the scale of savings required.
160. In order to minimise front line reductions and impact on the wider community and equalities groups we have sought to make savings through efficiency, back office reductions and processes, leaner staffing structures and negotiating better value from our contractors.
161. Wherever possible we have sought to identify new ways of working that may deliver efficiencies and improved value for money, as well as maximising opportunities for increasing income.
162. None of the current proposals have been assessed as having a significantly adverse effect on either protected equalities groups or the wider community.

### **FINANCE AND CORPORATE SERVICES**

163. Finance and Corporate Services provides the support service functions of finance (in direct support of the council's section 151 statutory function), facilities management, information and data services, corporate procurement, legal and the revenues and benefits service.
164. The indicative budget for Finance and Corporate Services in 2014/15 is £45.3m after the proposed efficiencies of £2.0m. In the period April 2011 to March 2014 the department has seen a budget reduction of 27%, achieved primarily through new and enhanced contract arrangements and reduced staff numbers. This is consistent with the plan proposed in February 2011.
165. The proposed efficiencies of £2.0m represents a further 4.3% reduction on the 2013/14 budget. It will be delivered through a transformational review of the department, including contract efficiencies, employee self service and use of technology.
166. Savings in facilities management (£160k) and information & data services (£810k) will be delivered through new contractual arrangements and rationalised back office support. A head of resources post was created to manage across these services but that post was not recruited to. This will be deleted generating a £100k saving.
167. The finance (£400k) and revenues & benefits (£320k) sections will review staff structures and ensure the services they provided are delivered as efficiently as possible. Legal services (£210k) will utilise existing powers to offset costs incurred on planning and regeneration work.

### **Finance and Corporate Services – summary equalities impact**

168. The department is committed to achieving the required level of savings. The impact of implementing these will fall largely on staff as numbers are reduced. The management team is committed to assessing the impact on staff to ensure fairness and equality. As budget reductions are implemented the impact on staff will be considered in detail throughout the implementation of each proposal, which will be conducted in accordance with the council's reorganisation, redeployment and redundancy procedure.

### **HOUSING AND COMMUNITY SERVICES**

169. The housing and community services department (H&CS) delivers a wide-range of council services funded from both the general fund and the housing revenue account (HRA). General fund services broadly comprise: homelessness and housing options, temporary accommodation, community engagement and voluntary sector partnerships, customer contact centre, customer resolution, blue badges and concessionary travel, registrars and coroners services, traveller's sites, adaptations and other private sector housing related provision.

170. The council's landlord services are contained within the ring-fenced HRA, which is part of a separate budget consultation process. Cabinet received an indicative budget report on 10 December 2013 and following consultation with tenants and council homeowners during January, decisions on rent and service charge levels will be considered by cabinet on 28 January 2014.

171. Housing and Community services have identified a total of £140k of budget pressures. The council is facing increased pressures in temporary accommodation, driven by a combination of an increase in demand for services, and a reduction in supply (or increase in cost of the supply). The department is continuing to model the increase in costs for this service, which could amount to £2.7m. These additional costs are not certain and therefore have not been included within the budget proposals as currently drafted. In the event of these costs crystallising it will be have to be managed through contingency.

172. The departmental priority is to deliver continuous improvement in all of its core services. The key drivers to achieving this are to maximise service efficiencies, particularly in the back office and corporate overheads, obtain greater value for money through better commissioning/procurement and re-configure services around the council's statutory duties in order to protect front-line service provision and focus resources on supporting our most vulnerable residents. General fund savings derived from further efficiencies, service reviews and rationalisation total £2.153m whereas those involving a degree of service impact, which have been minimised as far as possible, total £77k.

173. The decision to bring the customer service contract in-house from June 2013 provided the opportunity to re-configure and improve customer access and service delivery and drive out savings over the medium term by moving towards more cost effective transaction routes and operational efficiencies. The transformation continues to deliver improvements at reduced cost with a proposed budget saving of £609k in the year coming. In addition within the Customer Experience division, a further £202k will be delivered in Housing Options through service re-configuration which has streamlined business processes and focused resources more effectively.

174. Operational reviews undertaken across a range of housing services, specifically hostels and supported hostel accommodation, mobile alarm response service

(SMART) and sheltered housing services require the rebasing of cost allocations totalling £1.038m between the general fund and the HRA, in accordance with the statutory provisions of the HRA ring-fence to account for landlord and non-landlord services separately. Further service efficiencies across H&CS include: the Mayor's office (£18k), community councils (£20k), specialist housing services (£154k) and private sector housing (£14k).

175. Budget commitments total £140k and are required to address specific underlying anomalies and align budgets within the independent advice services contract and the coroner's service to reflect current volumes/activities. However, the biggest financial risk going forward is in relation to the provision of temporary accommodation, particularly the cost of bed & breakfast. Whilst Southwark is recognised as a leader in homeless prevention, it is simultaneously facing challenges through increased homeless demand, exacerbated by the impact of the 'under-occupation charge' and wider welfare reforms, and a contraction in the supply of accommodation, both in the private and RSL sectors. Whilst the council maximises its use of estate void properties in the HRA to mitigate the cost of bed and breakfast, this is also under some pressure as regeneration projects accelerate and the supply of estate voids becomes uncertain. The potential cost arising from the increase in homeless demand is difficult to gauge given its demand-led nature and this risk is best met through the drawdown of corporate reserves in the event that the cost pressure cannot be contained within the base budget.

#### **Housing and Community Services – summary impact statement**

176. In developing budget proposals, we are committed to delivering savings which as far as possible protect and maintain front line provision to our residents. In the main this is achieved through revised and more efficient working within H&CS and across departments through streamlining back-office processes and management structures. Other mitigating actions such as exploring alternative delivery models, partnership working and smarter procurement and rigorous contract management provide opportunities to maximise value and deliver the same or equivalent service benefits at reduced cost. This is already embedded in the development of budget options and specific equality impact assessments are undertaken as part of on-going considerations around the implementation of the budget decisions.

#### **USE OF BALANCES AND CONTINGENCY**

177. Currently, a contribution from reserves of £6.2m will be required to fully fund the proposed budget. This compares with £4.4m in 2012/13, and £6.2m in 2013/14. The Strategic Director of Finance and Corporate Services recognises and accepts that it is necessary to make some prudent use of balances through the period of introduction of new funding arrangements for local government and the general cutbacks in public expenditure. He recognises also that this expedient can only be short term and that year on year the council target must be to remove any dependency on reserves and balances order to reconcile resources with spending needs.
178. Until the 2012/13 budget, as part of the budget process, the use of reserves in one budget was always replaced in the next. From 2013/14 it has not been possible to do this, and a total of £16.8m will have been taken from reserves to support the budget when 2014/15 is included.
179. The council has been fortunate that, like many other local authorities, reserves and balances have been maintained throughout what has been a very challenging two years. This makes prudent access to these resources more appropriate,



especially when considering the retention of a reasonable, albeit lower, level of contingency within the base budget.

180. For 2014/15, contingency will be further reduced by £1.0m to £4.0m, this reflects the reduction in risk following the achievement of 2013/14 budget targets, and is referred to in paragraphs 61 to 62 of this report.

### Revised 2014/15 position

181. As anticipated in the October cabinet report, the identification of key areas of corporate savings and income generation do not fully meet the budget gap. This report presents a balanced budget after taking account of increased inflationary and service pressures, and corporate, themed and departmental savings and the use of £6.2m reserves.

182. The table below shows the indicative budget for 2014/15, including changes since the October 2013 cabinet report:

	2013/14	Indicative 2014/15	
		as at 22/10/13	as at 15/01/14
	£m	£m	£m
Previous year budget <sup>1</sup>	341.2	334.0	334.0
Inflation	4.0	3.8	5.7
Commitments	9.6	1.5	8.4
Savings <sup>2</sup>	(24.9)	(1.1)	(2.0)
Social fund	(1.7)		
Net change in council tax freeze grant.	1.4	0.0	0.9
Fall out of contribution (from) / to balances	4.4	0.0	0.0
<b>Total Budget</b>	<b>334.0</b>	<b>338.2</b>	<b>347.0</b>
<b>Funded by</b>			
Settlement Funding Allocation (SFA) [Previously Start up funding allocation (SUFA) ]	(253.3)	(226.5)	(227.5)
Growth in NNDR	0.7	(2.0)	(2.5)
Council tax	(74.3)	(75.2)	(76.9)
Collection fund (surplus) / deficit	<b>(0.9)</b>	0.0	(1.3)
Application of growth in new homes bonus		(2.9)	(8.7)
<b>Total Funding</b>	<b>(327.8)</b>	<b>(306.6)</b>	<b>(316.9)</b>
<b>Budget shortfall</b>	<b>6.2</b>	<b>31.6</b>	<b>30.1</b>
Contribution (from) / to balance	(6.2)	(6.2)	<b>(6.2)</b>
<b>Budget shortfall after contribution from balances</b>	<b>0.0</b>	<b>25.4</b>	<b>23.9</b>
Corporate initiatives			(4.6)
Departmental savings			(19.3)
<b>Revised budget shortfall</b>	<b>0.0</b>	<b>25.4</b>	<b>0.0</b>

Note 1 - 2012/13 budget (previous years budget for 2013/14) has been adjusted by £32.9m rolled in specific grants. (£341.2m = £308.2m + £33.0m)

Note 2 - Savings are £2.0m additional Tooley Street savings, currently shown as £0.9m increase over savings reported to October cabinet.

183. The budget departmental control totals are shown below, including commitments and savings:

<b>Service area</b>	<b>2013/14 Budget</b>	<b>Inflation</b>	<b>Commitments</b>	<b>Savings</b>	<b>2014/15 Budget proposed by officers</b>
	£m	£m	£m	£m	£m
Children's and Adult Services	206.5	3.1	6.4	-11.4	204.6
Chief Executive	19.6	0.2	0.0	-1.4	18.4
Environment & Leisure	72.8	1.5	0.0	-2.3	72.1
Finance & Corporate Services	45.9	0.5	0.0	-2.0	44.4
Housing and Community Services <sup>1</sup>	37.5	0.1	1.0	-2.2	36.4
<b>Total Service Budgets</b>	<b>382.3</b>	<b>5.5</b>	<b>7.4</b>	<b>-19.3</b>	<b>375.9</b>
Corporate Budgets <sup>2</sup>	-48.3	0.1	1.9	-6.6	-52.8
<b>Total net expenditure budget</b>	<b>334.0</b>	<b>5.6</b>	<b>9.4</b>	<b>-25.9</b>	<b>323.1</b>
Contributions from balances	-6.2	0.0	0.0	0.0	-6.2
<b>Total Budget</b>	<b>327.8</b>	<b>5.6</b>	<b>9.4</b>	<b>-25.9</b>	<b>316.9</b>
Total resources	-327.8				-316.9
<b>Balance</b>	<b>0.0</b>				<b>0.0</b>

Note 1 - Concessionary fare / freedom pass commitments are included in Housing and Community Services.

Note 2 - Corporate budgets commitments includes fall out of 2013/14 council tax freeze grant rolled into settlement funding.

### **A strong and stable resource base**

184. In setting out the draft budget proposals for 2014/15 the Strategic Director of Finance and Corporate Services, as the statutory section 151 officer, is assured that the range of spending commitments and proposed savings are being set within the resources available that meet local priorities. The draft budget proposed for 2014/15 is therefore robust.

185. In addition to ensuring that sufficient funds are available to finance the ongoing management of the council services, the Strategic Director of Finance and Corporate Services needs to be assured that there is an appropriate level of reserves and balances available. The Local Government Act 2003 requires the chief finance officer to report on the adequacy of reserves held, and requires members to have regard to that report in setting the budget. The Act also gives powers to the Secretary of State to specify a minimum of reserves to be held, but those powers have not yet been applied.

186. Reserves are funds set aside from underspends or proposed budget contributions, to meet contractual commitments or future expenditure plans, including meeting risks or liabilities that may arise at a later date. For example, the council has a number of pressures which fluctuate over time and are unpredictable in nature. These could include winter maintenance (such as pot holes and road gritting for highways) or meeting the upkeep of older buildings that the council operate from. Reserves are the most effective way in which to mitigate these pressures, subject to appropriate criteria. Another example is one-off redundancy costs arising from restructuring, where it may be that these costs

cannot be met from existing revenue budget provision. Therefore and, subject to an appropriate business case, reserves may be used to support these costs.

187. The council has a number of reserves. The most significant of which are:
- Modernisation, service and operational improvement reserve. This is for one-off expenditure and multi-year projects that are designed to modernise and improve service levels and operational efficiency of Southwark's activities. Schemes will include accommodation pressures, shared services, customer service improvements and information services. The use of the reserve is subject to protocols in accordance with the council's MTRS.
  - Regeneration and development reserve. This reserve is to fund one-off expenditure and multi-year projects to facilitate the significant regeneration and development taking place in the borough. Projects include the Elephant & Castle, Canada Water, Southwark Schools for the Future, and land acquisitions associated with these projects. Also funded from this reserve are the office accommodation strategy, the Potters Fields project and the street cleaning pilot.
  - Financial risk reserve. This reserve is set aside against future financial risks that may arise. For example, taxation risk, legislative changes including actions involving the Greater London Authority, major projects, risks as a result of unavoidable changes in accounting practice, risks arising from retention of business rates arrangements.
188. Due to the size, scale and complexity of projects and services across the borough the council is required to maintain a general level of balances to meet future unpredictable expenditure demands. Securing outcomes around key priorities of regeneration, recognising key operational risks attached to the unique size of our housing stock and more generally the levels of deprivation across the borough and associated factors, means that it is essential the council maintains a robust approach to both reserves and balances. Maintaining an adequate level of reserves and balances are therefore key factors in the Strategic Director of Finance and Corporate Services' assessment of the robustness of the budget.
189. The council's general fund reserves and balances at the end of 2012/13 totalled £102.6m, made up of £84.5m earmarked reserves and £18.1m general fund balance. In total this represents some 10.5% of the general fund spend in 2011/12.
190. The earmarked reserves, by their nature, are reserves set aside and earmarked for spending plans. Many of those spending plans were already in progress as at the end of 2012/13, especially around the council's modernisation agenda and major capital projects. The reserves also include balances that the council cannot freely reallocate, for example Dedicated Schools Grant unspent or PFI credits received in advance to meet future years' costs on the waste PFI scheme; or are balances that the council would not wish to redirect, for example the council's self insurance reserve.

### **Medium Term Resources Strategy**

191. In setting the budget the council needs to be mindful of the continued uncertainty with regards future funding particularly beyond 2014/15. The use of the Financial Risk Reserve in respect of Business Rates risks identified in paragraphs 42 and 43 forms part of the mitigation strategy. The risks identified strengthen the

importance of maintaining a robust MTRS within which to plan council business and sustain delivery of essential frontline services.

192. The current MTRS has been updated and a draft is attached as appendix F.

#### **Council Tax Reduction Scheme**

193. The Council Tax Reduction Scheme (CTRS) was introduced on 1 April 2013 as a result of the government's decision to abolish council tax benefit, requiring local authorities to adopt and manage local schemes, with a 10% reduction in funding.

194. Following a public consultation, Southwark's CTRS was agreed by council assembly on 28 November 2012, and formal approval to the policy statement was not obtained until Council Assembly on 23 January 2013.

195. The 2013/14 Southwark scheme capped council tax support for working age claimants to 85% of Council Tax benefit entitlement levels and abolished second adult rebate for non-pensioners. Under the scheme pension age claimants continue to receive 100% support as required by legislation. This support is given as a discount against council tax bills. For 2013/14, this equated to some 21,000 band D equivalent dwellings and represented a reduction in council tax of £18.6m.

196. For 2014/15 there is no change proposed to the underlying principles of the current CTRS scheme. As CTRS is a discount on council tax, any variance will result in a positive or negative impact on the amount of council tax receivable rather than having a budget cost implication. For 2014/15 this will be monitored through the collection fund, and any significant variance reported as part of quarterly revenue monitoring.

197. The Department of Work and Pensions will be uprating state benefits from 1 April 2014 and as part of the welfare reform agenda all working age benefits will be restricted to a 1% increase in 2014/15. Historically, when benefit incomes are up rated annually so were the applicable amounts used for the assessment of Housing Benefit and Council Tax Benefit. This will be the case for housing benefit and CTRS in 2014/15.

198. In consideration of these inflationary measures and to ensure therefore that CTRS claimant entitlement is not removed or reduced in 2014/15 a consequential amendment is required to the applicable amounts within our scheme.

199. As there will be no change to the underlying principles of the current CTRS scheme in 2014/15 and the changes to the applicable amounts are as a consequence of a routine uprating, these are therefore consequential financial amendments and can be agreed under the delegation to the Director of Finance and Corporate Services without requiring further consultation.

200. CTRS for 2014/15 will form part of the taxbase calculation that that will be reported to council assembly in January 2014.

#### **Capital programme**

201. The council's capital programme is reported on a quarterly basis to cabinet. The next monitoring report is planned for February 2014, and will include a wider refresh to the capital programme. As reported in paragraphs 56 and 57, if the revenue proposals around the use of New Homes Bonus to support revenue (rather than capital) in 2014/15 are agreed, this will have an impact on the capital programme and will be modelled in that review.

### Next steps including scrutiny

202. On 20 January the Overview and Scrutiny Committee are due to meet to consider the draft revenue budget as set out in this report. Any recommendations made will be brought forward to cabinet for their consideration.
203. A full report will be presented to cabinet on 11 February 2014. The budget will be proposed to council assembly on 26 February 2014.
204. A timetable of scheduled meetings leading up to council tax setting is shown below, as detailed on the forward plan.

22 January 2014	Council Assembly	2014/15 Council Tax Base and NNDR, including Council Tax Reduction Scheme
28 January 2014	Cabinet	Policy and Resources Strategy 2013/14-2015/16 revenue budget
11 February 2014	Cabinet	Policy and Resources Strategy 2013/14-2015/16 revenue budget
26 February 2014	Council Assembly	Policy and Resources Strategy 2013/14-2015/16 revenue budget  Setting the Council Tax 2013/14

### Community impact statement

205. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the 2013/14 budget, each department will undertake an equality analysis on its budget proposals.
206. 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.
207. The equality analysis undertaken will build on previous analysis including the equality impact assessments carried out as part of 2013/14 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.
208. In relation to the CTRS we are continuing to monitor the impact of the scheme on our communities in order to keep under review our public sector equality obligations. The consequential financial amendments to the applicable amounts discussed within this report do not reduce or remove eligibility and the recommendations in this report will ensure that CTRS claimants are not adversely affected by the inflationary changes. The entitlement to CTRS in 2014/15 will remain the same.
209. Further the council has made available within the Southwark Emergency Support Scheme access to a Hardship Fund that can provide financial support for those individuals who meet the stated hardship criteria. This Hardship Fund therefore assists claimants experiencing financial difficulty as a consequence of the

introduction of CTRS. In addition the Rightfully Yours service continues to provide a service that seeks to assist in securing maximum entitlement to all welfare benefits, particularly for those claimants from disabled households.

210. In October, Cabinet received a report on the feedback from the budget consultation exercise that took place over the summer of 2013. These budget proposals have considered fully the outcome of this consultation. Illustratively, it should be noted that the budget proposed :

- protects children's and adults services with only £1.9m reduction (less than 1%).
- protects Environment and Leisure (responsible for Environment and Culture, Libraries & Leisure with a £0.5m reduction (less than 1%)
- puts £9.4m of commitments and inflation into Children's and Adult Services (4%)
- puts £1.7m of commitments and inflation into Culture, Libraries and Leisure (2%),
- makes savings of £3.4m (5.0%) from central support services.
- makes savings of £6.6m in corporate budgets (11%)
- focuses on corporate and strategic services rather than direct service provision

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Director of Legal Services**

211. 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 Finance Act 1992 and associated Regulations. The issues contained in this report will assist in the future discharge of that obligation.

212. 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.

213. Decision makers must understand the effect of policies practices and decisions on people with protected characteristics.

214. Equality impact assessments are the mechanism by which the council considers these effects. The report at paragraphs 205 to 207 sets out how it is proposed equality impact assessments will be undertaken in relation to the budget proposals.

215. 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
<p>Policy and Resources 2013/14 to 2015/16: cabinet 12/02/13</p> <p><a href="http://moderngov.southwark.gov.uk/documents/s35390/Report%20Policy%20and%20Resources%20201314%20to%20201516.pdf">http://moderngov.southwark.gov.uk/documents/s35390/Report%20Policy%20and%20Resources%20201314%20to%20201516.pdf</a></p>	160 Tooley Street	John Braggins Senior Accountant 020 7525 7489
<p>Policy and Resources Strategy 2014/15 – Revenue Budget - Initial Financial Remit: Cabinet 26/06/13</p> <p><a href="http://moderngov.southwark.gov.uk/documents/s38822/Report%20Policy%20and%20Resources%20Strategy%20201415%20Revenue%20Budget%20-%20Initial%20Financial%20Remit.pdf">http://moderngov.southwark.gov.uk/documents/s38822/Report%20Policy%20and%20Resources%20Strategy%20201415%20Revenue%20Budget%20-%20Initial%20Financial%20Remit.pdf</a></p>	160 Tooley Street	John Braggins Senior Accountant 020 7525 7489
<p>Policy and Resources Strategy 2014/15 to 2016/17: Scene Setting Report and Revenue Budget Options, including Budget Consultation Outcome: Cabinet 22/10/13</p> <p><a href="http://moderngov.southwark.gov.uk/documents/s41467/Report%20Policy%20and%20Resources%20Strategy%20201415%20to%20201617%20Scene%20Setting%20Report%20and%20Revenue%20Budget%20Op.pdf">http://moderngov.southwark.gov.uk/documents/s41467/Report%20Policy%20and%20Resources%20Strategy%20201415%20to%20201617%20Scene%20Setting%20Report%20and%20Revenue%20Budget%20Op.pdf</a></p>	160 Tooley Street	John Braggins Senior Accountant 020 7525 7489

## APPENDICES

No:	Title
Appendix A	2013/14 and Provisional 2014/15 Specific / Special Grants
Appendix B	Proposed Commitments
Appendix C	Proposed Efficiencies and improved use of resources
Appendix D	Proposed Income Generation
Appendix E	Proposed Savings impacting on service delivery
Appendix F	Draft MTRS 2014/15-2016/17
Appendix G	Technical information on the Autumn Statement

## AUDIT TRAIL

<b>Cabinet member</b>	Cllr Richard Livingstone, Finance Resources and Community Safety	
<b>Lead officer</b>	Duncan Whitfield – Strategic Director of Finance & Corporate Services	
<b>Report author</b>	Jennifer Seeley - Deputy Finance Director	
<b>Version</b>	draft 4	
<b>Dated</b>	15/01/14	
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<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
<b>Cabinet Member</b>		Yes
<b>Date final report sent to constitutional team</b>		