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Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Fiona Colley, Finance, Modernisation and Performance	

FOREWORD - COUNCILLOR FIONA COLLEY, CABINET MEMBER FOR FINANCE, MODERNISATION AND PERFORMANCE

This report sets out in detail the council's budget position for next year and our proposals to date for balancing the deficit.

Yet again Southwark faces enormous funding cuts with a loss of £12m of government funding and specific grants. These funding cuts come at a time of continuing demands and pressures on our services, particularly social care, children's services, education, homelessness and welfare support.

Whilst we are seeing a welcome growth in the Improved Better Care Fund of £10.9m, this only partially funds the growing demands for adult social care and as previously announced we will need to raise a further Adult Social Care precept of 3% to raise a further £2.7m to support the care needs of older and disabled people. Even this combined £13.6m is insufficient to cover the growing needs of vulnerable adults and the council will need to find an additional £400k from our general budgets, collect a further £800k from client contributions and crucially save a further £4.6m by being more efficient in the way we deliver services. It is thanks to the focus and hard work of our officers and the Budget Recovery Board that we are able to set out these savings with confidence and go into 2018-19 proposing a sustainable budget for Adult Social Care that is £14m larger than last year.

We also face significant challenges in Children's Services and Education. Children's Services provide vital support for vulnerable children in our borough and we face great pressures in terms of the cost of placements, particularly residential care for looked after children. Thanks again to the work of our Budget Recovery Board we are able to propose £1.6m of efficiency savings in this area, but to make the budget sustainable we will also inject a further £3.4m for a net growth in the Children's Services budget of £1.7m.

In Education we are being hit on all sides, with the complete withdrawal by government of the Education Support Grant, cuts and restrictions to schools funding via the Dedicated Schools Grant, cuts to pupil premium for looked after children and growing numbers of children with special educational needs. The services the council provides to schools are vital components of the success we have seen reported in today's school standards report and we are determined to continue to offer these services. To do that we are proposing to increase our general fund contribution to education services by £1.3m.

Another area of notable budget pressure is the indirect cost of austerity: the continuing high levels of homelessness, the ineffectiveness of the Home Office in dealing with immigration applications and of course the roll out of Universal Credit. For our 2018-19 budget we are allowing for a further £1.6m of costs to the council to support our residents and to cover the loss of income to the council.

Local government pay is now the lowest in the public sector with the average local government worker having experienced a 21% real terms pay cut since 2010. Whilst the government has indicated that the 1% pay cap is no longer in force, they have not provided any resources to local authorities to help us give our staff the pay rise that they deserve. The budget presented today reflects the 2% 2018-19 pay award recently offered by the LGA Employers Side – this results in a £4m budget pressure in Southwark.

All these pressures, alongside other growing costs such as pay, inflation and IT, mean that as well as having to cope with £12m of cuts, we also need to fund £38.7m of additional commitments.

Yet again this year the good news for Southwark is that our continuing growth in homes and in our local economy is providing us with amazing growth in income. We are currently estimating an additional £16.4m of resources available thanks to this growth and the success of our Exchequer Services team in collecting more income than we had previously anticipated.

The report also sets out the opportunity that the proposed London Business Rate Pooling Pilot may bring to Southwark – although it is important to note that this pilot will replace government funding and brings with it new uncertainties and risks. Whilst some estimates have been provided, the formula for distributing the funds between boroughs and the GLA is not as yet finalised and we will not know how much additional business rate income the pilot will bring until September 2019. Cabinet is asked to delegate authority to enter into the pilot as set out in recommendation 14.

We have also set out in this report £18.7m of savings, a combination of efficiency savings (£11.5m), additional income from fees and charges (£6.8m) and also savings which will impact on services (£0.4m). These proposals will be consulted on with staff, affected residents and other stakeholders and partners.

However, despite this additional income and the savings proposed a budget gap of £5.6m remains and of course, unlike government, the council is legally required to set a balanced budget. So officers have been asked to continue to work to explore whether any further business rate income can be prudently included in the budget and to look again for any further income and savings across departments. Cabinet will need to consider these alongside the option of a council tax increase which could raise up to £1.8m (1.99% increase) when we consider the next iteration of the budget in January.

RECOMMENDATIONS

That cabinet:

1. Note that the government's budget statement was presented by the Chancellor of the Exchequer on 22 November, key headlines being set out in this report, including the government's agreement for a London Wide Business Rate pool. (paragraphs 105 to 112)
2. Note, as reported to cabinet in July 2017 and recognising the continued uncertainty for local government funding, that the intention remains for the council to prepare a balanced one year 2018-19 budget for approval by cabinet in advance of council assembly in February 2018. (paragraph 21)

3. Note the current budget options proposed to help achieve a balanced budget 2018-19. (Appendices C to F)
4. Note that this budget also proposes to use the flexibility offered by the government to support social care through an increase in the Adult Social Care precept, equivalent to 3% of council tax, on the basis that these additional funds will be used exclusively for adult social care (ASC). (paragraph 48 to 49)
5. Note the current budget options proposed include an increase in the Children's and Adults' Services budgets of £17.2m (funded in part by £12.584m Better Care Fund and £2.7m increase in the ASC precept) which is fully passported to Adult Social Care.
6. Note that the general fund budget proposals for 2018-19 contained within this report also include:
 - Estimated grant resources likely to be available arising from the provisional settlement expected in mid December (Appendix A), a reduction of some £12.0m from 2017-18 (excluding Better Care Fund);
 - Improved Better Care Fund resources totalling £12.584m (including the supplementary allocation of £4.497m announced in the spring 2016 budget);
 - Further resources from the adult social care precept of £2.7m, again passported in full to adult social care for 2018-19;
 - Retained business rates growth of £17.173m (paragraph 55 to 60), an increase of £8.473m over 2017-18 arising from proceeds generated by continued regeneration in the borough; plus an estimated surplus brought forward of £2.987m;
 - Estimated council tax revenue of £101.5m (of which £2.7m is represented by the additional ASC precept); estimated collection fund surplus of £5.750m in part attributable to a review of the provision for bad debt;
 - Planned contingency to be maintained at a level of £4m to mitigate underlying budget risks. (paragraph 95).
7. Note that the following savings, commitments and pay and price pressures have been proposed to help ensure the delivery of a balanced budget in 2018-19 (Appendices C – F):
 - Efficiency savings of £11.522m;
 - Income generation of £6.806m;
 - Savings impacting on services of £0.399m;
 - Commitments of £31.171m
 - Pay Awards (assumed 2%) of £4m;
 - Contractual inflation of £3.5m.
8. Note that, in order to ensure that the base budget is on a secure financial footing a number of commitments are proposed for 2018-19 totalling £31.171m, including:
 - £19.426m for ASC which are funded in the main from the £12.584m from the Better Care Fund and £2.700m through the Adult Social Care Precept;
 - £5.833m for Children's Social Care and Education Services;
 - £0.715m to further support spending pressures on No Recourse to Public Funds (NRPF) and Temporary Accommodation;
 - £2.202m for Corporate Facilities Management and ICT in support of the council's modernisation agenda.

9. Note the current pay offer of 2% for local government employees has been incorporated into these budget options, however there is continued uncertainty regarding pay negotiations that will need to be further reviewed by cabinet in advance of setting the 2018-19 budget.
10. Note the updated budget gap for 2018-19 of £5.597m and notes that officers will complete further work to present a fully balanced budget position for cabinet on 23 January 2018.
11. Note the Departmental Narratives (Appendix B) and the equality analyses provided for the budget proposals.
12. Note the consultation that took place prior to agreeing the indicative budget options for 2017-18 and 2018-19 and that further consultation will be undertaken for new budget options where necessary or appropriate. (paragraph 96).
13. Note that the further report to cabinet on 23 January 2018 will be considered by overview and scrutiny committee on 30 January 2018 and that any recommendations arising will be incorporated into the final report to cabinet on 6 February 2018 for recommendation to council assembly on 21 February 2018 (paragraph 98).
14. Note the proposals regarding pooling of London Business Rates (paragraphs 105 to 112) and to agree the following, based on advice received from London Councils' legal advisers in respect of these pooling arrangements:
 - 14.1 Establishment of Governance Arrangements: that the Cabinet resolves to:
 - approve and accept the designation by the Secretary of State as an authority within the London Business Rates Pilot Pool pursuant to 34(7)(1) of Schedule 7B Local Government Finance Act 1988;
 - note that the council intends to participate in the London Business Rates Pilot Pool with effect from 1 April 2018 [to 31 March 2019];
 - delegate the authority's administrative functions as a billing authority pursuant to the Non-Domestic Rating (Rates Retention) Regulations 2013 to the City of London Corporation acting as the Lead Authority;
 - authorise the Lead Authority to sub-contract certain ancillary administrative functions to the GLA with regard to the financial transactions (payment of tariffs and top-ups) within the Pool, as the Lead Authority considers expedient.
 - 14.2 Entry into the Memorandum of Understanding: that Cabinet resolves to:
 - delegate authority to the section 151 officer in consultation with the Cabinet Member for Finance, Modernise and Performance to agree the operational details of the pooling arrangements with the participating authorities;
 - authorise the section 151 officer, in consultation with the Head of Legal Services, to make any amendments as may be required by the Secretary of State, and to enter into the final Memorandum of Understanding on behalf of the authority.
 - 14.3 Operation of the Pool: that Cabinet resolves:

- to authorise the Leader, in consultation with the Cabinet Member for Finance, Modernise and Performance and the section 151 officer, to represent the authority in relation to consultations regarding the London Business Rates Pilot Pool consultative as may be undertaken by the Lead Authority pursuant to the Memorandum of Understanding;
- to delegate to the Cabinet Member for Finance, Modernise and Performance the authority to consider such consultative reports as the Lead Authority may circulate and to respond on behalf of the authority with regard to any recommendations and in particular, proposals for projects to be approved for funding from the Strategic Investment Pot.

BACKGROUND AND PURPOSE

15. In September 2016, the cabinet approved the Fairer Future Medium Term Financial Strategy (FFMTFS) and Integrated Efficiency Plan noting the relationship to the Council Plan and the new theme to be fit for the future. The council accepted the four year finance settlement in line with the Local Government Finance Final Settlement (February 2016) and 2018-19 is the third of these four years. The offer covers the revenue support grant and indicates that tariffs and top-ups in 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities.
16. Despite this four year settlement, there remains continued uncertainty with regard to a number of elements of government funding. These include the New Homes Bonus, Public Health grant and most importantly Better Care and Improved Better Care funding. In addition, price, inflation and demand pressures need continual review to ensure that budgets set each year are sustainable.
17. The government has expressed a continued commitment to give local authorities greater control over the money they raise locally. Since 2013-14, when the new funding arrangement commenced, the council's reliance on local taxation as an income source has increased, with council tax and business rates now representing over 37% of funding estimated for for 2018-19. Therefore, a key part of the budget process is for officers to reassess the estimated income from council tax (driven in the main by the number of new homes, council tax banding of these homes, the council tax relief scheme) and Business Rates (driven by the rateable value, appeals and businesses coming into/out of the rating lists).
18. In addition, the government has agreed to a London-wide Business Rate pool with effect from April 2018. This will not impact on the available resources in 2018-19, and is discussed in more detail in paragraphs 105 to 112 (see also background papers – Appendices G1, G2).
19. At cabinet on 18 July 2017 the financial remit was considered which included known estimated resources available at that time, and assumptions regarding the costs of pay awards and inflation. This report concluded with a budget gap of between £16.440m and £19.894m, dependent on the ability of the council to access, in full, the supplementary Improved Better Care Fund (announced spring 2017). Officers were asked to prepare indicative savings and commitments for 2018-19 in order to balance the budget.
20. This report provides an update on the work undertaken to both reflect the latest information on available resources, updated estimates on council tax and business rates and to consider budget savings and commitments proposed for 2018-19.

21. As set out in July 2017, the budget will be prepared on a one year basis for 2018-19, recognising that the settlement is indicative and a range of other significant uncertainties relating to the council's financial position. A one year budget is considered by the section 151 officer to be the most appropriate strategy at this time given these uncertainties that include adult social care and children's services cost and demand pressures and government funding sources and any conditions attached to these. This includes the ring fencing of the ASC precept.
22. The agreement of our CCG partners to the utilisation of the Improved Better Care Fund in full has gone some way to mitigate these budget pressures in adult social care and at month 4 a budget adverse variance was reported of £4.229m. Management action is ongoing to control these pressures and progress continues to be monitored via the Budget Recovery Board. Indications at this time are that measures have been effective in containing the overspend at this level although this position is sensitive and requires continual review
23. From April 2018, the Homelessness Reduction Act comes into force which places a series of new responsibilities on local authorities to prevent homelessness. The government will provide £72.7m to local authorities to meet the costs of the new burdens associated with the additional duties contained within the Act over the course of the Spending Review. The adequacy of this funding will need to be carefully assessed as it is unlikely to be sufficient to carry out the new responsibilities in full.

Updated Financial Remit

24. In accordance with instructions from the July 2017 cabinet, this report provides updated budget proposals for 2018-19. These proposals reduce significantly the budget gap to £5.597m. However, the remaining gap still presents a major challenge, not least in the context of the savings that the council has had to make throughout the austerity period since 2010 and the increased ring fencing of a large element of resources available for adult social care.
25. Further work is being undertaken by officers to present a fully balanced 2018-19 budget for the 23 January 2018 cabinet meeting in advance of February council assembly. A summary of the 2018-19 proposed budget can be found at Appendix A.
26. The indicative budgets were set at an assumed level of government funding as set out in the February 2016 four year settlement. The council accepted the government's offer of a four year funding settlement for 2016-17 to 2019-20 and received confirmation of this from the government on 16 November 2016.
27. This report outlines all major variations from the 2017-18 budgets. It itemises changes in resources available (e.g. government grant and Council Tax income) and provides a high level summary of efficiencies and improved use of resources, income generation and savings that impact on service levels. It also itemises new and emerging growth and commitments that may arise from issues such as price, demand pressures and costs arising from the delivery of council plan priorities.
28. Separate schedules are provided that give details of each element of these variations. Responsibility for each element is retained by the cabinet member responsible for the portfolio and operationally managed by the strategic director for that service (Appendices C, D, E and F).
29. The Policy and Resources Strategy 2018-19 underpins the work of all council departments, ensuring financial sustainability and the best possible level of service for

residents. The council remains committed to promoting efficiency as the key driver to reducing costs and minimising the impact of budget decisions on front line services. The Fairer Future promises commit to *spending every penny as if it were our own*. This promise is reinforced with the Fairer Future Budget Principles. Inevitably, as total resources available continue to reduce, demands increase for services and planned efficiency improvements are delivered, protection of these valued front line services becomes increasingly difficult.

November 2017 Budget Statement

30. On 22 November 2017, the Chancellor of the Exchequer delivered the Budget. As announced last year, this is now the single government fiscal event, with no spring budget. This included a number of policy announcements, the key headlines are set out below (source: London Councils' on the day briefing):

- **Council Tax** – power to raise empty homes premium will be doubled from 50% to 100%, this is expected to be implementable from April 2019.
- **Housing investment** – an additional £15.3 billion of new investment will be made available to support the delivery of 300,000 additional homes by the mid-2020s nationally.
- **HRA borrowing cap** – will be lifted for areas in highest need, but not until 2019-20 and local authorities will have to bid for it (this will be limited to £1 billion nationally).
- **Grenfell Tower** - £28 million additional to RBKC to support victims including new mental health services, regeneration support for the Lancaster West estate, and a new community space.
- **NHS** – additional £2.8 billion will be made available in the next three years – £335 million immediately to help the NHS to increase capacity over winter.
- **London business rates retention pilot** – the government has agreed a pilot of 100% business rates retention in London in 2018-19.
- **Business Rates RPI to CPI indexation** – will happen in April 2018 (two years early) costing £770 million in those two years. Local government will be fully compensated, but it is not yet clear how.
- **Business rates revaluations** – will move to three-yearly revaluations following the next revaluation, currently due in 2022. A consultation on implementation is due in the spring.

31. Furthermore, it is noted that budget did not consider the following key areas of interest for all councils:

- **Children's Services** – there were no additional resources released to address the growing crisis in children's services funding.
- **Public Sector Pay cap** was not lifted.
- **Adult Social Care** – The adult social care green paper has been deferred until the summer of 2018.
- **Fire Safety** – there was no commitment to fund additional fire safety costs – simply reiteration that councils should contact DCLG if they cannot afford to undertake essential work.

32. In addition to the policy announcements, the Chancellor also provided the usual updates on the public finances. The overall economic outlook was forecast to be persistently low growth in productivity but with the expectation that inflation levels would reduce from current levels. At this stage, it is too early to confirm what the exact

impact on local government will be and more details are likely to emerge over time. These may be made clearer as part of the provisional settlement to be published for consultation at some time in December 2017. More likely, the next major event setting out future implications for local government will form part of the next Comprehensive Spending Review, although the timing of this is not set.

33. In particular, it is expected that the provisional settlement will provide further detail with regard to the size and distribution of key future funding sources that include public health grant, better care fund (improved and supplementary) and new homes bonus. In the absence of this detail for 2018-19 and beyond, this report has made best estimates of these resources likely to be available to the council. Furthermore, the settlement will be adjusted for the London Pooling Pilot with reduced Revenue Support Grant (RSG) and increased reliance on business rates.

Provisional Local Government Settlement 2018-19

34. This budget is prepared on the basis of the final provisional settlement received on 20 February 2017 and updated estimated council tax and New Homes Bonus income. The overall changes in funding are set out below.

Settlement Funding Assessment (SFA)

35. The Settlement Funding Assessment (SFA) comprises the core funding sources for authorities defined as the Revenue Support Grant, retained business rates and business rate top up. The SFA is 4.4% lower than in 2017-18, amounting to £158.670m for 2018-19. By 2019-20 it is projected the SFA will have reduced by 8.7% over the two year period to £151.5m.

Improved Better Care Fund (IBCF)

36. The Better Care Fund was established in 2014-15, with the aim of supporting closer working between Local Authorities and the CCG. The council invoices the CCG for its share of the pooled fund which is offset against appropriate expenditure.
37. The Improved Better Care Fund totals £12.584m for 2018-19; this is made up of two parts.
 - The Improved Better Care Fund (IBCF) that was included as part of the 2016-17 settlement of £8.088m for 2018-19. This was for the utilisation of local authorities for adult social care.
 - Following national pressure on adult funding care crisis, supplementary Improved Better Care Fund was announced in the Spring 2017. This equates to funding for Southwark of £4.497m in 2018-19. This grant is allocated on the basis of 10% of the Relative Needs Formula used for the 2017-18 Adult Social Care Support Grant and the remainder using the existing IBCF allocation. The utilisation of this grant was agreed with the Health and Well-Being board for adult social care funding pressures.

New Homes Bonus (NHB)

38. New Homes Bonus (NHB) was introduced in 2011 to provide a clear incentive for local authorities to encourage housing growth in their areas. It rewards local councils for each additional home added to the council tax base, including newly built properties and conversions as well as long term empty properties brought back into use, after deducting demolitions. Following a review of the funding “sharpening the incentive”

the grant reduced in 2017-18. In 2018-19, the grant will reduce further, as the payment will be based on four years' growth from 2018-19 onwards. A 0.4% baseline was also introduced in 2017-18 so that local authorities would need to achieve tax base growth of greater than 0.4% before they receive any NHB funding. Southwark's tax base growth is expected to be in excess of this baseline by 2%, generating much-needed additional NHB funding.

39. The total forecast NHB funding for 2018-19 is £11.372m based on the 2017-18 baseline. This is a provisional forecast, the funding pot is limited and therefore the final allocation is subject to the final settlement released mid-December.

DCLG Core Spending Power

40. In accordance with the DCLG final provisional local government settlement 2017-18, Southwark's reduction in core spending power between 2017-18 and 2018-19 is calculated as -0.5%. By comparing the components of this spending powers change calculation (see table below), it is clear that there is an increasing reliance on locally raised council tax to fund local authorities' budgets.
41. The core spending power calculation does not include any inflationary cost pressures, assumptions regarding demand pressures and calls on this funding or reductions in grants such as Public Health. This means that the reduction in core spending power is understated, with inflation and pay award pressures amounting to £6m for Southwark.

	Change in SFA	Change in council tax	Change in relevant grants (iBCF, NHB and adult social care grant)*	Change in spending power
Southwark	-4.4%	8.0%	-6.3%	-0.5%

*DCLG spending power calculations exclude Public Health and Education Support Grant.

Public Health Grant

42. Alongside the settlement, the government published the Public Health Grant allocations for 2017-18. Southwark's allocation of £28.194m in 2017-18 is estimated to decrease by 2.6%, in line with previous years reductions, to £27.469m for 2018-19. From 2013-14, when Public Health responsibilities transferred to local authorities, to 2018-19 grant funding is anticipated to reduce by an equivalent of 12% with no inflationary increases from 2015-16 onwards. Southwark has the fourth lowest per head public grant allocation of the inner London boroughs.

Adult Social Care Grant (2017-18 only)

43. The changes to the New Homes Bonus Scheme in 2017-18 allowed the government to remove £241m from the scheme and divert this funding to the Adult Social Care Support Grant, of which Southwark received £1.6m. This grant was for 2017-18 only and no such grant exists for 2018-19.

Education Support Grant (ESG)

44. The education services transitional grant will cease in 2018-19, leading to a loss of funding of £0.7m from 2017-18. To mitigate this loss, the council has built in a budget commitment to support education department functions for an equivalent amount.

Local Taxation

Council Tax

45. The council is committed to the fairer future promise to “keep council tax low”. The Southwark element of council tax was frozen from 2008-09 until last year when financial pressures and the cumulative impact of reduced government funding meant that it was considered no longer sustainable to hold this position.
46. The authority has been able to maintain the seventh lowest level of council tax in London in 2017-18, despite having incurred the largest reduction in government grants. Throughout this period, the government applied a cap on any council tax increase of 2% per annum and required a local referendum for any increases at or above this level. This level has not been exceeded by Southwark to date and the cap remains in place for 2018-19, albeit increased to 5% to reflect the additional adult social care precept.
47. The council tax has remained below the charge it would have been if CPI had been applied each year since 2010-11. Further, council Tax Relief Scheme continues to provide support for our financially vulnerable residents.

ASC precept

48. In 2016-17, and in line with government guidance, the council applied a 2% precept to help fund adult social care. Of the 33 London boroughs, 26 took advantage of this precept. For 2017-18, government extended the adult social care precept to allow for 6% over 2017-20, with no more than 3% in each of the first two years. This precept was applied in 2017-18 providing a contribution towards the significant financial pressures within the Adult Social Care budget.
49. Within this report, it is recommended that a 3% precept again be applied for 2018-19, in light of the substantial pressures on adult social care service (see paragraphs 61 to 68). The approach for the council tax base to be a driver to fund Adult Social Care costs unfairly impacts on local authorities with high adult social care needs and a low tax base.

Southwark Element of the Council Tax

50. Ten of the thirteen inner London Boroughs increased their council tax in 2017-18, 26 out of 33 across London, including Southwark. This is indicative of the cumulative impact the financial stress across local authorities in London.
51. In the context of pressures on council finances, the reducing levels of reserves and the continued year on year reductions in spending power, council tax remains a key source of income for the council. An increase of 1% in council tax amounts to £0.9m income. This is one of the options that it will be necessary to consider to close the budget gap to protect services.

Council Tax Collection

52. As reported elsewhere on this agenda the council tax base is growing in the borough – a direct reflection of the regeneration and investment in new homes.
53. This report recommends that the collection rate is maintained at 97.2%, reflecting current performance and in consideration of the increased collection risk as universal credit is rolled out.
54. The collection fund forecast outturn position is a surplus of £5.750m and this has been accounted for in the council tax calculations for 2018-19.

Business Rates Baseline

55. The government agenda is for local authorities to move towards self-sufficiency and away from dependence on central government. As a step towards this reform, in 2013-14, government changed the funding system to increase reliance on local taxation. Revenue support grant (RSG) allocations reduce over the period 2013-20, whilst the level of retained business rates increases. A tariff and top up system is in place; Southwark is a top up authority which means that we receive a fixed top up to RSG funding, in addition we retain 30% of our growth business rate receipts above the target set (GLA retains 20%; central government 50%). This approach reduces the level of funding certainty as local authorities may collect more or less than the target level of business rates.
56. In 2017-18, business rates revaluation was carried out and baselines were adjusted so that the authority's retained income is the same after revaluation as immediately before.
57. The 2018-19 budget includes a forecast assumption that the council's Business Rate Retention income will exceed the baseline funding level by £17.173m (i.e. in total the retained business rates total of £93.870m; consisting of the baseline of £76.697m and £17.173m in excess of this baseline). This is after appropriate provisions have been made for appeals. Furthermore, it is estimated that £2.987m of Business Rate collection fund surplus will be available to support the budget. This is an increase in our retained business rates attributable to estimated increase in buildings coming into the rating list, most significantly London Bridge station.
58. Although in the autumn 2017 budget, the legislation to support a move to 100% business rates was not progressed, the government continues to be committed to reform an ongoing move to self-sufficiency agenda. As reported, the government has agreed for a London Wide Business Rate Pool Pilot with effect from April 2018.
59. This ongoing move to self-sufficient local government demonstrates the importance of Southwark's capital investment programme within the borough, either as the lead authority or with partners. Regeneration is the key to ensuring sustainable budget sources as we move closer to 100% business rate retention in the future as well as increasing opportunities across the borough for quality of life, jobs and environmental improvements.
60. In the chancellor's budget on 22 November, he stated an end to "staircase tax" for business rates. The "staircase tax" refers to a quirk in the rating system which reduces the discount available for occupying multiple floors within a building if the staircase

between those floors is not exclusively for the use of the occupier. The council has provided for this risk within the business rate appeals provision. However, the implication of this will need to be fully considered as more details are released.

Children's and Adults' Services

61. At the end of 2016-17, pressures on Children's and Adults' social care lead to an overall adverse variance of £14.887m after the utilisation of £11.450m of reserves, inclusive of the application of the 2016-17 Adult Social Care 2% precept. This was preceded by a cost pressure in 2015-16 of £18.7m which had been met through the use of reserves.
62. The government's autumn 2017 budget recognised the continuing nationwide budgetary pressures in adult social care by introducing the powers for councils to apply a 3% council tax adult social care precept, and provided a one-off adults' social care grant in 2017-18 (although this grant was funded through a reduction in New Homes Bonus). In 2017-18 the council agreed to increase the Children's and Adults' Services budgets by £5.345m, funded in part by the application of the adult social care precept of 3%. This increase was in the context of a grant reduction of £15m.
63. The service pressures due to the level of demand and complexity of need continued to be reflected in the cost pressures being experienced across London and the country. In the spring of 2017, the government responded to the crisis in Adult Social Care funding through announcing the supplementary Improved Better Care Fund (IBCF). Southwark's allocations totalled £7.417m in 2017-18, reducing to £4.497m in 2018-19. As set out in the 19 September Cabinet report – Revenue Monitoring Report (month 4), the health and wellbeing board agreed to the application of the supplementary IBCF in full to support the continuing adults' social care budget pressures in 2017-18. Subsequently, the application of 2018-19 supplementary IBCF to the council's adults' social care services was agreed by the CCG's Integrated Governance and Performance Committee on 28 September for 2018-19. As reported to cabinet in September, following the use of the 2017-18 IBCF, the service is currently reporting an adverse budget variance of £4.229m.
64. In 2018-19, the council is proposing to utilise powers for the third year in applying the Adult Social Care precept of 3% in 2018-19, generating £2.7m of resources to be allocated to contribute to those services supporting our more vulnerable adult residents. Also, reflected in the budget is the 2018-19 Improved Better Care Fund of £12.584m. This growth is being used to quality care to meet increasing demand for homecare, nursing care and supported living.
65. In total this ensures that Adult Social Care budgets are on a more sustainable footing moving into 2018-19 with an increased budget of £14.049m.
66. The allocation of IBCF and the Adult Social Care precept has alleviated budget pressures for Adult Social Care somewhat, bringing into focus the Children's and Education Services pressures. This was recently recognised by London Councils where data gathered from all 33 London Boroughs indicated 25 of them overspending on Children's Social Care (average of 9.6%) and budget pressures in areas across London for children with high needs and transport costs. These pressures, alongside changes to the Dedicated Schools Grant framework, place Southwark budgets under significant pressure in 2018-19. These budget proposals provide for an increase in Children's and Education budgets totalling £3.087m. This is intended to address cost pressures within the Children's and Education Services and place these services on a more sustainable financial footing.

67. These proposals increase the Children's and Adults' Social Care budgets by £17.136m in total 2018-19. The Section 151 Officer's view is that this strategy is necessary to ensure that these demand-led services supporting our most vulnerable residents are placed on a secure financial footing as the environment of reducing government grants and reduced level of reserves continues.
68. An executive board (budget recovery board) headed by the chief executive has been established to provide oversight over the significant budget reductions and demand pressures experienced by the Children's and Adults' department. The board continues to meet and an update on progress will continue to be reported to cabinet through the budget monitoring reports.

Updated financial remit

69. Through the council's budget cycle, savings and income generation options are presented for consideration to close the budget gap which, should these proposals be agreed, closes the gap to £5.597m.
70. The 2018-19 proposals for each Directorate are summarised in the table below and detailed in Appendices C, D, E and F.

	Commitments £000	Efficiencies £000	Income £000	Savings £000	Net impact £000
Adults Social Care	19,426	(4,577)	(800)	-	14,049
Children's Services	3,366	(1,590)	-	-	1,776
Education	2,467	(735)	(421)	-	1,311
Children's and Adults' Services Total	25,259	(6,902)	(1,221)	-	17,136
Environment and Social Regeneration and Public Health	250	(2,680)	(2,780)	-	(5,210)
Housing and Modernisation	3,137	(260)	-	(399)	2,478
Chief Executive's	50	(330)	(445)	-	(725)
Finance and Governance	150	(1,350)	(360)	-	(1,560)
Corporate	2,325	-	(2,000)	-	325
Total	31,171	(11,522)	(6,806)	(399)	12,444

*Commitments within Adult Social Care total £19.426m, of which £15.284m is funded from Improved Better Care Fund and Adult Social Care Precept monies.

Pay Award

71. The current budget plans for 2018-19 are based on a projected 1% pay rise for all staff. This is within the existing public sector pay cap. The chancellor's budget on 22 November did not reference any change to this cap. Significant work is currently underway both nationally and within London to reach agreement on pay awards moving forwards. In part, negotiations will be considering the arguments that local authority pay has been disproportionately suppressed as a consequence of the pay cap

and that this situation needs rebalancing. Further there are concerns to ensure that the lower graded staff are adequately paid and that pay differentials remain appropriate. The position will continue to be monitored and a further update will be included within the report to cabinet in January, including any relevant financial implications.

Inflation

72. Consumer Price Index (CPI) 12 month rate for October is 3%, unchanged from September 2017. This compares to 0.9% for the same period last year. This budgetary pressure is recognised in the budget with a £3.5m allocation for contractual inflationary pressures in 2018-19.

Efficiencies and Improved Use of Resources

73. The fairer future promises contain a commitment to keep council tax low by delivering value for money across all of our services. In part, this is met through ensuring that the council is focussed on meeting the budget gap with proposed efficiency savings. The fact that efficiency savings of £11.522m represent almost two thirds of the total budget proposals is evidence of this commitment to residents (detailed in Appendix C).
74. The major efficiencies within Adults' Social Care relate to modernisation of integrated pathways and review of care packages for people with disabilities to align to the Care Act national eligibility level and through reorganisation of Adult Social Care teams to support the modernisation of the service.
75. Notable efficiencies across Children's Services relate to the part year effect of restructuring children's social care service delivery including delayering of management and the effect of the completed restructuring of business support functions for children's social care.
76. Efficiencies through the pan-London e-service, integrated sexual health tariff and more efficient methods of service delivery will deliver efficiencies within Public Health totalling £0.665m.

Income Generation

77. As the council looks for ways to protect front line services, consideration is given to maximising the council's income generation by seeking income streams in line with council policies and priorities. The council will seek to generate additional income by reviewing fees, charges and contributions and seeking further opportunities to provide commercial services. This may include introducing charges for some discretionary services and ensuring that we maximise the recovery of our costs. The schedules at Appendix D set out a number of proposals totalling £6.806m generating additional income.
78. This income falls into four broad groups:
 - increase in fees and charges £2.1m
 - increase in contributions for care £0.8m
 - commercial rents of £2.0m and £0.4m, and
 - increasing income arising from the leisure contract, totalling £1.0m
 - a small amount of recharging of costs, as appropriate.

79. A further schedule of proposed fees and charges will be brought forward as part of the planned January 2018 policy and resources report to cabinet.
80. Income receivable from the council's commercial property portfolio is a vital source of income to support council services. In this period of decreasing government funding for council services, the council has purchased commercial properties to generate much needed additional income into the general fund revenue budget and help support the delivery of our highly valued public services.

Savings Impacting on Service Delivery

81. Wherever possible, the aim is to continue to protect front line services from saving reductions. However, the extent of the government austerity measures means that after careful consideration, it is inevitable that some service reductions will be required to balance the budget. The schedules at Appendix E propose savings of £0.399m with potential to impact on service delivery.
82. Comprehensive equalities analysis of the impact of these savings will be considered as part of the proposal considerations.

Commitments

83. The commitments within Children's and Adults' services are funded in part from the Improved Better Care Fund allocations of £12.584m and Adults' Social Care's additional funds raised through the application of the adult social care precept of £2.7m. The latter has been committed and ring-fenced for adult social care to ensure that services support our most vulnerable residents to lead and enjoy independent lives.
84. The specific commitments within Children's Services and Education total £5.833m. The majority of the commitments relate to structural finance for staffing and placements. Other notable commitments relate to additional SEN home to school transport costs due to increases in number of children with special educational needs and to mitigate losses of government Education Support Grant (ESG) transitional grant funding that previously supported Education department functions.
85. For some, these commitments include unavoidable service related costs including IT and facilities management that enable improved and basic management of the council estate allowing for modernisation and service improvement to ensure the council is "fit for the future".
86. No Recourse to Public Funds (£215k commitment) and Temporary Accommodation debt arising from universal credit issues (commitment of £500k) continue to be areas of financial pressure. Subject to the month 8 budget monitoring report, commitments are proposed here to ensure these areas of budget risks are sustainable in 2018-19.
87. Furthermore, as identified in the month 4 capital reports, the council has a projected financing gap of £183.585m in 2017-18 and £171.839m in 2018-19 across both the General Fund and Housing Revenue Account. It is envisaged the council will need to additionally borrow to finance the capital programme moving forwards. To mitigate the associated costs of borrowing a commitment of £1.000m has been built into the 2018-19 budget.
88. A commitment is proposed to support the council plan promises: to ensure that young people have the best start in life through ensuring a top quality playground in every

local area; and fairer future promise for an age friendly borough through the ongoing implementation of the Southwark ethical care charter.

89. Furthermore, the commitments include council-wide cost pressures relating to national legislative or regulatory changes such as the apprenticeship levy and the business rate revaluation.
90. A detailed list of all commitments can be found in Appendix F. The overarching theme of these commitments is to ensure that services budgets are sustainable, particularly in the context of the reduced availability of reserves to support budget pressures.

Use of Reserves and Balances

91. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. These reserves are maintained to fund:
 - invest to save opportunities, which form part of the modernisation agenda and are expected to deliver future ongoing revenue savings;
 - investment in regeneration and development where spend may be subject to unpredictable market and other factors;
 - exceptional items or pressures which are difficult to predict and which are not included in revenue budgets or within the capital programme.
92. For a number of years previously, the council had planned for the use of reserves to help smooth the impact of government funding reductions and other budget pressures especially during the period of austerity. Not only did this help to protect council services but it has also allowed time to transition towards new ways of working, productivity improvements and efficiencies..
93. The level of balances remains subject to the scrutiny of the section 151 officer who must ensure that any one-off contributions to the budget are appropriate and affordable. In previous years, this judgment has been facilitated by the availability of unused contingency funds as budgets have met their targets. The budget proposals for 2018-19 do not include a planned release of reserve. The position will be kept under review, and at this time it is thought that the lack of availability of similar resources will present a challenge in 2018-19.
94. The final budget report to cabinet will provide a detailed update on the current level of reserves and balances, to include comparisons with other London local authorities,

Planned Corporate Contingency

95. It is proposed that the planned corporate contingency of £4m be maintained to support emerging budget pressures during the year. In the current and previous years, this contingency has been essential to manage in-year demand and cost pressures.

Consultation

96. High level consultation was conducted on the three year budget proposals for 2016-17 to 2018-19. The consultation responses received were consistent with prior years' consultations, and were used to inform the budget proposals. A substantial majority of those who responded to this consultation agreed that the council should continue to focus on being more efficient, protecting frontline services and directing resources to those most in need and this is reflected in the budget proposals.

97. Since then consultation on the Voluntary and Community strategy was conducted to ensure that all sections of the voluntary and community sector could contribute to the development of the strategy, and a series of four open invitation listening events was held which attracted over 200 people. The listening events took place in an atmosphere of goodwill. There was also recognition of the need to find new ways of making the most of diminishing budgetary resources. There has also been consultation on the development of the policy and policy drafts through the Health and Wellbeing Board, Children's and Adults' Board, the Forum for Equalities and Human Rights, the council's departmental commissioning network and the council/VCS Liaison Group.

Next Steps

98. The next main governance steps to establishing the 2018-19 general fund revenue budget are outlined in the table below:

Date	Meeting	Report	Purpose
23/01/2018	Cabinet	P&R strategy	Select proposed solutions for meeting the budget challenge
30/01/2018	Overview and Scrutiny	P&R strategy	Comment on and make recommendations in respect of the cabinet's proposed 2018-19 budget
06/02/2018	Cabinet	P&R strategy	Recommend a balanced budget for 2018-19 to Council Assembly
21/02/2018	Council Assembly	P&R strategy	Council Tax setting and approve a balanced budget for 2018-19

Community impact statement

99. The council works in accordance with the single public sector equality duty contained within section 149 of the Equality Act 2010. This means the council must have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, and advance equality of opportunity and foster good relations between different groups.
100. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the budget for 2018-19 and for previous years, each department will undertake equality analysis/screening on its budget proposals ahead of the final decisions being taken. Where screenings identify potential impacts more detailed analysis is being carried out.
101. Undertaking equality analysis helps the council to understand the potential effects that the budget proposals may have on different groups. The analysis also considers if there may be any unintended consequences and how any of these issues can be mitigated. Analysis is also undertaken to consider any cross-cutting and organisation-wide impacts.
102. For many services the budget proposals will include efficiencies which have staffing implications. As specific proposals are brought forward, and at each stage of implementation thereafter, the different impacts on different categories of staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.

103. Equality analysis will continue through the cycle of planning and implementation of these budget proposals. In line with our Public Sector Equality Duty, any changes to services arising from these proposals will be implemented in such a way so as to not impact disproportionately on any specific section or group in our community. Where necessary, consultation will be undertaken alongside mitigating actions where necessary. In line with the process across the council, information on the equality analysis will be shared with the relevant cabinet members so it can be considered when decisions are taken. The equality analyses will be collated across the council to look for any cumulative impacts.
104. To date no cumulative impacts have been identified through the analysis. However, this process will be completed in time to be reported on in the final budget report in January 2018.

Business Rates London Wide Pool

105. On 10 November, the Chair of London Councils wrote to all leaders of London councils to confirm in principle the agreement for a devolution deal for London Councils (background papers Appendix G1). This agreement involves London authorities retaining all business rate growth above the baseline target set by central government. This is over and above the amount retained by each local authority. The letter states that the government has indicated support for the pilot proposed subject to robust governance arrangements and “a significant share of the additional resources to promoting future economic growth”. On 22 November, the chancellor confirmed this would proceed. The arrangement is for a two year pilot, starting from 2018-19.
106. A founding principle of the London business rates pilot pool is that no local authority participating in the pool will be worse off than they would otherwise have been under the current scheme. This is underpinned in the government’s “no detriment” guarantee which ensures the pool as a *whole* cannot be worse off than participating authorities would have been if they had not entered the pool.
107. The London Councils final Business Rate Pooling Prospectus (background papers Appendix G2) explains that the reconciliation of available funds to distribute will occur in September 2019. As set out in the Prospectus, the first call on any additional resources generated would be used to ensure that each borough and the GLA receives at least the same amount as it would have without entering the pool.
108. It is proposed that any funds in excess of this first call will be distributed on a formula based of four components:
- incentivising growth (by allowing those boroughs where growth occurs to keep some proportion of the additional resources retained as a result of the pool) – 15%
 - recognising the contribution of all boroughs (through a per capita allocation) – 35%
 - recognising need (through the needs assessment formula) – 35%
 - facilitating collective investment (through an investment pot designed to promote economic growth and lever additional investment funding from other sources) – 15%
109. Although the first year of the pilot relates to business rates to be generated during 2018-19, as stated above, the available distribution will not be known until September 2019. The relevant extract from the Final Prospectus explains: “*However, it would not be until the outturn position is known (the NNDR3 form) that actual reconciliation would be made and the final growth/decline for the pool as a whole, and individual pool*

members, would be known. This will be in September 2019 after accounts have been audited for the financial year 2018-19” (paragraph 30, Appendix G2). Therefore any additional pooled business rate retention distributed to Southwark will not form part of the 2018-19 budget setting process and benefits will accrue in 2019-20. The section 151 officer considers this to be the most appropriate and prudent strategy.

110. The detail of the pilot arrangements will need to be kept under close scrutiny, not least with regard to the government’s “no detriment” guarantee. For example, while the public health grant and improved better care fund would not be considered as part of the pooling arrangement in 2018-19, the letter from the Chair of London Councils indicates that these could be rolled into the arrangements in 2019-20.
111. London Councils require each local authority to give approval to enter into the pilot arrangement. The arrangements specifics continue to develop for formal agreement. Nonetheless, in order to proceed, decisions need to be made by mid-January in order for the final settlement to be released in February.
112. London Councils has sought advice on the legal arrangements of the pool structure, and the favoured approach is to proceed on the basis of a Memorandum of Understanding (MOU). A copy of this memorandum of association was received on 5 December and has been included in Appendix G3. The guidance from London Councils’ legal advisers sets out the required decisions to proceed with the pooling arrangements as follows:
 - a resolution to participate in the pool and accept the Secretary of State's designations of the pool;
 - delegation of administrative functions by your Executive [cabinet] to the lead authority;
 - a decision on the MOU to be agreed between the members of the pool – including distribution, and the basis of the strategic investment pot (SIP).

These decisions are reflected in recommendations 14.1 to 14.3 in this report. Further reports will be submitted to Cabinet or Council Assembly as appropriate as the final agreement with London Councils and government progresses. In the meantime, this report seeks agreement to delegate any decisions necessary relating to this process to the Leader of the Council with agreement from the Cabinet Member for Finance Modernisation and Performance and the Section 151 Officer.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

113. The constitution determines that cabinet consider decisions regarding the strategic aspects of the regulation and control of the council's finances. The council has a legal obligation to set a balanced budget on an annual basis as prescribed in the Local Government and Finance Act 1992 and associated Regulations. The issues contained in this report will assist in the future discharge of that obligation.
114. 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.
115. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.
116. Equality analysis is the mechanism by which the council considers these effects. The report sets out how it is proposed equality analysis will be undertaken in relation to the budget proposals.
117. 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.

REASONS FOR URGENCY

118. The council is committed to publishing budget proposals at the earliest possible opportunity to ensure they are available to the public for comments and questions. Presenting this report to cabinet on 12 December 2017 gives the opportunity for debate prior to presentation of budget figures to cabinet on 23 January 2017. Under the council's constitution, there is a requirement for the overview and scrutiny committee to review and challenge budget proposals and this is due to take place on 30 January 2018.

REASONS FOR LATENESS

119. Due to the anticipation of additional information affecting the budget report, the report was delayed to consider this impact. Further, extra time has been required to formulate budget options that minimise the impact on Southwark residents. New information received this week has included the London Pooling Business Rate memorandum of understanding between the council, City of London Corporation and the Greater London Authority (GLA) and the National Employers pay offer of 2% both of which have been incorporated into this report.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources Strategy: 2017-18 and 2018-19 Updated Financial Remit	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
Link: (copy and paste into browser) http://moderngov.southwark.gov.uk/documents/s69811/Report%20Policy%20and%20Resources%20Strategy%202017-18%20and%202018-19%20Updated%20Financial%20Remit.pdf		
Council's Fairer Future Budget Principles approved by cabinet (September 2015).	160 Tooley Street PO Box 64529 London SE1P 5LX	Jennifer Seeley 020 7525 0695
Link: (copy and paste into browser) http://moderngov.southwark.gov.uk/documents/s56454/Report%20and%20appendices%202016-17%20PR%20Scene%20setting.pdf		

APPENDICES

No:	Title
Appendix A	Indicative Budget Proposals 2018-19
Appendix B	Departmental Narratives 2018-19
Appendix C	Proposed Efficiencies and Improved Use of Resources 2018-19
Appendix D	Proposed Income Generation 2018-19
Appendix E	Proposed Savings Impacting on Service Delivery 2018-19
Appendix F	Proposed Commitments 2018-19
Appendix G1	London Business Rate Pooling Pilot – Letter from Claire Kober
Appendix G2	London Business Rate Pooling Pilot – London Councils Final Prospectus
Appendix G3	London Business Rate Pooling Pilot – Memorandum of Understanding

AUDIT TRAIL

Cabinet member	Councillor Fiona Colley, Finance, Modernisation and Performance	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report author	Jennifer Seeley, Director of Finance	
Version	Final	
Dated	7 December 2017	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	N/a	N/a
Cabinet Member		Yes
Date final report sent to constitutional team	7 December 2017	