

Item No. 19.	Classification: Open	Date: 22 January 2019	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy 2019-20	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Victoria Mills, Finance, Performance and Brexit	

FOREWORD - COUNCILLOR VICTORIA MILLS, CABINET MEMBER FOR FINANCE, PERFORMANCE AND BREXIT

Yet again Southwark Council faces enormous funding cuts in 2019-20 with a loss of £8.6m of general government funding. 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 welcome the additional one-off social care grant of £4.3m announced as part of the Autumn Budget and the previously announced growth in the Improved Better Care Fund of £3.2m, this only goes part way to meeting the growing demands on children's and adult's social care services. We still await the promised Green Paper on the long-term funding of Adult Social Care and remain concerned that the Government's Budget statement made no mention of any long-term plan for social care funding.

The indicative budget proposals include £5m of Adult Social Care savings in 2019-20 offset by commitments of £4.7m. This demonstrates the investment of the increased Improved Better Care Fund (£3.2m) in protecting homecare, reablement and bed-based care packages and transformation work to improve the health, wellbeing and resilience of vulnerable residents.

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 £1.1m of efficiency savings in this area, but to make the budget sustainable we will also inject a further £3.3m for a net growth in the Children's Services budget of £2.2m.

In Education, reduced grant and funding continue to impact on the budget, as well as the increasing demand for statutory SEN education and home to school transport. There are significant pressures on schools funding via the Dedicated Schools Grant. Demand and cost pressures are particularly acute on the High Needs Block where government funding is insufficient. As at 31 March 2018, there was an accumulated deficit of £4.1m, which is forecast to increase to £11m by the end of 2018-19. The council continues to work with the Southwark Schools Forum on a deficit recovery plan, which includes proposals for reductions in central retentions, block transfers as well as reductions in funding to settings. This will be subject to full consultation and equalities impact assessment.

Whilst Southwark is recognised nationally as a leading authority in homelessness prevention, statutory and policy obligations, increasing demand and restricted housing supply mean that temporary accommodation remains a particularly challenging area. Based on current policy, cost pressures are projected to continue to rise during 2019-20. Efficiency

savings and policy changes in relation to the discharge of duty into the private sector and out of borough (along with other initiatives being developed with London Councils) would assist in mitigating this budget pressure. Net growth in Temporary Accommodation budget of £3.2m has been included in the budget proposals.

Local government pay is now the lowest in the public sector. Whilst the government has removed the 1% pay cap, 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 a 2% 2019-20 pay award, which is estimated to increase the pay bill by £4.5m in 2019-20.

All these pressures, alongside other growing costs such as inflation mean that as well as having to cope with £8m of cuts, we also need to fund £25.9m of additional budget pressures and growth.

However, 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 a strong growth in income. We are currently estimating an additional £6.1m of resources available thanks to this growth and the success of our Exchequer Services team in collecting more income that we had previously anticipated.

On a further positive note, the London Devolution Deal and business rate pooling arrangement means the additional income generated from business rates growth, notably within Southwark, will be retained within London, rather than being returned to Government. This has facilitated pan London strategic investment schemes such as the South London Innovation Corridor as well as enabling local initiatives, such as the Positive Futures Fund and Southwark Pioneers Fund to be approved. I am also delighted that we are able to propose a £2million fund to support our ground-breaking commitment to children and youth people's mental health. This money will be specifically for prevention and pastoral care ensuring that every child in Southwark gets the very best start in life and has the health, wellbeing and resilience to fulfil their potential.

The continued delay in negotiating Britain's exit from the European Union continues to create uncertainty and an increasing risk of a no-deal Brexit with its consequential impact on the economy, the supply chain, the workforce and the demand for services. Accordingly, we have recommended that £2m be set aside to ensure council services are protected and a further £300,000 commitment has been added to the base budget to cover ongoing operational pressures resulting from Brexit. In the immediate term, these funds will be prioritised to support the recommendations made by the Southwark Brexit Panel.

To address the budget shortfall, we have set out proposals totalling £19.615m in the appendices, a combination of efficiency savings (£13.905m), additional income from fees and charges (£4.810m) and other savings of (£0.900m). These proposals will be consulted on with staff, affected residents and other stakeholders and partners.

Despite these savings and additional income, a budget gap of approximately £3.2m remains and of course, unlike government, the council is legally required to set a balanced budget.

Over the last eight years we have kept council tax low only raising it to protect vital frontline services. After detailed and careful thought, we are proposing that we raise council tax by the maximum permitted 2.99% to close the budget gap. This ensures that in the toughest of times we are able to protect services for our most vulnerable residents and the services which our residents value and depend on. We recognise the pressure that this can add on low-income households so our Council Tax Reduction Scheme will remain unchanged. This means that approximately 12,000 working age households will continue to receive support

and will pay no more than 9p extra a week and that 6,900 eligible pensioners will continue to receive 100% relief.

This report will go to overview & scrutiny committee for consideration on 28 January before being reconsidered alongside their recommendations at our next Cabinet meeting on 5 February before going on to council assembly for final approval.

RECOMMENDATIONS

That cabinet:

1. Note the provisional local government finance settlement announced on 13 December 2018, key headlines being set out in this report (paragraphs 29 – 42).
2. Note, as reported to cabinet in September 2018 and recognising the continued uncertainty for local government funding, that the intention remains for the Council to prepare a balanced one-year 2019-20 budget for approval by cabinet in advance of council assembly in February 2019 (paragraph 21)
3. Note the current budget options proposed to help achieve a balanced budget 2019-20 (Appendices C to F).
4. Note the proposed increase to the Southwark element of the council tax in line with the government threshold by 2.99% in recognition of the spending pressures in services, particularly those that protect and support vulnerable people (paragraph 51 - 59)
5. Note that the budget proposals for 2019-20 contained within this report include:
 - Estimated general grant resources likely to be available arising from the provisional settlement (Appendix A), a reduction of £8.565m from 2018-19;
 - Improved Better Care Fund resources totalling £15.752m, an increase of £3.168m from 2018-19;
 - Additional one-off social care grants of circa £4.254m announced in the Autumn 2018 budget;
 - Retained business rates growth of £25.0m (paragraph 62 to 65), an increase of £3.250m over 2018-19 arising from proceeds generated by continued regeneration in the borough; plus an estimated surplus brought forward of £1.158m;
 - Estimated council tax revenue of £110.532m, including £2.476m additional income arising from growth in the tax base; £0.4m from increased premium on long-term empty properties; £3.209m additional income generated from increasing council tax by 2.99%; an estimated collection fund surplus of £3.860m;
 - No change to the council tax reduction scheme for 2019-20 for our pension age and vulnerable and least well off households
 - Planned contingency to be maintained at £4m to mitigate underlying budget risks. (paragraph 99).
6. Note that the following savings, commitments and pay and price pressures have been proposed to help ensure the delivery of a balanced budget in 2019-20 (Appendices C – F):
 - Efficiency savings of £13.905m;
 - Income generation of £4.810m;
 - Savings impacting on services of £0.900m;
 - Commitments and growth of £16.206m;

- Pay Award and contractual inflation of £8.450m
 - Debt financing costs of £3.809m
7. Note that, in order to ensure that the base budget is on a secure financial footing a number of commitments are proposed for 2019-20 totalling £16.206m, including:
 - £8.072m for Children's and Adult's Services funded principally from the growth in the Improved Better Care Fund (£3.168m) and additional social care funding (4.254m);
 - A net increase of £3.2m to further support spending pressures on Temporary Accommodation and £0.7m No Recourse to Public Funds (NRPF);
 8. Note the current budget proposed for 2019-20 is balanced, after the incorporation of updated proposals and 2.99% council tax increase.
 9. Note the Dedicated Schools Allocation of £321.5m and the pressure on High Needs provision (paragraphs 43-50)
 10. To approve the creation of the London Devolution Reserve and proposed commitments (paragraph 66 - 69).
 11. Note the ongoing negotiations regarding the continuation of the London Business Rates Pool arrangement into 2019-20 (paragraphs 71 - 72):
 12. Note the Departmental Narratives (Appendix B) and the equality analyses provided for the budget proposals.
 13. Note the consultation that took place prior to agreeing the indicative budget options for 2017-18 and 2018-19 and to instruct officers to undertake further consultation for new budget options where necessary or appropriate (paragraphs 100 - 101).
 14. Note that the report to cabinet on 22 January 2019 will be considered by overview and scrutiny committee on 28 January 2019 and that any recommendations arising will be incorporated into the final report to cabinet on 5 February 2019 for recommendation to council assembly on 27 February 2019 (paragraph 102).

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 final local government finance settlement (February 2016). 2019-20 is the fourth and final year of that four-year settlement. The offer covered the revenue support grant and confirmed that tariffs and top-ups would not be altered for reasons related to the relative needs of local authorities.
16. The Council Plan for the period 2018-2022 contains a range of promises and commitments, which the council will work towards delivering over the coming four years. Financial appraisals will be undertaken as new plans are developed and the financial implications of any approved commitments will be reflected in the 2019-20 budget, refreshed MTFS and capital programme.
17. In 2018-19, London Councils entered into a one-year pilot arrangement for the retention of business rate growth through pooling. Subject to final agreement with the

government, it is expected that the pooling arrangement will continue in 2019-20, albeit on less generous terms and with more risk passed to the council.

18. Despite the consistency of funding given by the 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, Better Care Funding and Social Care grants. In addition, pay and price inflation and demand pressures need continual review to ensure that budgets set each year are sustainable.
19. 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 40% of funding estimated for 2019-20. 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).
20. At cabinet on 18 September 2018, the financial remit was considered which included known and estimated resources available at that time, and assumptions regarding the costs of pay awards and inflation. The report concluded with a budget gap of £17.956m. Officers were asked to prepare indicative savings and commitments for 2019-20 in order to balance the budget. Subsequently at Cabinet on 11 December 2018, a further report was considered setting out a budget gap of £3.853m. This report provides an update on the work undertaken to both reflect the latest information on available resources and to consider budget savings and commitments proposed for 2019-20.
21. As set out in September 2018, the budget will be prepared on a one-year basis for 2019-20, 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 the significant uncertainties and complexities regarding the future funding of local government beyond 2019-20, including:
 - Government Spending Review during 2019
 - A new local government needs based funding formula, the Fair Funding Review,
 - Redesign of the Business Rates Retention System for 75% retention from 2020-21
 - Resetting of the business rates baseline from 2020-21,
 - The future of the London Business Rates Pool,
 - An anticipated Green Paper on funding of adult social care
 - Economic uncertainty regarding the outcome of Brexit negotiations and wider economic pressures on inflation, interest rates and area costs within London (especially housing).

Updated Financial Remit

22. In accordance with instructions from the December 2018 cabinet, this report provides updated budget proposals for 2019-20. These proposals, together with updated estimates of government funding, business rate and council tax income have contributed towards achieving a balanced budget. This has been achieved under challenging circumstances, 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. A summary of the 2019-20 proposed budget can be found at Appendix A.

23. 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.
24. This report outlines all major variations from the 2018-19 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.
25. 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).
26. The Policy and Resources Strategy 2019-20 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.

Government Budget Statement – 29 October 2018

27. On 29 October 2018, the Chancellor of the Exchequer delivered the Budget. As well as the usual updates on the public finances and overall economic outlook, the Budget included a number of policy announcements, the key headlines are set out below (source: London Councils' on the day briefing):
 - £240 million of new funding was announced for Adult Social Care funding in 2019-20 (Southwark allocation is £1.571m).
 - A further £410 million will be made available to support both adult and children's social care in 2019-20 (Southwark allocation £2.683m).
 - The Budget committed to "putting social care on fairer and more sustainable footing" in the forthcoming ASC green paper, although the date of the green paper is yet to be announced
 - The immediate removal of the HRA borrowing cap was confirmed (from 29 October 2018)
 - £420 million of new funding for potholes, allocated based on DfT's need based formula (Southwark allocation £0.558m)
 - Small business retail relief was announced for retail businesses with a rateable value less than £51,000 for two years – this will cost government £900 million and local government will be "fully compensated".
 - £675 million of co-funding will be awarded to local authorities over the next 5 years to help them draw up plans to revitalise high streets.
 - £400 million of capital funding was announced for schools to invest in equipment

- and facilities in 2018-19.
- £84 million will be invested over five years to expand programmes for children in care.

28. Not mentioned in the Budget:

- Any long term plan for children's social care funding
- No extra funding was found for schools High Needs pressures
- No recognition of homelessness funding pressures
- The date or timetable for next years Spending Review

Provisional Local Government Finance Settlement

29. The Secretary of State for Housing, Communities and Local Government announced the Provisional Local Government Finance Settlement on 13 December 2018 (later than planned due to the Brexit debate). The Settlement outlines the provisional Settlement Funding Assessment (SFA) for 2019-20 together with other grant funding included within Core Spending Power (CSP).

30. The main 2019-20 headlines are set out below:

- In line with expectations, the Settlement Funding Assessment (SFA) agreed as part of the four year settlement will fall by 5.4% in 2019-20;
- Provisional SFA funding for Southwark indicates a small increase of £82k from the amount set aside in the original four-year settlement;
- Business rate pilots were confirmed for 2019-20, including the continuation of the London pilot pool;
- the council tax referendum threshold in 2019-20 will remain at 3% with no changes to the adult social precept arrangements;
- confirmation of the additional social care funding provided at Autumn Budget 2018, Southwark's allocation being £4.254m;
- New Homes Bonus (NHB) – the proposed changes to the business rates baseline will not go ahead. Southwark's provisional allocation is £12.830m, an increase of £0.518m from estimate;
- No changes to the previously announced Public Health Grant (£26.744m) and Improved Better Care Fund (£15.752m);
- A one-off distribution of business rates levy surplus, Southwark's provisional allocation being £1.749m

31. In addition to the announcements affecting 2019/20 the Government published two consultation papers:

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- Fair Funding Review – “A review of local authorities' relative needs and resources - Technical consultation on the assessment of local authorities' relative needs, relative resources and transitional arrangements”
- Business Rates Retention – “Business Rates Retention Reform - Sharing risk and reward, managing volatility and setting up the reformed system”, a consultation on the proposed 2020/21 Redesign and Reset of the Business Rates Retention (BRR) scheme.

Settlement Funding Assessment (SFA)

32. The Settlement Funding Assessment (SFA) comprises the core funding sources for

authorities defined as Revenue Support Grant (RSG), retained business rates and business rate top-up. The council's SFA in 2019-20 is £149.875m (£158.440m in 2018-19). For 2019-20, as in 2018-19, the council will no longer receive Revenue Support Grant due to the London Business Rate pooling arrangements meaning that RSG is substituted within baseline business rate funding.

MHCLG Core Spending Power

33. Core Spending Power is the government's measure of the core revenue funding available for local authority services, including council tax. Southwark's 2019-20 spending power is indicated to increase by 2.4% between 2018-19 and 2019-20 in line with the London increase (2.8% nationally). However, it should be noted that the core spending power figures include the new social care funding announced in the Autumn Budget and an assumption that the council will set a council tax increase at the 3% referendum threshold.

Improved Better Care Fund (IBCF)

34. 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.
35. The Improved Better Care Fund totals £15.752m for 2019-20; this is made up of two parts:
- The Improved Better Care Fund (IBCF) that was included as part of the 2016-17 settlement of £13.529m for 2019-20 (£8.088m in 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 spring 2017. This equates to funding for Southwark of £2.223m in 2019-20, a decrease from the 2018-19 allocation of £4.497m. The utilisation of this grant to be agreed with the Health and Well-Being board for adult social care funding pressures.

New Homes Bonus (NHB)

36. 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. From 2018-19 the grant reduced further as the reward is now based on four years' growth as opposed to six.
37. A 0.4% baseline was 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. The government consulted on proposals to increase the baseline further in 2019-20. However, the provisional settlement confirmed no change for 2019-20.
38. The provisional settlement allocation for 2019-20 is £12.830m, an increase of £1.432m from 2018-19.
39. The Government has announced its intention to explore how to incentivise housing growth most effectively from 2020-21, for example by using the Housing Delivery Test

results to reward delivery or incentivising plans that meet or exceed local housing need.

Public Health Grant

40. The indicative allocation for Public Health Grant is £26.744m for 2019-20, a 2.6% reduction from 2018-19. The government has not yet published final Public Health allocations for 2019-20. Since 2013-14, when Public Health responsibilities transferred to local authorities, grant funding has reduced by an equivalent of 15%, with no inflationary increases. Southwark has the fourth lowest per head public grant allocation of the inner London boroughs.

Additional Social Care funding in 2019-20

41. At Autumn Budget 2018, the Government announced £650m of extra funding in 2019-20 for local authorities for adult and children's social care services. Southwark's provisional allocations are £1.571m in respect of winter pressures (to be pooled into the Better Care Fund) and £2.683m Social Care Support Grant available for adults and children's social care. This grant is not ring-fenced and has no restriction of how much should be spent on adult's or children's social care.

Business Rates Levy Account surplus

42. As a result of increased growth in business rates income nationally, a surplus has accumulated within the government's Business Rates Retention levy/safety net account. The government has provisionally allocated this via the 2013/14 Settlement Funding needs formula. Southwark's provisional allocation is £1.749m. It is proposed to set aside this 'one-off' allocation in the Business Rate Retention Risk reserve to mitigate risk around business rate revaluation, reset and devolution deal.

Dedicated Schools Grant

43. The Dedicated Schools Grant is formula based, calculated by the government with the council passing it on to schools. The allocation for 2019-20 has provisionally been set by the Department for Education (DfE) at £321.5m, although this will be revised during the year to reflect updated pupil numbers. The figures include the funding for academies, which will be recouped at a later date.
44. Dedicated Schools Grant can be broken down into the following spending blocks:

	2018-19 £m	2019-20 £m	Change £m
Schools Block	241.9	247.3	5.4
High Needs Block	43.7	44.7	1.0
Early Years Block	27.9	27.8	-0.1
Central Block	1.7	1.7	0
Total	315.2	321.5	6.3

45. In comparison with 2018-19 there is a £5.4m increase (2.2%) in the DSG schools block that mainly relates to the increase in overall pupil numbers. The numbers in secondary schools continue to rise but the primary school pupil numbers are falling. All secondary schools in the Borough are Academies.
46. Whilst there is extra funding in the settlement, costs are rising by more than funding,

exasperated further in primary schools where pupil numbers are falling.

47. The education secretary Damian Hinds announced on 15 December that pupils with special educational needs and disabilities (SEND) will receive an additional £350m in funding, £125m would go to councils in 2018-19 and 2019-20 and £100m had been allocated to create more specialist places in schools.
48. The figures within the High Needs Block reflect the additional revenue funding that was announced (£0.7m in 2018-19 and 2019-20). While the funding will help, overall funding remains inadequate to address the increasing need and demand pressures on High Needs provision.
49. The DSG position was a £4.11m deficit at 31 March 2018. In year pressures on the high needs block are expected to be around £7m and therefore the forecast position at 31 March 2019 is a £11m deficit. The deficit position is common across London and also nationally across many LAs and reflects increasing need and demand for SEND provision, the inadequacy of supply of special school places (this is being addressed within the capital programme) and also the inadequacy of funding for the high needs block. By the end of 2017-18, two-thirds of London authorities were overspent on DSG and 13 of those carried a combined deficit of £48m into 2018-19.
50. A strong lobbying stance has been taken with the Government with regard to the inadequacy of funding (including for 16-25yr olds) and also the need for flexibility on DSG block transfers, however even this will become challenging, noting the worsening position of schools from National Funding Formula (NFF) and falling rolls in primary schools. The council is working with Southwark Schools Forum to develop a DSG budget recovery plan for the medium to long term and within the council the Budget Recovery Board will bring oversight, challenge and support to this process, given the potential risk overall.

Local Taxation

Council Tax

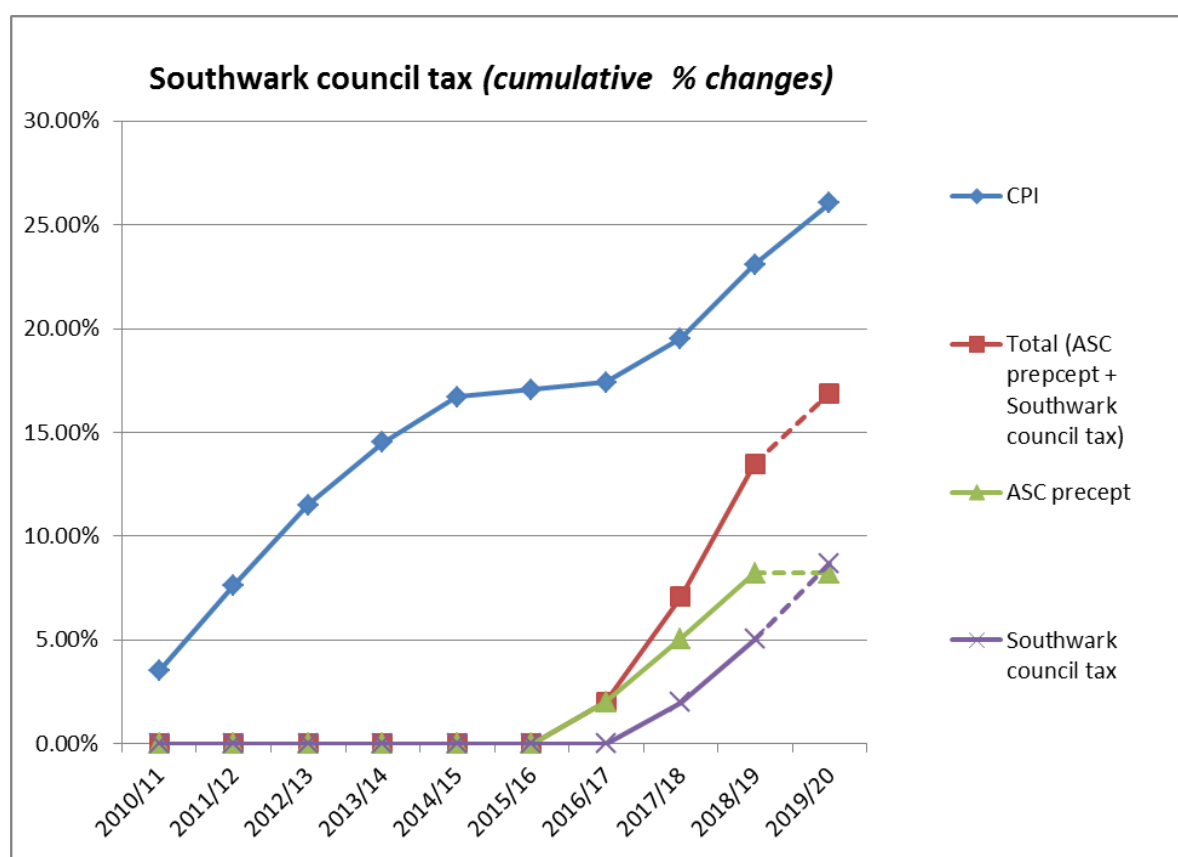
51. The council is committed to the fairer future promise to “keep council tax low”. The Southwark element of council tax was frozen from 2008-09 until 2017-18 when financial pressures and the cumulative impact of reduced government funding meant that it was no longer sustainable to hold this position. In accordance with our Council Plan priority and budget principles we have protected our most vulnerable residents, which is why we have maintained spending on frontline services like children’s care while doing everything we can to make efficiency savings in other areas.
52. The authority has been able to maintain the eighth lowest level of council tax in London in 2018-19, despite having incurred some of the largest reductions in government grants. Throughout this period, the government applied a cap on any council tax increases. The purpose of this cap is to ensure that ‘excessive’ council increases occur only where councils have a clear mandate from local people. This level has not been exceeded by Southwark to date and the cap remains in place for 2019-20.
53. Council tax has remained below the charge it would have been if CPI had been applied each year since 2010-11.
54. The Council Tax Relief Scheme continues to provide support for our financially vulnerable residents and the Council has committed to making no changes to the scheme for 2019-20.

ASC precept

55. 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. A 3% precept was applied in 2017-18 and 2018-19, providing a contribution towards the significant financial pressures within the Adult Social Care budget. No further increase in the precept is permitted.

Southwark Element of the Council Tax

56. 8 of the 13 inner London Boroughs increased their council tax in 2018-19, 23 out of 33 across London, including Southwark. This is indicative of the cumulative impact the financial stress across local authorities in London.
57. In the context of pressures on council finances, the resilience 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 2.99% (with no increase for adult social care precept) in council tax amounts to £3.2m income per annum. This is necessary to help achieve a balanced budget and to protect services for our most vulnerable residents.
58. As demonstrated in the graph below, increases in the council element of council tax remains below the charge it would have been if CPI inflation had been applied each year from 2010-11.



59. The impact of an increase in council tax of 2.99% will mean that:

- Residents in Band C properties and below will see a council tax bill rise of around 53p per week (over 60% of residents in the borough live in Bands A-C)
- Approximately 12,000 of the residents continuing to receive support through the local council tax relief scheme (CTRS) will pay no more than 9p extra per week
- The council tax reduction scheme will continue to ensure that 6,900 eligible pensioners will continue to receive 100% relief and will see no rise in their council tax bills.

Council Tax Collection

60. As reported in December 2018 the council tax base is growing in the borough – a direct reflection of the regeneration and investment in new homes. That report recommended that the collection rate be maintained at 97.2%, reflecting current performance and in consideration of the increased collection risk as universal credit is rolled out.
61. The 2018-19 collection fund forecast outturn position is a surplus of £3.500m and this has been accounted for in the council tax calculations for 2019-20.

Business Rates Baseline

62. 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 allocations reduce over the period 2013-20, whilst the level of retained business rates increases.
63. If the council remains part of the London Business Rate pool pilot, Revenue Support Grant is substituted with a baseline business rate funding level. As set out in Appendix A, the council will be funded via business rate baseline of £149.875m.
64. The 2019-20 budget includes a forecast assumption that the council's Business Rate Retention income will exceed the baseline funding level by £25.0m (i.e. in total the retained business rates total of £174.875m; consisting of the baseline of £149.875m and £25.0m in excess of this baseline). This is after appropriate provisions have been made for appeals. Furthermore, it is estimated that £1.158m of Business Rate collection fund surplus will be available to support the budget.
65. 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 reliance wholly on local taxation, either through business rates or through council tax as well as increasing opportunities across the borough for quality of life, jobs and environmental improvements.

Business Rates London Wide Pool

66. In 2018-19, London Councils entered into a one-year pilot arrangement for the retention of business rate growth through pooling. The agreement set out the principles and method for distributing any net financial benefits generated by the pool. Although the first year of the pilot relates to business rates generated during 2018-19, the available distribution will not be finalised until September 2019. However, latest figures from the London Councils indicate that the Pool is on track to deliver the

forecast growth.

67. Southwark's share of the total net benefit of the pool will be £10.186m. Recognising that any additional income will be one-off, these receipts will be ring-fenced in a London Devolution Reserve.
68. The London Devolution Reserve resources will be available for one-off initiatives in accordance with council priorities. Initiatives will include
- (i) £0.5m for the Positive Futures Fund, as approved by Cabinet in December 2018;
 - (ii) Funding for the Southwark Pioneers Fund (the amount to be agreed in a separate forthcoming report to Cabinet);
 - (i) A business case is being prepared for Southwark to support the development of the London Counter Fraud Hub. Appropriate provision will be made of up to £1m over the next seven years, subject to consideration and approval of the business case by the Cabinet Member for Finance, Performance and Brexit. The business case will be completed once negotiations on price and service levels have been concluded between CIPFA (the lead contractor) and the London Borough of Ealing who are currently responsible for clienting the contractual arrangements. These negotiations are currently expected to conclude in January.
 - (ii) The Cabinet Member for Finance, Performance and Brexit will also be recommending the set aside of some resources to act as a special risk reserve to protect the council against the negative effects of Brexit. While the value of the risks are very difficult to quantify, given current status of negotiations, a sum of £2m is proposed in order to ensure that council services are protected. Specifically, these are new financial risks over and above those previously provided for relating to any outcome that may arise from Brexit. Specifically, these include costs arising from supply chain, workforce, property and general economic issues. In any event, support will still be expected from government to compensate for these pressures.
 - (iii) A fund of £2m will be created in support of the Council's Health and Wellbeing Board commitment to mental health, specifically prevention and early help for Southwark's children. Notably, this additional investment will help to support a universal schools pastoral care and counselling provision, maintaining high performance and good practice where it already exists and building capacity and capability if required

69. The following table summarises the London Devolution Reserve commitments:

Initiative	£m
Positive Futures Fund	0.5
Southwark Pioneers Fund	TBC
London Counter Fraud Hub	1.0
Brexit Risk Reserve	2.0
Health and Wellbeing Board commitment to Mental Health	2.0

The balance on the reserve will be kept under review and further reports will be presented to Cabinet to release resources.

70. The financial benefits from the London Business Rates Pooling arrangements also included collective investment through a 'Strategic Investment Pot' designed to

promote economic growth. To date £47 million has been awarded to eight major projects that will benefit London's businesses, with a particular focus on digital infrastructure to boost economic growth, including an £8m allocation to the South London innovation corridor to provide workspace, business support and talent development.

71. The Government recently issued an updated prospectus for the continuation of the pilot devolution pooling arrangement into 2019-20, albeit on less generous terms than 2018-19, and with more risk passed to the council. The Provisional Settlement confirmed the London 75% business rates retention pilot for 2019-20, subject to London councils agreeing to go ahead. The December 2018 Cabinet paper delegated any decisions necessary to continue the council's participation in the Pool to the strategic director of finance and governance in consultation with the Cabinet Member for finance, performance and Brexit.
72. As in 2018-19, 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. Given the increased risk, and the fact that any growth will not be finalised until September 2020, any additional pooled business rate income will not form part of the 2019-20 budget setting process.

Updated financial remit

73. Through the council's budget cycle, savings and income generation options are presented for consideration which, should these proposals be agreed, contribute towards achieving a balanced budget.
74. The 2019-20 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	4,739	(4,213)	-	(800)	(274)
Children's Services	3,333	(1,010)	-	(100)	2,223
Education	-	(337)	-	-	(337)
Total Children's and Adults' Services	8,072	(5,560)	-	(900)	1,612
Environment and Leisure	982	(860)	(3,000)	-	(2,878)
Place and Wellbeing	200	(1,207)	(50)	-	(1,057)
Housing and Modernisation	3,900	(676)	-	-	3,224
Chief Executive's	-	(5)	-	-	(5)
Finance and Governance	252	(997)	-	-	(745)
Corporate	2,800	(4,600)	(1,760)	-	(3,560)
Total	16,206	(13,905)	(4,810)	(900)	(3,409)

*Commitments within Children's and adults' Services include £7.422m funded from Improved Better Care Fund and additional grant to support adult's and children's social care.

Pay Award

75. The current budget plans for 2019-20 are based on a projected 2% pay rise for all staff. 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 because 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. A provision has been included within the budget plans. 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

76. The Consumer Price Index (CPI) 12 month rate for November was 2.3% with domestic inflationary pressures expected to build over the coming months. This budgetary pressure is recognised in the budget with a £3.950m allocation for contractual inflationary pressures in 2019-20.

Efficiencies and Improved Use of Resources

77. 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 total budget proposals include efficiency savings of £13.905m (detailed in Appendix C).
78. The indicative budget proposals include £5m of Adult Social Care savings in 2019-20 offset by commitments of £4.7m. This demonstrates the investment of the increased Improved Better Care Fund (£3.2m) in protecting homecare, reablement and bed-based care packages and transformation work to improve the health, wellbeing and resilience of vulnerable residents.
79. In Education Services there are savings and efficiencies of £0.337m as the school improvement service moves towards a fully traded model.
80. Environmental and Leisure Services are proposing total efficiency savings of £0.860m by rationalising litter picking schedules to focus effort where it is most needed; reviewing library operations consistently with the new library strategy and council plan commitments to keep libraries open when people need them; by moving to more environmentally friendly lights and proposed changes in highways sweeping services.
81. Place and Wellbeing directorate are proposing savings of £0.282m through realignment of staffing resources and other efficiencies in service provision and commissioning arrangements and £0.925m savings within the Public Health ring-fenced grant from a combination of efficiencies, service design and economies in commissioning arrangements across the service areas.
82. Finance and Governance are proposing efficiency savings across the department mainly made up of staffing-related savings totalling £0.852m, which reflects the fact that over 70% of the overall expenditure budget is staffing costs. Savings from staffing costs will be achieved through increased efficiency, reduction in caseload and

changing what we do and how we work, to become an organisation that is fit for the future. In addition to the staffing related savings, £0.145m of other savings are proposed relating to modernising council and committee meetings, reductions in printing and postage usage and savings arising from external audit contract procurement.

Income Generation

83. 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 £4.850m generating additional income.
84. The additional income within the Environment and Leisure Department principally relates to £0.7m on the leisure management contract; £1.2m from the introduction and extension of controlled parking zones; and £0.37m from expanding the car club permit scheme, street advertising; and introducing a night time levy and paid subscription for green waste collections.
85. The decision to invest in Courage Yard will increase commercial rental income resulting in a net benefit to the budget of £1.8m after associated costs.

Savings Impacting on Service Delivery

86. 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 £0.9m with potential to impact on service delivery.
87. The significant savings relate to the review of the re-ablement service saving £0.8m.
88. Comprehensive equalities analysis of the impact of these savings will be considered as part of the proposal considerations.

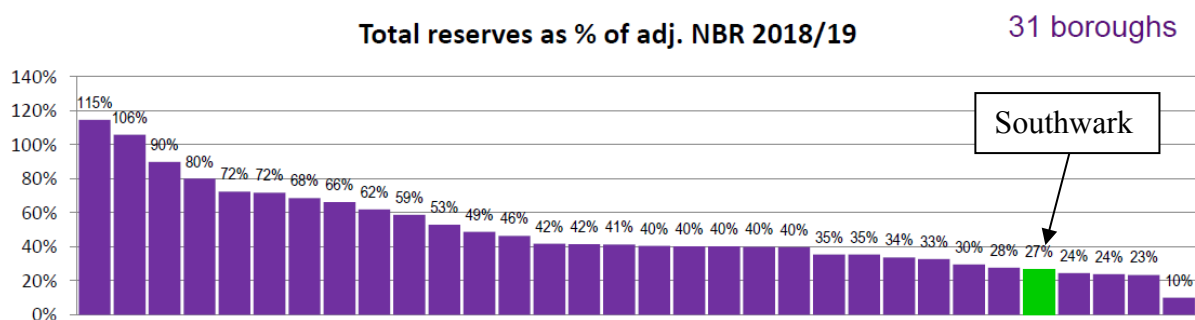
Commitments

89. The commitments within Children's and Adults' services are funded in part from the increase in Improved Better Care Fund allocation of £3.168m and additional grant announced in the governments October Budget of £4.254m.
90. Within Children's Services, commitments include funding of £0.35m for asylum seeking children and £0.3m and the extension of leaving care responsibilities to age 25.
91. Temporary Accommodation and No Recourse to Public Funds continue to be areas of financial pressure. Net commitments of £3.2m and £0.7m are proposed here to ensure these areas of budget risks are sustainable in 2019-20.
92. Other commitments include £0.3m to tackle tree maintenance and inspection work and £0.05m for community toilet scheme.

93. The council of course remains ambitious to deliver a fairer future for all residents and set out comprehensive plans for expanded and new services in its Council Plan for 2018-22, agreed by Cabinet in October and Council Assembly in November. It will be possible to begin delivering on several of these commitments during 2019-20 and this draft budget includes commitments totalling £0.425m to begin the roll-out of Free Healthy School Meals to children in our council nursery schools and school nurseries, to ensure every primary school child is able to see a theatre performance and to offer free swimming lessons to local residents.
94. A detailed list of all commitments can be found in Appendix F. The overarching theme of these commitments is to ensure that service budgets are sustainable, particularly in the context of the reduced availability of reserves to support budget pressures.

Use of Reserves and Balances

95. 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.
96. 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.
97. The level of balances remains subject to the scrutiny of the section 151 officer who must ensure that any one off contributions to the budget is appropriate and affordable. In previous years, this judgment has been facilitated by the availability of unused contingency funds as budgets have met their targets. The budget proposals for 2019-20 do not include a planned release of reserve.
98. London Councils conducted a financial stress survey across London that included reviewing the levels of reserves. As demonstrated by the below graph, the council levels of reserves are low relative to the councils budget requirements and other councils. This remains a concern in the context of Southwark's ambitious programme for regeneration and revenue cost pressures across services.



Planned Corporate Contingency

99. 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. Within the commitments is a proposal to create a Brexit contingency to manage the growing economic and social risks.

Consultation

100. 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.
101. 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

102. The next main governance steps to establishing the 2019-20 general fund revenue budget are outlined in the table below:

Date	Meeting	Report	Purpose
22/01/2019	Cabinet	P&R strategy	Select proposed solutions for meeting the budget challenge
28/01/2019	Overview and Scrutiny	P&R strategy	Comment on and make recommendations in respect of the cabinet's proposed 2019-20 budget
05/02/2019	Cabinet	P&R strategy	Recommend a balanced budget for 2019-20 to Council Assembly
27/02/2019	Council Assembly	P&R strategy	Council Tax setting and approve a balanced budget for 2019-20

Community impact statement

103. 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.

104. 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.
105. Undertaking equality analysis helps the council to understand the potential effects that the budget proposals may have on different groups. The analysis also considers if there may be any unintended consequences and how any of these issues can be mitigated. Analysis is also undertaken to consider any crosscutting and organisation-wide impacts.
106. 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.
107. Equality analysis will continue through the cycle of planning and implementation of these budget proposals. In line with our Public Sector Equality Duty, any changes to services arising from these proposals will be implemented in such a way to not impact disproportionately on any specific section or group in our community. Where necessary, consultation will be undertaken alongside mitigating actions where necessary. In line with the process across the council, information on the equality analysis will be shared with the relevant cabinet members so it can be considered when decisions are taken. The equality analyses will be collated across the council to look for any cumulative impacts.
108. 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 2019.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

109. 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.
110. 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.
111. Decision makers must understand the effect of policies, practices and decisions on

people with protected characteristics.

112. 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.
113. 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
Policy and Resources Strategy: 2019-20 Updated Financial Remit	160 Tooley Street PO Box 64529 London SE1P 5LX	Rob Woollatt 020 7525 0614
Link (please copy and paste into your browser): http://moderngov.southwark.gov.uk/documents/s77446/Report%20Policy%20and%20Resources%20Strategy%20revenue%20monitoring%20report%20including%20treasury%20management%20018.pdf		
Council's Fairer Future Budget Principles approved by cabinet (September 2015).	160 Tooley Street PO Box 64529 London SE1P 5LX	Rob Woollatt 020 7525 0614
Link (please copy and paste into your 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 2019-20
Appendix B	Departmental Narratives 2019-20
Appendix C	Proposed Efficiencies and Improved Use of Resources 2019-20
Appendix D	Proposed Income Generation 2019-20
Appendix E	Proposed Savings Impacting on Service Delivery 2019-20
Appendix F	Proposed Commitments 2019-20

AUDIT TRAIL

Cabinet member	Councillor Victoria Mills, Finance, Performance and Brexit	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report author	Rob Woollatt, Interim Departmental Finance Manager	
Version	Final	
Dated	14 January 2019	
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	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to constitutional team		14 January 2019