

Item No. 10.	Classification: Open	Date: 17 September 2019	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy 2020-21 to 2022-23 update	
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

In July we reported to Cabinet that local government was facing a period of maximum funding uncertainty due to the hiatus around Brexit and the Conservative Party election for a new leader to take over as Prime Minister. At that time there was considerable uncertainty about the governments Spending Review, the continuation of existing grant funding streams, a Fair Funding Review that was progressing slowly, and lack of clarity around what system of business rates retention would apply from April 2020.

The July Cabinet Report highlighted that those funding uncertainties made meaningful financial planning extremely challenging and we outlined a range of potential scenarios suggesting a funding gap in 2020-21 of anywhere between £4m and £32m.

Whilst the Brexit issues remain, the Government has now published its 2020-21 spending plans and confirmed that the proposed changes to local government finance arrangements will be deferred a year until 2021-22.

At a national level the 2019 Spending Round has provided councils with much of the funding certainty and stability needed to prepare 2020-21 budgets. The SR announced on 4 September confirmed a funding package of more than £3.5bn for council services, allowing councils to meet some of the cost and demand pressures we face.

We are pleased that the Government has provided much needed new money for social care and acknowledge the additional flexibility to increase council tax to fund social care pressures. However, there remains significant uncertainty surrounding the future of social care funding and despite central government announcing a series of financial 'sticking-plasters' in recent years, including the additional funds found in the Spending Review, we still have scant information regarding sustainable funding for social care beyond 2020-21.

We also welcome the additional £700m agreed by the government for children and young people with special education needs and disabilities. This funding follows high levels of challenge and lobbying from the council along with representative bodies. However, we await the detail of how the national funding will be shared between authorities and it may still fall short of the levels of funding required and certainly will not be enough to pay down the accumulated deficit.

Despite the Spending Review being at the more optimistic end of our planning scenarios, there remains an overall funding gap of £9.8m for 2020-21. The gap would reduce to £5.2m should council determine to increase council tax by the limit of 4% (2% for Adult Social Care and 2% referendum limit). This together with the unprecedented political

uncertainty, the prospects of a Brexit deal being agreed before the 31 October looking increasingly remote and the likelihood of a General Election before the end of the year, mean that the budget planning strategy set out in the July report remains relevant and appropriate.

We will continue to focus on the delivery of our Council Plan, fairer future promises and budget principles to support the annual budget setting process. We have consistently promised value for money and committed to spending money as if it were from our own pocket.

Despite the challenges, this administration remains determined to keep our promises, to protect and modernise our services and to maintain excellent financial planning that is more than fit for the future.

RECOMMENDATIONS

That cabinet note:

1. The outcome of the Government's 2020-21 Spending Review announced on 4 September 2019, set out in paragraphs 16 to 19.
2. That the Ministry for Housing Communities and Local Government (MHCLG) has confirmed that the Fair Funding Review, 75% business rate retention and business rates reset will be delayed until 2021-22.
3. That the updated 2020-21 budget forecast, based on the latest information and the following revised assumptions, indicate a budget funding gap of £7.5m:
 - an inflation increase of 1.84% in the Settlement Funding Assessment;
 - additional grant funding announced in the Spending Round for social care, high needs and tackling rough sleeping and homelessness will be passported to those services;
 - an index linked increase in Public Health Grant and Better Care Fund allocations;
 - that other major grant funding sources, i.e. Improved Better Care Fund, Social Care Grants and New Homes Bonus will continue at 2019-20 levels (as previously assumed);
 - the business rate baseline reset, that will significantly impact those authorities that have experienced the greatest growth since inception of the existing BRR system in 2013-14, will be deferred until 2021-22.
4. That the funding gap will reduce by £2.3m should the council decide to increase council tax by 2% for Adult Social Care;
5. That the funding gap will reduce by a further £2.3m should the council decide to increase council tax by 2% in line with the proposed referendum principle level.
6. That, as agreed in July, the strategic director of finance and governance with the support of other strategic directors and their teams will prepare a one year budget for 2020-21 based on cash-limiting departmental budgets at 2019-20, setting out the risks of this approach and how these risks will be managed.
7. That the strategic director of finance and governance will seek to prepare with other officers indicative savings options and commitments for 2021-22 and 2022-23 as part

of the risk mitigation required to support this approach.

8. Cabinet to receive further reports as further funding information becomes available and as budget plans for 2020-21 are developed.

BACKGROUND AND PURPOSE

9. The main strategic funding decisions of central government as they relate to local government are normally made at each Spending Review; although these have been supplemented at subsequent annual Local Government Finance Settlements (e.g. with the introduction of the Improved Better Care Fund at Settlement 2016-17; additional flexibility on the Social Care Precept at Settlement 2017-18 and the increase in the referendum limit to 3% - before applying the Social Care Precept – at Settlement 2018-19).
10. Between 2011-12, the first year of the major austerity cuts, and 2019-20, the council has lost government funding in cash terms of more than £146m. According to government calculations, lost spending power has exceeded £85m during the same period. Neither of these figures allow for the real terms impact of price and demand pressures. In addition, the council has committed to priorities that have needed to be funded through a limited number of sources. During this period the council has also looked to keep council tax as low as possible, protecting the most vulnerable. Southwark remains the eighth lowest council tax rate in London.
11. A new Council Plan for the period 2018 to 2022 was agreed by Cabinet in July 2018 and council assembly in November 2018. The Council Plan contains a range of promises and commitments which the council will work towards delivering over the coming years.
12. Council Assembly of 21 February 2019 approved a balanced budget and council tax for 2019-20. This was a one year budget due to the uncertainty around future funding.
13. 2019-20 was the final year of the four year local government finance settlement announced in autumn 2015.
14. The government previously stated its intention to hold a new Spending Review in 2019, covering the period 2020-21 to 2022-23. However, with the ongoing political turbulence around Brexit, the government announced that the Spending Round would cover one year only, 2020-21, and that this would be followed in 2020 by a full Spending Review, reviewing public spending as a whole and setting multi-year budgets. The outcome of the Review was announced on 4 September 2019.
15. Despite the Spending Review being at the more optimistic end of our planning scenarios, there remains an overall funding gap of £9.8m for 2020-21. The budget planning strategy set out in the July report remains relevant and appropriate i.e. the strategic director of finance and governance with the support of other strategic directors and their teams will
 - prepare a one year budget for 2020-21 based on cash-limiting departmental budgets at 2019-20, setting out the risks of this approach and how these risks will be managed
 - prepare indicative savings options and commitments for 2021-22 and 2022-23 as part of the required risk mitigation.

KEY ISSUES FOR CONSIDERATION

Spending Review 2019

16. The 2019 Spending Round, announced on 4 September 2019, outlines the Government's spending plans for 2020-21 (one year only) for each central government department. The Provisional Local Government Finance Settlement, due to be announced in December, will confirm the funding for each individual authority. However the Spending Review announcements do now enable local authorities to plan for 2020-21 with a much greater degree of certainty.
17. The Chancellor's announcement included a funding package of more than £3.5 billion for vital council services and indicated that Core Spending Power would increase by a total of £2.9 billion, a 4.3% real terms increase, in 2020-21. Key announcements included (full details are included in the LGA Briefing at Appendix 1):
 - An additional £1bn of grant funding for social care - both for children and adults
 - Flexibility to enable local authorities to raise up to a further £500 million via a 2% increase in council tax through the Adult Social Care precept
 - An additional £700 million to support children with Special Educational Needs which will be provided via the Dedicated Schools Grant
 - An increase in the core settlement (baseline funding levels and Revenue Support Grant) of £300m.
 - An assumption that councils would increase council tax in line with the proposed council tax referendum limit of two per cent
 - That Public Health Grant will increase in line with inflation and the Department of Health and Social Care's contribution (the Better Care Fund) will grow in line with the additional investment in the National Health Service
 - An additional £54m to tackle rough-sleeping and homelessness
 - The schools budget will rise by £2.6 billion in 2020-21, £4.8 billion in 2021-22 and £7.1 billion in 2022-23, compared to 2019/20 funding levels. Separate to this, the government will provide almost £1.5 billion of funding to compensate schools for the increased cost of employer pensions contributions.
 - An increase to early years spending of £66 million to increase the hourly rate paid to childcare providers through the government's free hours offers.
18. Following the Chancellor's announcement, the Secretary of State for Housing, Communities and Local Government wrote to all local authorities (Appendix 2) confirming that:
 - All existing grants to support social care (Improved Better Care Fund, Winter Pressures and Social Care Grant) will continue
 - That the proposed local government finance reforms, including business rates retention and Fairer Funding (Review of Relative Needs and Resources) would

be deferred until 2021-22

- No new business rate pilots for 2020-21 (there was no indication whether existing pools, including the London Pool, would continue beyond 2019-20).
19. The Spending Review has now provided councils with much greater certainty of how local services will be funded in 2020-21 and the additional funding will help to meet the rising cost and demand pressures in 2020-21. However, the detail of the Spending Review and its exact implications for Southwark will require further information and analysis and there remains significant uncertainty for 2021-22 and beyond.

Updated financial remit 2020-21

20. The 'most-likely' central forecast is illustrated in the table below:

	2019-20 Budget £m	Indicative		
		2020-21 £m	2021-22 £m	2022-23 £m
Settlement funding assessment (SFA)	149.875	152.662	165.163	165.163
BRRS growth	25.000	27.500	2.500	5.000
Council tax	110.531	112.743	114.997	117.297
Council tax – ASC precept	0	0	0	0
Collection fund surplus/(deficit)	5.018	(4.000)	0	0
Core grants	63.861	70.902	70.902	70.902
Contribution from Reserves	0	0	7.500	3.500
Total resources	354.285	359.807	361.062	361.862
Base budget brought forward	348.041	354.285	369.581	382.081
Inflationary pressures	9.653	11.600	12.500	13.000
Commitments and growth	16.206	7.041	0	0
Efficiencies, income and savings	-19.615	-3.319	0	0
Net spending	354.285	372.926	382.107	395.107
Gap (cumulative)	0	-9.800	-21.045	-33.245

21. The updated remit now assumes:

- an inflation increase (1.84%) in the Settlement Funding Assessment;
- additional grant funding announced in the Spending Round for social care, high needs and tackling rough sleeping and homelessness will be passported to those services;
- an index linked increase in Public Health Grant and Better Care Fund allocations;
- that other major core grant funding sources, i.e. Improved Better Care Fund, Social Care Grants and New Homes Bonus will continue at 2019-20 levels;
- the Fair Funding Review and Business Rate Retention changes will be deferred until 2021-22, and will be revenue neutral
- the business rate baseline reset will be deferred until 2021-22;
- a deficit on business rate collection fund income as a result of slower growth and increased discounts and empty properties
- no increase in council tax (for either Adult Social Care or base council tax).

The estimate of local government 'Core Spending Power' published in the Spending Review assumes a 2 per cent Referendum Principle increase and a 2 per cent Adult Social Care Precept. A 4% increase would yield £4.6m. No council tax increases

have been included in the indicative resources.

22. Despite the Spending Review being at the more optimistic end of our planning scenarios, there remains an overall funding gap of £9.8m for 2020-21. The budget planning strategy set out in the July report remains relevant and appropriate the strategic director of finance and governance with the support of other strategic directors and their teams will prepare a one year budget for 2020-21 based on cash-limiting departmental budgets at 2019-20, setting out the risks of this approach and how these risks will be managed.

Next steps

23. The main governance steps to establishing the 2020-21 general fund revenue budget are outlined in the table below:

Date	Meeting	Report	Purpose
September to November 2019	Budget Challenge arrangements		
December 2019	Provisional local government finance settlement		
December 2019	Cabinet	P&R strategy	Provide options for meeting the budget challenges over the next three financial years
December 2019	Cabinet	Council Tax base	Confirm the council tax base to apply for 2020-21
January 2020	Cabinet	P&R strategy	Select proposed solutions for meeting the budget challenge
January 2020	Overview and Scrutiny	P&R strategy	Comment on and make recommendations in respect of the cabinet's proposed 2020-21 budget and indicative budgets for future years
February 2020	Cabinet	P&R strategy	Recommend to Council Assembly balanced budget for 2020-21
February 2020	Council Assembly	P&R strategy	Council Tax setting and approve a balanced budget for 2020-21 and agree indicative budgets for 2021-22 and 2022-23

Community impact statement

24. 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.
25. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the budget for 2019-20 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.

26. 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.
27. 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.
28. 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.
29. 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 2020.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

30. 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.
31. 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.
32. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.
33. 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.
34. 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

35. Each year, the council updates a detailed Policy and Resources Strategy covering, as a minimum, the following financial year. This report updates the 2020-21 to 2022-23 budget planning process and the detailed work on budget proposals following the Spending Review announcement on 4 September 2019. This work continues over the coming months in order to meet the timetable to prepare a budget proposal for submission to council assembly in February 2020.

REASONS FOR LATENESS

36. The Government announced its spending plans for 2020-21 and timetable on the future financial framework and funding arrangements for future financial years on 4 September 2019.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and resources strategy 2019-20 – revenue budget (item 2.1)	160 Tooley Street London SE1 2QH	Rob Woollatt 020 7525 0614
http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=132&MId=6096&Ver=4		
Policy and resources strategy 2020-21 – scene setting report (item 26)	160 Tooley Street London SE1 2QH	Rob Woollatt 020 7525 0614
http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=6414&Ver=4		

APPENDICES

No:	Title
Appendix 1	Local Government Association: On the Day Briefing 4 September 2019
Appendix 2	Letter from the Secretary of State for Housing, Communities and Local Government

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	12 September 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	N/A	N/A
Cabinet Member	Yes	Yes
Date final report sent to constitutional team		12 September 2019