

Item No. 23.	Classification: Open	Date: 17 December 2019	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy 2020-21	
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

This report sets out in detail the council's draft budget proposals for 2020-21 to support delivery of our fairer futures priority outcomes in a financially sustainable way.

In July we reported that local government was facing a period of maximum funding uncertainty principally due to the hiatus around Brexit and exacerbated by the Conservative Party election for a new leader to take over as Prime Minister. At that time, the Government was still intending to complete a multi-year Spending Review, to publish a Green Paper on long-term funding for Social Care, to implement a Fair Funding Review and to make major changes to the system of business rates retention, all to apply from April 2020.

In September, the Government published its 'one year only' spending plans for 2020-21, confirmed that the proposed changes to local government finance arrangements would be deferred until 2021-22 and that the much delayed social care Green Paper, originally announced as a 2017 Conservative Party manifesto commitment, would now be published "in due course". This causes significant uncertainty around the level of resources the Council will receive from 2021-22.

In previous years, we would have prepared and presented this report informed by the provisional local government finance settlement, which sets out the government's proposed funding levels for each authority. Parliament's decision to have an early general election meant that the provisional local government settlement, intended to have been published on 5 December 2019, has been delayed.

The funding assumptions included in this report are therefore based on the previous government's spending plans announced in September 2019 and which were subject to technical consultation. With Thursday's General Election returning a Conservative Government we would reasonably expect there to be limited changes to the previously proposed speed of publication of the Provisional Settlement and the level of funding provided.

We were pleased that the Spending Round provided much needed new money for social care in 2020-21 (including a 2% social care precept flexibility). However, despite central government announcing a series of financial 'sticking-plasters' in recent years, including the additional funds in the Spending Round, we still have scant information regarding sustainable funding for social care beyond 2020-21. In addition, the effective ring-fencing of elements of the settlement only adds to the difficulty of delivering a unified and 'one-council' approach to the challenges our communities face and the council's vision for public services fit for 2020 and beyond.

Following high levels of challenge and lobbying from the council and representative bodies, additional resources for children and young people with special education needs and disabilities was announced in the Spending Round. The additional funding, estimated at £5.1m in 2020-21, is welcome but falls short of the level of resources required and certainly will not be enough to pay down the accumulated deficit, estimated to be £18m by the end of March 2020. We are urgently seeking a meeting with the Department for Education to discuss our Dedicated School Grants (DSG) recovery plan to ensure that the government makes good on its assertion that 'DSG deficits should not be covered from general funds'.

In April 2019 the Council reinforced its commitment to combatting carbon emissions and rising global temperatures, by joining the international Climate Change Campaign and declaring a Climate Change Emergency. The council has been working to reduce its emissions for some time, cutting them by 37 per cent since 2010. Moving forward, it will join forces with everybody in the borough, to try to achieve carbon neutrality by 2030. However, it will be impossible to meet the 2030 target without bold steps from central government, transport improvements from City Hall and help from the construction industry, big business, individuals and more.

The council is currently engaging with residents, local groups and other stakeholders so that we can devise, with support from residents, ways to tackle the crisis by 2030. This will require significant revenue and capital investment to achieve. It is proposed that a fund of £2m is created with a view to making the necessary structural changes to revenue and capital budgets from 2021-22 onwards.

Local government pay is now the lowest in the public sector. Negotiations on the 2020-21 pay settlement are ongoing. The budget proposals presented today include for a 2.5% increase in the pay bill, equivalent to around £4m per annum.

Alongside pay and price inflation, there are other growing pressures including the increasing debt financing costs of funding the capital programme as well as addressing some of our priorities, such as the climate emergency, which will require additional revenue and capital expenditure to meet our targets.

The government's recent announcement to increase interest rates on borrowing from the Public Work Loan Board appears perverse at a time when there is significant investment need, not least to build new houses, and when the government is able to access borrowing at historically low rates. This will have a real impact on the financial viability and affordability of future capital investment. The policy will increase General Fund debt financing costs by £0.6m in 2020-21 and in subsequent years.

We have also set out in this report £8.468m of savings through a combination of efficiency savings (£5.672m), additional income from fees and charges (£2.376m) and other savings (£0.420m). These proposals will be consulted on with staff, affected residents and other stakeholders and partners.

On a more positive note, the council's budget proposals contain commitments of £19.505m, including an increase in Children's and Adults budget of £11.899m. This includes the development of a multi agency 'Sure Start' style approach to support for teenagers and their parents; an enhanced mental health offering for children, young people and their parents; further investment in the All Age Disabilities pathway focussed on improving in-borough provision for children with special educational needs and disabilities (SEND); and enhanced investment in a preventative, public-health approach to reducing demand and reliance on council services, including healthy activities for older people.

Despite the Spending Round being at the more optimistic end of our planning scenarios and continuing, though plateauing, growth in homes and the local economy, a budget gap of £6.805m remains. 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 revenue income can be prudently included in the budget and scope for any further income and savings across departments. Cabinet in January will need to consider these alongside the outcome of the Local Government Finance Settlement and the option of a council tax increase. A council tax increase of 2% for Adult Social Care would yield £2.267m and a 1.99% general increase, in line with the governments funding assumption, would yield a further £2.255m. Together these would reduce the overall funding gap to £2.284m.

The financial outlook beyond 2020-21 remains extremely uncertain and subject to many unknowns, not least the new government's spending plans, Brexit, general economic factors and the future system of local government finance. We acknowledge that further work is needed to set out detailed plans to achieve a balanced Medium Term Financial Strategy for the period beyond 2020-21. However, beyond the financial modelling of various scenarios presented to Cabinet in September, meaningful medium term financial planning remains highly speculative. Accordingly, we will update the financial forecasts when we have more certainty on future funding. In the meantime, as part of the budget setting process, we have considered future service and funding risks and how these will be managed. The departmental narratives at Appendix A include an indication of some of the areas of specific budget focus for 2021-22 and 2022-23, though a good deal more certainty is required before plans can be developed further.

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.

RECOMMENDATIONS

That cabinet:

1. Note that the provisional local government finance settlement, due to be published by 5 December 2019, has been delayed (paragraphs 26-27).
2. Note, and recognising the continued uncertainty for local government funding, that the intention is to prepare a balanced one year 2020-21 budget for approval by cabinet in advance of council assembly in February 2020 (paragraphs 32-33).
3. Note that the budget proposals for 2020-21 contained within this report include:
 - Estimated general grant resources of £152.317m, an increase of £2.442m from 2019-20
 - Additional grant income of £13.571m, including increased social care grant of £7.332m
 - Estimated retained business rates growth of £26.0m (paragraph 59), an increase of £1.0m over 2019-20
 - Estimated council tax revenue of £113.327m, including growth in the tax base of £2.795m
 - A net brought forward deficit on the Collection Fund chargeable to the 2020-21 budget of £6.729m
 - Pay award and contractual inflation of £3.830m (excluding Children's and Adult Services)

- Retention of the contingency budget of £4m to mitigate underlying budget risks (paragraph 85).
4. Note the current budget options proposed to help achieve a balanced 2020-21 budget (Appendices B to E) including:
 - Efficiency savings of £5.672m
 - Income generation of £2.376m
 - Savings impacting on services of £0.420m
 - Commitments and growth of £19.505m.
 5. Note that, in order to ensure that the base budget is on a secure financial footing a number of commitments are proposed for 2020-21, including £7.332m for Children's and Adult's Services (paragraph 77).
 6. Note the updated budget gap for 2020-21 of £6.805m and notes that this budget gap would reduce by £2.267m if the council determined to increase council tax by 2% for the social care precept in line with government expectation.
 7. Note that the budget gap would reduce by a further £2.255m should the council decide to increase council tax by 1.99%, in line with the government threshold.
 8. Note the performance of the London Business Rates Pool arrangement in 2019-20 (paragraphs 61-66) and to note unallocated London devolution Pool resources of £1.686m from 2018-19 and an estimated £4.8m for 2019-20.
 9. Approve the allocation of £0.150m from the unallocated London Business Rates Devolution reserve to fund a pilot extension of gym and fitness facilities into parks (paragraph 63).
 10. Officers will complete further work in light of the provisional settlement, when published, to present a fully balanced budget position for Cabinet on 21 January 2020.
 11. Note the Departmental Narratives and the equality analyses provided for the budget proposals (Appendix A).
 12. To instruct officers to undertake further consultation for new budget options where necessary or appropriate (paragraphs 86-88).
 13. To agree the fees and charges as set out in Appendix F (paragraphs 79-81).
 14. Note that the report to cabinet on 21 January 2020 will be considered by overview and scrutiny committee on 27 and 29 January 2020 and that any recommendations arising will be incorporated into the final report to cabinet on 4 February 2020 for recommendation to council assembly on 26 February 2020 (paragraph 89).

BACKGROUND AND PURPOSE

15. Each year, the council updates a detailed Policy and Resources Strategy covering a period that normally reflects the duration of the government's financial settlement. As part of the Policy and Resources Strategy, and in line with requirements of the local government finance act, budgets are approved by Council Assembly for the next financial year as part of Council Tax setting. Where the settlement provides

provisional funding commitments for more than one year, budgets may be agreed indicatively for a longer period.

16. For many years this process has formed the pivotal component of the council's financial planning process. This strategy, and the formal approval by council assembly, sits at the heart of the council's commitment to financial planning and efficiency. Most importantly, the strategy is bound to the policies of the council and not least by the commitments in the Fairer Future council plan.
17. 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, recognising the pressure this places on all households but particularly the most vulnerable. Southwark remains the eighth lowest council tax rate in London.
18. In September 2015, the council adopted the Fairer Future Budget Principles that confirmed the framework within which the Policy and Resources Strategy is formed. 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 FFMTFS was aligned with the four year local government finance settlement announced in February 2016. 2019-20 was the fourth and final year of the four-year settlement.
19. The 2018-19 local government finance settlement confirmed that London Councils would pilot arrangement for the retention of 100% business rate growth through pooling. The pooling arrangements continued in 2019-20, albeit on a less generous 75% retention basis and with more risk passed to councils. Any additional business rates income received as part of the pooling arrangement will be one-off and set aside for investment in specific initiatives approved by Cabinet.
20. 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 that the council will work towards delivering over the coming years.
21. 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.
22. This report provides an update on the work undertaken to both reflect the latest information on available resources, updated estimates of council tax and business rates and to consider budget savings and commitments proposed for 2020-21.

KEY ISSUES FOR CONSIDERATION

Spending Round 2019

23. The 2019 Spending Round, announced on 4 September 2019, outlined the Government's spending plans for 2020-21 (one year only) for each central government department.
24. Subsequently the government undertook a technical consultation on the Local

Government Finance Settlement for 2020-21, which provided some further detail on the proposals and how the national funding would be allocated. This provides the basis for the funding assumptions within this report. The key announcements as they impact on Southwark were:

- An increase in the core Settlement Funding Assessment (SFA), estimated at £2.442m
 - Additional grant funding for children and adults social care, estimated at £7.332m
 - Additional funding to support children with Special Educational Needs which will be provided via the Dedicated Schools Grant, estimated at £5.076m
 - Flexibility to enable local authorities to raise additional income via a 2% increase in council tax through the Social Care precept, a 2% increase would yield £2.267m
 - An assumption that councils would increase council tax in line with the proposed council tax referendum limit of two per cent, a 1.99% increase would yield £2.255m
 - That there will be a real terms increase in the Public Health Grant, estimated at £0.722m 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
 - Increases in the schools budget including funding to compensate schools for the increased cost of employer pensions contributions
 - Additional funding to tackle rough-sleeping and homelessness and
 - An increase to early years spending to increase the hourly rate paid to childcare providers through the government's free hours offers.
25. The Secretary of State for Housing, Communities and Local Government subsequently advised that:
- all existing grants to support social care (Improved Better Care Fund, Winter Pressures and Social Care Grant) will continue into 2020-21
 - 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 and
 - No new business rate pilots for 2020-21.

Provisional Local Government Finance Settlement

26. The Local Government Finance Settlement is the annual determination of funding to local government from central government. The normal timetable is for the Provisional Settlement to be published in early December to allow time for a period of consultation prior to approval by the House of Commons in late January or early February each year. The publication of the Final Settlement enables local authorities to finalise their budgets and to set their council tax by the statutory deadline (by 11 March).
27. The Provisional Local Government Finance Settlement for 2020-21, which was due to be announced by 5 December 2019, has been delayed due to the General Election.

The earliest we anticipate the Provisional Settlement being published is 20 December 2019.

Updated financial remit

28. In accordance with instructions from the July 2019 cabinet, this report provides updated budget proposals for 2020-21. These proposals reduce significantly the budget gap to £6.805m. 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 social care.
29. The gap would reduce to £2.284m should council determine to increase council tax by the limit of 3.99% (2% for Adult Social Care and 1.99% referendum limit).
30. This report outlines all major variations from the 2019-20 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.
31. A summary of the 2020-21 proposed budget (assuming no council tax increase) is shown in the table below:

	2019-20 Budget £m	2020-21 Proposed £m
Settlement Funding Assessment	149.875	152.317
BRRS growth	25.000	26.000
Council tax	110.531	113.327
Collection fund surplus/(deficit)	5.018	(6.729)
Government grants	63.861	77.432
Contribution from Reserves	0	0
Total resources	354.285	362.347
Base budget brought forward	348.041	354.285
Inflationary pressures	9.653	3.830
Commitments and growth	16.206	19.505
Efficiencies, income and savings	-19.615	-8.468
Net spending	354.285	369.152
Gap (cumulative)	0	-6.805

32. Further work is being undertaken by officers to present a fully balanced 2020-21 budget for the 21 January 2020 cabinet meeting in advance of February Council Assembly.
33. Whilst the 2019 Spending Round enables us to plan a 2020-21 budget on a reasonably sound basis (subject to the Local Government Finance Settlement), the absence of reliable funding information for the period beyond 2020-21 makes medium term financial forecasting extremely difficult. There remain considerable risks and uncertainties surrounding the new governments spending plans, the economic outlook and future local government funding arrangements - all of which contribute to making the preparation of financial plans highly complicated and speculative. As set out in the July Cabinet Report, we have modelled a number of potential financial planning

scenarios for the medium-term, which indicate a wide range of potential outcomes. Medium term financial risks and how these risks will be managed were considered as part of the budget challenge process.

34. The Policy and Resources Strategy 2020-21 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.

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 expected to increase in line with CPI (1.7%) amounting to £152.317m in 2020-21.

Better Care Fund (BCF)

36. The Better Care Fund was established in 2014-15, with the aim of supporting closer working between local authorities and the Clinical Commissioning Groups (CCG). The council invoices the CCG for its share of the pooled fund, which is offset against appropriate expenditure. The government has confirmed that the BCF will continue into 2020-21 and the NHS contribution will increase by 3.4%. The government has indicated it will issue the actual details in due course.

Improved Better Care Fund (IBCF)

37. The Improved Better Care Fund was originally announced as part of the 2016-17 settlement. Funding was subsequently increased in the spring of 2017 as a response to the national pressure on adult funding care crisis.
38. It has been confirmed that IBCF funding will continue in 2020-21 at 2019-20 levels and allocated using the same methodology. The Winter Pressures Grant, £1.571m in 2019-20, will be rolled in to the IBCF at the same level. Forecast IBCF grant in 2020-21 is £17.323m.

Social Care Support Grant

39. As part of the Spending Round the government announced an additional £1bn nationally to support local authorities in addressing the rising cost and demand pressures on social care services, children's and adults.
40. The proposed distribution methodology utilises the existing Adult Social Care Relative Needs Formula and an equalisation methodology to reflect the distributional impact of the adult social care council tax precept. The additional grant is estimated at £7.332m in 2020-21.

Public Health Grant

41. The Spending Round 2019 indicated that 2020-21 Public Health Grant would increase in real terms in 2020-21. Southwark's allocation of £26.744m in 2019-20 is estimated to increase by £0.722m (3%) to £27.466m in 2020-21.

New Homes Bonus (NHB)

42. 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 reduced further, as the payment reflected four years’ growth (as opposed to six years).
43. It has been confirmed that funding for New Homes Bonus will continue in 2020-21 and will pay for a new year of funding (for 2020-21) and three years’ legacy payments that are due from 2017-18 to 2019-20.
44. The total forecast NHB funding for 2020-21 is £14.285m reflecting the continued growth in new homes in Southwark. This is subject to final announcements and confirmation of the threshold after which NHB is calculated (this has remained at 0.4% since its introduction in 2017-18).
45. The technical consultation outlined the government’s intentions for 2021-22 and onwards. It stated that the 2020-21 allocations would not result in legacy payments which suggests that for 2021-22 only previous years’ legacy payments will be due and that the NHB scheme will be stopped or replaced by an alternative scheme. This will impact hardest on those authorities, such as Southwark, which have seen the largest growth in council tax base.

Revenue Funding from Local Taxation

Council Tax

46. 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.
47. The authority has been able to maintain the eighth lowest level of council tax in London in 2019-20, despite having incurred the largest reduction 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 2020-21.
48. Council tax remains below the charge it would have been if CPI had been applied each year since 2010-11.
49. The Council Tax Relief Scheme continues to provide support for our financially vulnerable residents and the Council has committed to making no substantive changes to the scheme for 2020-21.

Adult Social Care precept

50. In 2016-17, 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.

51. The government is proposing flexibility for a further 2% increase in 2020-21 and has assumed in spending power calculations that all councils with social care responsibilities will increase council tax in line with the flexibility. This would raise an additional £2.267m in 2020-21 and future years. The social care spending plans assume this level of additional funding will be available.

Southwark Element of the Council Tax

52. All London Boroughs, including Southwark, increased their council tax in 2019-2020. This is indicative of the cumulative impact the financial stress across local authorities in London.
53. 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 1.99% in council tax amounts to £2.255m income. This is one of the options that it will be necessary to consider to close the budget gap to protect services.
54. The impact of an increase in council tax of 3.99% (1.99% plus 2% Adult Social Care Precept) will mean that:
 - Residents in Band C properties and below will see a council tax bill rise of 38p per week (over 60% of residents in the borough live in Bands A-C)
 - 12,000 of the residents continuing to receive support through the local council tax relief scheme (CTRS) will pay no more than 8p 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

55. As reported in the 2020-21 Council Tax Base report (also on the agenda) the council tax base continues to grow, a direct reflection of the regeneration and investment in new homes. However, the pace of growth has slowed due to general economic conditions. This report recommends 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.
56. The 2019-20 collection fund forecast outturn position is a surplus of £1.0m and this will be accounted for in the council tax calculations for 2020-21.

Business Rates Baseline

57. 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.
58. The Settlement Funding Assessment (core needs based funding allocation) is estimated to rise in line with inflation in 2020-21 from £149.875 in 2019-20 to £152.317m in 2020-21. This is the first increase after a decade of austerity where core

funding reduced by £146m between 2010 and 2019.

59. The 2020-21 budget includes a forecast assumption that the council's Business Rate Retention income will exceed the baseline funding level by £26.0m (i.e. in total the retained business rates total of £178.317m; consisting of the baseline of £152.317m and £26.0m in excess of this baseline). However, there is significant risk that changes as a consequence of successful challenges and appeals will reduce the actual income, despite underlying growth in the rateable values. Careful review of financial risk reserves may be required to manage this volatility.
60. The 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 one of the key routes to ensuring sustainable budget sources as we move closer to reliance 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

61. In 2018-19, London Councils entered into a 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 related to business rates generated during 2018-19, the available distribution was not finalised until September 2019.
62. Southwark's final share of the total net benefit of the 2018-19 pool was confirmed at £10.186m, which was ring-fenced for one-off initiatives in accordance with council priorities. The following table summarises the London Devolution Reserve commitments:

Initiative	£m
Positive Futures Fund	0.500
Southwark Pioneers Fund	2.000
London Counter Fraud Hub	1.000
Brexit Risk Reserve	2.000
Health and Wellbeing Board commitment to Children & Young People's Mental Health	2.000
Libraries and Heritage Strategy	1.000
Unallocated balance	1.686
Total 2018-19 Pool Benefit	10.186

63. It is proposed to allocate a further sum of £0.150m from the unallocated balance to fund a pilot extension of gym and sports facilities into parks, to complement the capital investment.
64. The Pooling arrangement continues in 2019-20, albeit on less generous terms than 2018-19. 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 fact that any growth will not be finalised until September 2020, no additional pooled business rate income was included as part 2019-20 budget setting process. Latest estimates indicate that the Pool is on course to deliver its forecast growth, which would indicate a receipt of £4.8m, which would again be ring-fenced for one-off initiatives in accordance with council priorities.

65. The Government has recently confirmed that there will be no further pilot pools in 2020-21. Whether the Pool continues in 2020-21 remains to be determined, but any financial benefits will be significantly less than 2019-20.
66. The financial benefits from the London Business Rates Pooling arrangements also included collective investment through a 'Strategic Investment Pot' designed to promote economic growth. £46 million was allocated to eight major projects in the first round, including an £8m allocation to the South London innovation corridor to provide workspace, business support and talent development. It is anticipated that that further investment in growth projects of around £40 million will be made through the Strategic Investment Pot. Bids for the second round are currently being evaluated for formal decision-making to be completed in December 2019.

Climate Change Emergency

67. The Council has reinforced its commitment to combatting carbon emissions and rising global temperatures, by joining the international Climate Change Campaign and declaring a Climate Change Emergency. The Climate Emergency is a major new focus for the council, working in partnership with stakeholders, partners, staff and residents to tackle the effects of global warming and the risk to our planet.
68. A Climate Change Emergency reserve of £2m is proposed be established from resources earmarked for regeneration and development and for carbon reduction. The reserve will be available to support the coordination of the various activities and action plans across the council and to support the delivery of the Climate Change Strategy, to be informed by extensive engagement during the first half of 2020. This complements the council's existing and future commitments to build new homes, provide efficient heating systems to our council homes, improve air quality, reduce our own operational property estate and so on, much of which features in current or emerging areas of work across the council. The work undertaken in 2020-21 will also inform any ongoing revenue or capital commitments needed to support this work.

Special Educational Needs and Disabilities (SEND)

69. As set out in the latest Revenue Budget Monitoring report, a cumulative deficit of £18.1 million on the DSG reserve by the 31 March 2020 is forecast. As required, the council submitted a draft Deficit Recovery Plan to the Department of Education.
70. In October 2019 the government published a consultation on 'Revised arrangements for the Dedicated Schools Grant' that stated "*at the end of 2018-19, about half of all authorities experienced an overspend, amounting to over £250m in all*". The document states, "*the Government's intention is that DSG deficits should not be covered from general funds but that over time they should be recovered from DSG income*".

Pay Award

71. The current budget plans for 2020-21 are based on a projected 2.5% increase in the pay bill. Significant work is currently underway both nationally and within London to reach agreement on pay awards moving forwards. The unions have put forward a pay claim significantly greater than that included in the budget. 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. The Consumer Price Index (CPI) 12 month rate for October was 1.5% but with domestic inflationary pressures expected to build over the coming months. A budgetary pressure of £2m is recognised in the budget commitments for contractual inflation in 2020-21 (excluding Children's and Adult services).

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 total budget proposals include efficiency savings of £5.672m (detailed in Appendix B).

Income Generation

74. 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.

Savings Impacting on Service Delivery

75. 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 £0.420m with potential to impact on service delivery.
76. Comprehensive equalities analysis of the impact of these savings will be considered before the budget is finalised.

Commitments

77. The commitments include Children's and Adults' services are funded in part from the increase additional social care grant of £7.332m announced in the governments Spending Round:

Detail	£m
A multi-agency 'Sure Start' approach for teenagers and their families	1.250
Further investment in Children's and Young People's Mental Health	1.500
All Age Disability	2.000
Enhanced prevention	1.300
Transformation	1.282
Total	7.332

78. A detailed list of all commitments can be found in Appendix E. The overarching theme of these commitments is to improve preventative services and to ensure that service budgets are sustainable, particularly in the context of the reduced availability of reserves to support budget pressures.

Fees and Charges

79. Under Part 3C of the constitution, cabinet is responsible for the approval of new fees and charges and agreement of charging levels in line with the medium term resources strategy.
80. The council's Fairer Future Medium Term Financial Strategy agreed by cabinet on 20 September 2016, sets out the policy to review discretionary fees and charges annually. In reviewing fees and charges, the policy is to increase them to a level that is at least equal to the most appropriate London average except where this either conflicts with council policy, or would lead to adverse revenue implications or would impact adversely on vulnerable clients. These proposals have been prepared in the context of this policy.
81. Detailed fees and charges schedules across all services are set out in Appendix F.

Use of Reserves and Balances

82. 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.
83. 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.
84. 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 2020-21 do not include a planned release of reserve. This is in part due to the huge uncertainty of available resources beyond 2021 and the potential need to use reserves to soften the impact of a 'worst-case' scenario of local government finance reform, loss of many one-year/short-term monies and economic downturn etc.

Planned Corporate Contingency

85. 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

86. 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.

87. Since then the council has held the 'Southwark Conversation' in 2017 in which over 3000 residents responded as well as consulting on the Council Plan 2018-2022 during 2018. Together these have shaped the key priorities for the council over the coming years.
88. In addition, 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

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

Date	Meeting	Report	Purpose
21 January 2020	Cabinet	P&R strategy	Select proposed solutions for meeting the budget challenge
27 and 29 January 2020	Overview and Scrutiny	P&R strategy	Comment on and make recommendations in respect of the cabinet's proposed 2020-21 budget
4 February 2020	Cabinet	P&R strategy	Recommend a balanced budget for 2020-21 to Council Assembly
26 February 2020	Council Assembly	P&R strategy	Council Tax setting and approve a balanced budget for 2020-21

Community impact statement

90. 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.
91. 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.
92. 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.

93. For many services, the budget proposals will include efficiencies that 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.
94. 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.
95. 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

96. 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.
97. 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.
98. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.
99. 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.
100. 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

101. 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 17 December 2019 gives the opportunity for debate prior to presentation of budget figures to cabinet on 21 January 2020. 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 27/29 January 2020.

REASONS FOR LATENESS

102. The report was delayed due the General Election and the consequential impact on publication of the Provisional Local Government Finance settlement, which was due to be announced on 5 December 2019. As set out at paragraph 27, the Government has now deferred the announcement and advised that it is unlikely to be published before 20 December 2019 (date to be confirmed).

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources Strategy: 2020-21 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	Departmental Narratives
Appendix B	Proposed Efficiencies and Improved Use of Resources
Appendix C	Proposed Income Generation
Appendix D	Proposed Savings Impacting on Service Delivery
Appendix E	Proposed Commitments
Appendix F	Fees and Charges

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	16 December 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		16 December 2019