

Item No. 11.	Classification: Open	Date: 19 January 2021	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy 2021-22	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Rebecca Lury, Finance and Resources	

FOREWORD - COUNCILLOR REBECCA LURY, CABINET MEMBER FOR FINANCE AND RESOURCES

This report follows the December Cabinet report which set out our initial draft budget proposals for 2021-22. We are now in a position to present an updated and refined set of proposals, which also presents a balanced budgetary position for 2021-22.

In July, we reported that the 2021-2022 budget planning process was dominated by huge financial uncertainties. Some of these existed prior to March 2020 - the challenges of ten years of austerity, the impact of welfare reform and the prospect of Brexit. However, since March, the impact of COVID-19 on our communities, services and finances has been acute and the route and length of recovery remains difficult for us to plot.

We continue to face additional costs through our direct interventions to support our communities; we have seen planned savings delayed or cancelled and we are experiencing significant pressures from lost income through fees and charges. Alongside this, as our residents and businesses face increased pressures this has a knock-on impact on our Borough, with reductions in tax collection in both council tax and business rates.

In addition to the major impact that the Covid-19 crisis is having on the councils' income and spending, we continue to face significant demands and pressures on our services, in particular social care, homelessness, welfare support, leisure and high needs services, where the DSG deficit is forecast to increase to £21m by the end of this financial year.

Despite this, government have continued to put financial pressure on councils, and we are having to propose a further set of savings for 2021-22.

On 17 December 2020, the Government published the provisional local government settlement setting out the core funding allocations and council tax principles for 2021-22. Despite the headline announcement of an additional £2.2bn for local government nationally, there was little in the way of new money from the Government with the largest part of the increase in spending power coming from council tax increases and the social care precept. Indeed, overall the council will receive less core grant funding in 2021-22 than it received in 2020-21.

The Chancellor also announced a pay freeze for public sector workers, excluding frontline NHS workers and those earning less than £24,000. With local government pay now amongst the lowest in the public sector, it is disappointing that the government is unable to provide the funding for the pay bill, and this will inevitably exacerbate challenges in the coming years.

In the Cabinet report on 9 December 2020, we set out savings proposals totalling £13.453m through a combination of efficiency savings, additional income and other savings. These proposals continue to be consulted on with staff, affected residents and other stakeholders and partners. Despite these savings and an assumed 4.99% increase in council tax, a funding gap of £9.518m remained.

Unlike government, the council is legally required to set a balanced budget. Updated resource assumptions and additional measures have now been identified, including a £5m contribution from reserves, to present a balanced budget. We will be continuing to do work to see whether we can find additional savings that can reduce the contribution from reserves, but in these exceptional and unpredictable times, we are conscious of the need to keep some flexibility in our capacity to spend over the coming year.

Alongside the budget proposals, we also set out our plans for the Public Health Grant, which has a separate ring-fenced budget. We have not yet had confirmation from government as to the final public health grant settlement, but in these proposals we intend to clear the existing over-spend of the department and bring the budget back in line with our expectations of the budget we will receive. Once we have received confirmation on the final funding available, we may need to make additional tweaks to this proposed budget.

The financial outlook beyond 2021-22 remains extremely uncertain and subject to many unknowns, not least the government's spending plans, Brexit, the general economic conditions and the future funding of local government.

We will continue to lobby government to:

- guarantee that the financial challenge facing councils as a result of COVID-19 will be met in full, including funding for cost pressures and full compensation for lost income and local tax losses;
- ensure that councils are properly funded for the services they provide and that there are no further delays in funding reforms;
- provide multi-year settlements to ensure clarity and certainty about how all local services will be funded;
- provide a long-term, sustainable solution to the funding crisis in social care;
- use the on-going review of Special Educational Needs and Disability (SEND) to give councils the long-term certainty of funding to support children and young people with SEND and to underwrite the High Needs deficit.
- end the effective ring-fencing of elements of the budget as this 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 the future

We acknowledge that further work is needed to set out detailed plans for the period beyond 2021-22. However, for the reasons set out above, 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 will continue to consider future service and funding risks and how these will be managed.

Notwithstanding the challenges, this administration remains determined to keep our promises, to protect and modernise our services and to continue to focus on the delivery of our Council Plan, fairer future promises and budget principles to deliver value for money and commit to spending money as if it were from our own pocket.

This report will go to Overview & Scrutiny Committee for consideration on 25 January before being reconsidered alongside their recommendations at our next Cabinet meeting on 2 February before going on to Council Assembly for final approval.

RECOMMENDATIONS

That cabinet:

1. Note that the provisional local government finance settlement published on 17 December 2020 (paragraphs 30 - 42);
2. Note that, as reported to cabinet on 17 December 2020 and recognising the continued uncertainty for local government funding, the intention remains for the council to prepare a balanced one-year 2021-22 budget for approval by cabinet in advance of council assembly on 24 February 2021;
3. Note the current budget options proposed to help achieve a balanced budget 2021-22 (Appendices B to E);
4. Note the proposed increase in the Adult Social Care precept in 2021-22 of 3% in line with the government flexibility;
5. Note that, in recognition of the spending pressures in services, particularly those that protect and support vulnerable people, the proposed increase of 1.99% to the Southwark element of the council tax, in line with the government threshold;
6. Note that the budget proposals for 2021-22 contained within this report include:
 - Estimated general grant resources of £152.519m, an increase of £0.202m from 2020-21
 - Hew Homes Bonus Grant of £8.201m, a reduction of £6.157m from 2020-21
 - Social Care Grant of £13.199m, an increased of £3.184m from 2020-21
 - Estimated retained business rates growth of £18.961m, a decrease of £5.778m over 2020-21
 - Estimated council tax revenue of £123.024m, including £3.515m from the Adult Social Care precept and £2.332m from the 1.99% council tax increase
 - A net contribution to the brought forward deficit on the Collection Fund chargeable to the 2021-22 budget of £1.505m

- Provision for an increase in the pay bill and contractual inflation of £4.200m (excluding Social Care)
 - Retention of the contingency budget in the sum of £4m to mitigate underlying budget risks
 - A one-off contribution from the Adult Social Care Resilience reserve to mitigate underlying budget risks in the service of £0.8m
 - A contribution from reserves of £5.0m
7. Note the current budget options to help achieve a balanced 2021-22 budget include:
 - Efficiency savings of £12.045m (Appendix B)
 - Other savings impacting on services of £2.741m (Appendix D)
 8. Note that, in order to ensure that the base budget is on a secure financial footing a number of commitments are proposed for 2021-22 totalling £16.757m (Appendix E) and a net reduction in income generation target of £0.446m (Appendix C);
 9. Note the current budget proposed for 2021-22 is balanced after the incorporation of updated proposals, a 4.99% council tax increase and a contribution from reserves of £5.0m;
 10. Note the forecast Public Health Grant of £27.466m and net savings of £0.684m (Appendix F);
 11. Note the Dedicated Schools Allocation of £352.5m and the continued deficit on High Needs provision (paragraphs 63-65);
 12. Note the planned London Counter Fraud Hub will not now proceed and therefore the contribution of £1m has been released back to the Devolution reserve;
 13. Approve the allocation of £0.250m from the London Devolution Reserve for anti-fraud activity;
 14. Approve the allocation of £0.5m from the London Devolution Reserve to ensure food poverty in Southwark is tackled;
 15. Approve the allocation of £0.3m from the London Devolution Reserve for Southwark Stands Together project costs;
 16. Approve the allocation of £0.1m from the London Devolution Reserve for the Community Hub Covid-19 support to ensure the voluntary sector is supported;
 17. Note that due to the significant financial risk, the London Business Rates Pool is unlikely to continue in 2021-22 (paragraphs 86);
 18. Approve the fees and charges as set out in Appendix G (paragraphs 110 – 112);

19. Note the Departmental Narratives (Appendix A) and the equality analyses provided for the budget proposals;
20. Note that overview and scrutiny committee will consider this report on 25 January 2021 and that any recommendations arising will be incorporated into the final report to cabinet on 2 February 2021 for recommendation to council assembly on 24 February 2021;
21. Note the GLA precept is unlikely to be approved until 25 February 2021 necessitating the establishment of a council tax setting committee to formally set the 2021-22 council tax.

BACKGROUND AND PURPOSE

22. 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.
23. 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.
24. Between 2011-12, the first year of the major austerity cuts, and 2019-20, the council lost government funding in cash terms of more than £146m. According to government calculations, lost spending power 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. Further contextual information is included at Appendix H.
25. 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.
26. 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 and 2020-21, albeit on a less generous retention basis and with more risk passed to councils.

27. Council assembly agreed a new Council Plan for the period 2018 to 2022 in November 2018. The Council Plan contains a range of promises and commitments that the council will work towards delivering over the coming years. Council assembly approved a refreshed council plan on 25 November 2020.
28. Council Assembly of 21 February 2020 approved a balanced budget and council tax for 2020-21. This was a one-year budget due to the uncertainty around future funding.
29. 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 2021-22.

KEY ISSUES FOR CONSIDERATION

Provisional Local Government Finance Settlement 2021-22

30. The Local Government Finance Settlement (LGFS) is the annual determination of funding to local government from central government. The Secretary of State for Housing, Communities and Local Government announced the Provisional LGFS on 17 December 2020.
31. The 2021-22 local government finance settlement is for one year only and is based on the Spending Review 2020 funding levels.
32. The provisional settlement confirmed the council tax referendum principles for 2021-22. As previously announced, the council tax referendum limit will be 2%, with social care authorities allowed a 3% social care precept.
33. The LGFS details the Settlement Funding Assessment (SFA) for 2021-22 together with other grant funding included within Core Spending Power (CSP).
34. Core Spending Power is the Government's measure of the core components of local government funding and includes the SFA, New Homes Bonus, Improved Better Care Fund, Social Care Grant as well as assumed income from council tax.
35. Table 1 below shows the councils Core Spending Power for 2021-22 and the change from 2020-21. Whilst the Government headline is that Core Spending Power (CSP) increased nationally by 4.5%, more than 85 per cent of the potential core funding increase is dependent on councils increasing council tax:

Table 1 - Core Spending Power (£m)

	2020-21 £m	2021-22 £m	Change £m	Change %
Settlement Funding Assessment	152.317	152.519	0.202	
New Homes Bonus	14.359	8.201	-6.157	
Improved Better Care Fund	17.323	17.323	0.000	
Social Care Grant	10.015	13.199	3.184	
SFA multiplier compensation	4.644	6.037	1.393	
Lower Tier Services Grant	0.000	1.264	1.264	
Government Funding	198.657	198.543	-0.114	-0.1%
Council Tax yield assuming 4.99% increase	117.849	123.024	5.175	4.4%
Core Spending Power	316.506	321.567	5.061	1.6%

36. As illustrated, the council's core government funding before council tax will be £0.114m lower in 2021-22 than 2020-21.
37. Assuming council tax increases in line with government guidance, core spending power will increase by 1.6% (national average 4.5%).
38. As set out at the Spending Review, the Secretary of State also re-announced a number of other funds available to local authorities, including the UK Shared Prosperity Fund, Levelling Up Fund, the Troubled Families Programme, Domestic Abuse Bill implementation and additional funding to tackle homelessness and rough sleeping.
39. The Spending Review confirmed that schools budget nationally will increase by 4.6% in 2021-22, that high needs funding to support children with Special Educational Needs and Disabilities (SEND) will increase by up to 10% and that there will be additional funding for early years education to increase the hourly rate paid to childcare providers for the Government's free hours offer.
40. The Secretary of State also provided further detail on the Covid-19 funding package for 2021-22 announced at the Spending Review:
 - A further tranche of unringfenced grant in 2021-22 to meet expenditure pressures; Southwark's share is estimated at £11.5m, to be paid in April 2021;
 - A continuation of the Sales, Fees and Charges compensation scheme for the first three months of 2021-22
 - An unringfenced grant to support welfare schemes for the vulnerable and households least able to afford council tax payments in 2021/22, the Council's indicative allocation being £3.1m; and
 - The scope of the guarantee to compensate for 75 per cent of irrecoverable business rates and council tax losses in 2020-21.

41. The Provisional Settlement did not provide any further detail on the planned reforms to local government funding (the Fair Funding Review) or future business rate retention arrangements beyond 2021-22. In his statement to the House of Commons, the Secretary of State stated that the Government will work with the sector *‘to seek a new consensus for broader reforms to local government finance, including the Fair Funding Review and the business rates reset, and will ensure that councils are set on a long-term trajectory of sustainable growth and fair resources’*.
42. In view of the continuing financial uncertainties about our future levels of funding, a one year budget is proposed for 2020-21.

Updated financial remit 2021-22

43. In accordance with instructions from the December 2020 cabinet, this report provides updated budget proposals for 2021-22. 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, the increased ring fencing of a large element of resources available for social care and the ongoing impact of the pandemic.
44. This report outlines all major variations from the 2020-21 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 arise from issues such as price, demand pressures and costs arising from the delivery of council plan priorities.
45. 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 B, C, D and E).
46. A summary of the 2021-22 proposed budget (assuming no council tax increase) is shown in the table below:

	2020-21 Budget £m	2021-22 Proposed £m
Settlement Funding Assessment	152.317	152.519
BRRS growth	24.739	18.961
Council tax	117.849	123.024
Collection fund deficit	(0.612)	(1.505)
Government grants	74.991	77.092
Contribution from reserves	0	5.810
Total resources	369.284	375.901
Base budget brought forward	354.285	369.284

	2020-21	2021-22
Inflationary pressures	3.989	4.200
Commitments and growth	19.805	16.757
Efficiencies, income and savings	-8.760	-14.340
Net spending	366.249	375.901
Gap (cumulative)	0	0

47. Whilst the Provisional Local Government Finance Settlement enables us to plan a 2021-22 budget, the absence of reliable funding information for the period beyond 2021-22 makes medium term financial forecasting extremely difficult. There remain considerable risks and uncertainties surrounding Government spending plans, the ongoing impact of the pandemic, 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 have been considered as part of the budget challenge process.
48. The Policy and Resources Strategy 2021-22 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.

GENERAL REVENUE FUNDING AND GRANTS

Settlement Funding Assessment (SFA)

49. The Settlement Funding Assessment (SFA) comprises the core funding sources for authorities defined as the Revenue Support Grant (RSG), retained business rates and business rate top up. The SFA for 2020-21 is £152.519m, which is an increase of £0.202m.
50. The Local Government Finance Report sets out the basis on which the Secretary of State calculates authorities' Baseline Funding Levels. RSG has been increased in 2021-22 by CPI however, the Governments decision to freeze the business rate multiplier in 2021-22 means that there will be no increase in the SFA components for business rates and business rate top-up.
51. The Government will compensate authorities for this under-indexing of the business rates multiplier through a Section 31 grant. Southwark's share is estimated at £1.393m.

Better Care Fund (BCF)

52. 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 2021-22 and that they will issue the actual details in due course.

Improved Better Care Fund (IBCF)

53. 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.
54. It has been confirmed that IBCF funding will continue in 2021-22 at 2020-21 levels and allocated using the same methodology. IBCF grant in 2021-22 is £17.323m.

Social Care Support Grant

55. As part of the Spending Review the government announced an additional £0.3bn nationally to support local authorities in addressing the rising cost and demand pressures on social care services, children's and adults.
56. 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 Social Care Grant in 2021-22 is £13.199m, a £3.184m increase. The grant has been passported in full to the service.

Public Health Grant

57. Although the Settlement includes no information about the national total or individual council allocations for Public Health Grant for 2021-22, the Spending Review indicated that Public Health Grant will "be maintained" for 2021-22. We therefore expect a flat cash roll forward to be confirmed shortly. If correct, this will confirm £27.466m for Public Health in 2021-22.
58. In accordance with grant conditions, Public Health grant will continue to be ring fenced for use on public health functions.
59. Public health budgets have been scrutinised on the same basis as other council services to ensure all spending delivers value for money. The public health budget proposals are set out at Appendix F. £26.785m of the Public Health grant has so far been committed for 2021-22. The council will now release the balance of grant to activities taking place across the council that contribute to public health objectives. These will continue as either one-off or ongoing commitments.

New Homes Bonus (NHB)

60. 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).

- 61. Whilst it has been confirmed that funding for New Homes Bonus will continue in 2021-22, legacy payments will not be paid for 2020-21 or 2021-22. This meant that the quantum of funding distributed to local authorities was around 30% lower than that allocated in 2020-21. The councils NHB funding in 2021-22 is £8.201m, £6.157m lower than 2020-21.
- 62. The Government has set out its intention to hold a consultation on the future of the New Homes Bonus, with a view to implementing reform in 2022-23.

Dedicated Schools Grant (DSG) and Special Educational Needs and Disabilities (SEND)

- 63. The DSG is formula based, calculated by the government with the council passing most on to schools and private, voluntary and independent providers. The allocation for 2021-22 has provisionally been set by the Department for Education (DfE) at £352.5m, 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.
- 64. Dedicated Schools Grant can be broken down into the following spending blocks:

	2020-21 £m	2021-22 £m	Change £m	Change %
Schools Block	254.3	268.7	14.4	+5.7
High Needs Block	50.0	55.3	5.3	+10.6
Early Years Block	26.6	26.7	0.1	+0.4
Central Block	1.7	1.8	0.1	+5.9
Total	332.6	352.5	19.9	+6.0

- 65. The figures within the High Needs (SEND) Block reflect the additional revenue funding that was announced as part of the Spending Review. This will partially reduce in-year pressures but will not resolve the accumulated deficit – forecast to be in the region of £21m by the end of 2020-21.

REVENUE FUNDING FROM LOCAL TAXATION

Council Tax

- 66. 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.
- 67. The authority has been able to maintain the eighth lowest level of council tax in

London in 2020-21, 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 2021-22.

68. Council tax remains below the charge it would have been if CPI had been applied each year since 2010-11.
69. 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 2021-22.

Adult Social Care precept

70. 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. A further 2% increase was applied in 2020-21.
71. The provisional settlement confirms the flexibility to raise the Social Care Precept by a further 3% for 2021-22, with the option to defer some or all of this for use in 2022-23. This would raise an additional £3.515m in 2021-22 and future years. The social care spending plans assume this level of additional funding will be available.

Southwark Element of the Council Tax

72. All London Boroughs, including Southwark, increased their council tax in 2020-21. This is indicative of the cumulative impact the financial stress across local authorities in London.
73. 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 £2.332m income. This is one of the options that it will be necessary to close the budget gap and to protect services.
74. The impact of an increase in council tax of 4.99% (1.99% plus 3% Adult Social Care Precept) will mean that:
 - Residents in Band C properties and below will see a council tax bill rise of 95p per week (over 60% of residents in the borough live in Bands A-C)
 - 14,000+ of residents continuing to receive support through the local council tax relief scheme (CTRS)
 - The council tax reduction scheme will continue to ensure that eligible

pensioners will continue to receive 100% relief and will see no rise in their council tax bills.

Council Tax Collection

75. As reported in the 2021-22 Council Tax Base report (also on the agenda) whilst there continues to be growth in the number of dwellings, albeit at a lower level than recent years, a 12% increase in council tax relief claimants means a lower tax base in 2021-22 than 2020-21. Cabinet agreed to maintain the collection rate at 97.2% despite the challenges of income collection in the current environment and the increasing numbers of CTRS claimants.
76. The 2020-21 council tax collection fund forecast outturn position is a deficit of £7m. The Local Tax Income Guarantee Scheme will compensate billing and major precepting authorities for 75% of irrecoverable council tax and business rates losses accrued during 2020-21, as reported after year-end. Any remaining deficit will be spread over three financial years commencing in 2021-22.

Business Rates

77. 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.
78. The 2021-22 budget includes a forecast assumption that the council's Business Rate Retention income will exceed the baseline funding level by £18.961m (i.e. in total the retained business rates total of £171.479m; consisting of the baseline of £152.519m and £18.961m in excess of this baseline). This represents an estimated 3% reduction compared with 2020-21.
79. The economic downturn and the increase in check, challenge, appeal cases (in particular the Covid-19 driven appeals around 'Material Change of Circumstance') add to the challenges. This is a significant risk as successful challenges and appeals will reduce business rate yield. Careful review of financial risk reserves will be required to manage this volatility.
80. 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

81. 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.

82. Southwark's share of the total net benefit of the 2018-19 pool was £10.186m which was ring-fenced for one-off initiatives in accordance with council priorities.
83. A sum of £1m was initially allocated to the planned London Counter Fraud Hub. This initiative will not now proceed and therefore the planned contribution of £1m has been released back to the Devolution reserve. However, in recognition of the significant increase in fraud risks, it is proposed to allocate £0.250m for anti-fraud activity.
84. It is further proposed to allocate:
- £0.5m to ensure food poverty in Southwark is tackled, including some direct investment in food. There will be a need to establish an ongoing commitment to this cause going forward;
 - £0.3m to Southwark Stands Together project costs (paragraphs 111 – 115); and
 - £.1m to Community Hub Covid-19 support to ensure the voluntary sector is supported.
85. The following table summarises the London Devolution Reserve commitments:

Initiative	£'000
Positive Futures Fund	750
Southwark Pioneers Fund	2,000
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
Pilot extension of gym and sports facilities into parks	150
Southwark Renters Union	100
Black Cultural Centre Feasibility Study	100
Food poverty	500
Anti-fraud measures	250
Community Hub Covid-19 support	100
Southwark Stands Together project costs	300
Unallocated balance	936
Total	10.186

86. The Pooling arrangement continued in 2019-20 and 2020-21, albeit on less generous terms than 2018-19. The net benefits in 2019-20 of £4.9m were applied to mitigate the impact of the deficit brought forward on the business rate collection fund from 2019-20. Despite the significant downturn in business rate income in 2020-21 due to the pandemic, the Pool continues to forecast a small benefit. However given the fact that the actual position will not be finalised until

September 2021, no additional pooled business rate income was included as part 2020-21 budget setting process.

87. As well as the strategic objective of increasing fiscal devolution and influencing government policy, Business Rate Pool arrangements mean pool members have shared the benefits of additional business rate income retained over the last three years, either as a direct share of the financial benefit or from strategic investment across the capital. However, the Pooling Agreement also means that members share the risks should business rate income fall below baseline. London Councils have modelled a number of scenarios for the London Pool for 2021-22, which indicate a likely multi-million pound deficit. This deficit would have to be funded from the Pool members in accordance with the Pooling agreement. This burden would fall heaviest on those authorities, such as Southwark, whose business rate income continued to exceed their individual baseline. London Councils have to decide whether to continue in the Pool in 2021-22. It is anticipated that London Councils will collectively agree not to continue the pool in 2021-22 due to the significant financial risk.

REVENUE EXPENDITURE ASSUMPTIONS

2020-21 Financial Performance

88. 2020-21 budget monitoring continues to be dominated by the financial impact of the pandemic. We continue to face additional costs through our direct interventions to support our communities; we have seen planned savings been delayed or cancelled and we are experiencing significant pressures from lost income through fees and charges. Alongside this, as our residents and businesses face increased pressures, this has a knock-on impact on our Borough, with reductions in tax collection in both council tax and business rates.
89. Notwithstanding the financial support announced by government, it is extremely unlikely that the council will be able to fully recoup its costs/losses, with any shortfall being a call on reserves.
90. The outturn for 2019-20 confirmed that the budget recovery work in Children's and Adults' was effective in putting the service on a sustainable financial footing and that improved performance continued in 2020-21, demonstrating improved practices have been embedded. Notwithstanding this, the department remains exposed to significant risk and uncertainty in 2021-22 and beyond in managing the impacts of the continuing rise in demand and cost pressures within social care and this will continue to be closely monitored.
91. In Education, there are significant pressures on schools funding via the Dedicated Schools Grant with demand and cost pressures particularly acute on the high needs block, which largely stem from increased numbers of education, health and care plans (EHCPs). As at 31 March 2020, there was an accumulated deficit of £18.0m. The additional funding announced as part of the 2020-21 Spending Round will help meet in year spending but will not resolve the accumulated deficit. SEND remains a significant financial risk and recovery is being overseen by the Budget Recovery Board. The Schools Forum is

engaged in this process and the council has developed a DSG Recovery Plan. The DSG deficit is forecast to be in the region of £21m by the end of 2020-21.

92. Demand for Temporary Accommodation continues to be one the council's most intractable budget pressures. Whilst the Covid-19 pandemic has hugely exacerbated the position, there is an underlying cost pressure of around £1.5m to £2m given existing discharge policy criteria, similar to that in 2019-20. Whilst the council's decisive and rapid response to homing the borough's rough sleepers and those in shared accommodation is to be applauded, it has come at a very high cost and is a major concern going forward given the continued uncertainty. The ending of restrictions prohibiting evictions in the private rented sector is expected to lead to a spike in demand, which will further impact the position.
93. Elsewhere areas of spending pressure will be offset by in year savings in other areas. It is anticipated that the planned contingency budget will be fully utilised to meet existing and potential pressures within the 2020-21 budget and to ensure that a balanced position is achieved by the year-end.

Planned Corporate Contingency

94. It is proposed that the planned corporate contingency of £4m be maintained in 2021-22 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.

Pay Award

95. The Government expects local authorities to apply a pay freeze to local government employees in 2021-22 and no additional funding for a pay increase is included in the provisional local government finance settlement. The current budget plan provides for a 1% increase in the pay bill in 2021-22. The position will continue to be monitored and a further update included within the report to cabinet in February, including any relevant financial implications.

Inflation

96. The Consumer Price Index (CPI) 12 month rate for October was 0.7% with the longer-term view that this will converge with the Office of Budgetary Responsibility (OBR) forecast. A budgetary pressure of £2.8m is recognised in the budget commitments for contractual inflation in 2021-22.

Efficiencies and Improved Use of Resources

97. 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 £12.045m (detailed in Appendix B).

Income Generation

98. 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. The pandemic continues to impact significantly on income targets and income generating opportunities. This is reflected in the budget proposals with reduced income in respect of the leisure contract and the anticipated income from letting spare capacity at Tooley Street not realisable.

Fees and Charges

99. 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.
100. The council's Fairer Future Medium Term Financial Strategy 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.
101. Detailed fees and charges schedules across all services are set out in Appendix G.

Savings Impacting on Service Delivery

102. 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 £2.741m with potential to impact on service delivery.
103. Comprehensive equalities analysis of the impact of these savings will be considered before the budget is finalised.

Commitments

104. The commitments include investment of the Adult Social Care precept in adult social care, increased costs of homelessness and temporary accommodation, increased demand for Special Educational Needs and increased cost of operating leisure services in the current environment.
105. 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.

Reserves and Balances

106. 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.
107. 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.
108. Over the last three years there has been no use of reserves to support the budget. Over this period the Council has strengthened its reserves meaning it is well placed to manage the shock caused by Covid-19 and should ensure the Council will be able to come through this crisis. Should
109. The extent of the financial pressures in 2021-22 means that a contribution from reserves is required to set a balanced budget for 2021-22. Future year budgets will need to consider the sustainability of this drawing and plan to replenish any reserves utilised.
110. 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.

Southwark Stands Together, our commitment to tackle racial inequalities

111. Southwark Council promotes the basic rights of all people to equality and justice. Southwark Stands Together is our local call to unity, support and action. It is a long term programme of positive action for the council to work in solidarity with Southwark's communities and the council's staff to tackle racism, injustice and inequality.
112. A report to Cabinet on 8 September set out what the community have told us of their experience of racism, racial inequalities and injustice. It proposed the things we can do together to build on positive action to date and to bring about change, through a number of emerging recommendations, grouped by work streams. The workstreams are employment and business, education, health, culture, communities, interaction with the Police, renewing and reinventing the

public realm and council staff engagement.

113. A further report to 20 October Cabinet confirmed that the Southwark Stands Together programme be incorporated into the refreshed Council Plan (Borough Plan); with priority measures and milestones developed and embedded into the council's performance management framework. This included a new commitment to work to ensure the top of the council's workforce is representative of the ethnic diversity of the local working age population by 2030. The report set out five Southwark Stands Together Pledges that the council is asking businesses, organisations, groups and residents to sign up to. It also included agreement of two new values to always work to make Southwark more equal and to stand against all forms of discrimination and racism. The Borough Plan was agreed by Council Assembly on 25 November 2020.
114. In developing Southwark Stands Together Cabinet agreed that any resourcing implications that emerge from the programme will be assessed as part of the council's policy and resources strategy process. This report therefore agrees to set aside reserve provision of £300,000 to deliver Southwark Stands Together. The resource will be prioritised to focus on activity that supports how we work as an organisation and together with the community to embed longer term change boroughwide in tackling racism, all forms of discrimination and inequality.
115. Overall strategic responsibility for Southwark Stands Together rests with the Leader of the Council with Cabinet portfolio holders taking responsibility for specific work streams and measures and milestones associated with delivery. At the officer level, overall strategic responsibility for Southwark Stands Together Programme sits with the Chief Executive, with the Chief Officer Team as the council's most senior level steering group for delivery of the programme. Performance planning and monitoring will be incorporated into the council's overall performance framework, at the highest level through the Borough Plan. An annual report on programme delivery will be published in July 2021.

Climate Change Emergency

116. 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 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.
117. The Council has committed to doing everything that it can to make Southwark carbon neutral by 2030. It is currently finalising its strategy after publishing a draft strategy in the summer.
118. How the council uses its resources has a significant impact on the borough's carbon emissions. Across the work we do from our housing investment, to investment in parks and green spaces, to infrastructure changes such as

electric charging points how the council chooses to use resources all impacts on our carbon emissions. The council is looking at how it can better align its work to reduce its carbon impact and meet the target of being carbon neutral.

119. As the council further develops its approach, it is looking at how carbon impact is better considered in the decisions that we take including financial decisions. Officers are currently looking at best practice in other councils as well as innovation in this area to enable decisions which are made in the council to more fully consider their carbon impact.
120. As this work is developed, £2m has already been allocated to climate change work in addition to substantial investment across the borough in programmes which are reducing our carbon.
121. 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.

Consultation

122. 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.
123. 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.
124. 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

125. The next main governance steps to establishing the 2021-22 general fund revenue budget are outlined in the table below:

Date	Meeting	Report	Purpose
25 January 2021	Overview and Scrutiny	P&R strategy	Comment on and make recommendations in respect of the cabinet's proposed 2021-22 budget
2 February 2021	Cabinet	P&R strategy	Recommend a balanced budget for 2021-22 to Council Assembly
24 February 2021	Council Assembly	P&R strategy	Council Tax setting and approve a balanced budget for 2021-22
26 February 2021	Council Tax Setting Committee		To set the Council Tax inclusive of GLA precept)

126. The GLA has has advised that it is to propose a Band D precept on council taxpayers in the 32 London boroughs of £363.66 in 2021-22 – a £31.59 or 9.5% increase compared to this year. This reflects an increase in the policing element (in line with the national police referendum limits) and an extra £15 for Transport for London to maintain free bus and tram travel for under 18s and the over 60s oystercard (i.e. for those Londoners aged from 60 to statutory state pension age).
127. It should be noted that this revised proposal is subject to MHCLG formally amending the council tax referendum limits for the GLA in the final local government finance settlement to reflect the £15 TfL increase required to maintain the concessions. The final precept will therefore not be approved formally until the London Assembly's final draft budget meeting scheduled for Thursday 25 February (which is the day after Council Assembly meets to set the budget).
128. As per previous practice, it will be necessary for Council Assembly to establish a council tax setting committee to meet on Friday 26 February 2021, to set the council tax for the year 2021-22. This will allow council tax notices to be issued in line with the normal statutory timetable.

COMMUNITY IMPACT STATEMENT

129. 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.
130. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the budget for 2020-21 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.

131. 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.
132. 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.
133. 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.
134. To date no cumulative impacts have been identified through the analysis. However, this process is ongoing and a cumulative equality impact assessment will be completed in time to be reported on in the final budget report on 2 February 2021.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

135. 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.
136. 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.
137. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.
138. 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.

139. 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

140. 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. 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 January 2021.

REASONS FOR LATENESS

141. The provisional local government settlement was published on 17 December 2020. Consultation and discussions on budget proposals continue. Accordingly, the budget proposals have been updated and additional time has been required to formulate budget options to present a balanced budget to minimise the impact on Southwark residents.

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
http://moderngov.southwark.gov.uk/documents/s77446/Report%20Policy%20and%20Resources%20Strategy%20revenue%20monitoring%20report%20including%20treasury%20management%202018.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
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	Public Health Proposals
Appendix G	Fees and Charges 2021-22
Appendix H	Budget context

AUDIT TRAIL

Cabinet member	Councillor Rebecca Lury, Cabinet Member for Finance and Resources	
Lead officer	Duncan Whitfield – Strategic Director of Finance and Governance	
Report author	Rob Woollatt – Interim Departmental Finance Manager	
Version	Final	
Dated	15 January 2021	
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		15 January 2021