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<b>Report title:</b>		Policy and Resources Strategy 2020-21	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		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. Whilst 2020-21 provides some relief from the enormous funding cuts the Council has faced over the last ten years, general government funding for the council remains inadequate to cope with the growing demands and pressures on our services, particularly social care, children's services, education, homelessness and welfare support.

Parliament's decision to have an early general election meant that the Provisional Local Government Finance Settlement, due to have been published on 5 December 2019, was not published until 21 December 2019. With the General Election returning a Conservative Government, the provisional settlement when published included no surprises and was unchanged from the financial assumptions included in the report considered by Cabinet in December.

In the December Report we set out savings proposals totalling £8.468m, a combination of efficiency savings (£5.672m), additional income from fees and charges (£2.376m) and other savings of (£0.420m). These proposals continue to be consulted on with staff, affected residents and other stakeholders and partners. Despite these savings a funding gap of £6.8m remained.

Updated resource assumptions and additional measures have been identified to reduce the budget gap, but a shortfall of £4.522m remains. Of course, unlike government, the council is legally required to set a balanced budget.

Over the last nine years we have kept council tax low, only raising it to protect vital frontline services. After detailed and careful thought, we are proposing that we raise council tax by the maximum permitted 3.99% (inclusive of 2% ring-fenced for adult social care) to close the budget gap. This ensures that in the toughest of times we are able to protect services for our most vulnerable residents and the services which our residents value and depend on. We recognise the pressure that this can add on low-income households so our Council Tax Reduction Scheme will remain unchanged. This means that approximately 12,000 working age households will continue to receive support and will pay no more than 13p extra a week and that 6,900 eligible pensioners will continue to receive 100% relief.

As we set out in the December Report, we welcomed the much needed new money for social care in 2020-21. 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. £1.25m of the additional monies for 2020-21 will be used to pilot a multi-agency 'sure start' approach to support teenagers and parents and £1.5m will support additional preventative mental health provision for children and young people. The latter will go some way to continue and expand the projects already being supported by the £2 million fund set up the council in the 2019-20 budget.

It remains one of the Council's top priorities that young people in Southwark have the very best start in life. We know that our teenagers in particular face increasing and complex challenges and we want to ensure their improved wellbeing and resilience as well as do more to reduce the risk of young people being drawn into serious youth violence. The £2.75m investment set out above will be further supported by an additional commitment of £250,000 for the Positive Futures Fund, funded from the London Devolution Reserve. The fund has already supported community organisations to provide inspiring opportunities for young people that divert them away from crime. This further investment will allow the council to sustain the support for successful projects and to continue to support projects that are led by young people for young people.

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 will be meeting with the Department for Education to discuss our 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, 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.

The financial outlook beyond 2020-21 remains extremely uncertain and subject to many unknowns, not least the new governments spending plans, Brexit, general economic factors and the future system of local government finance.

The Government's future intentions for business rates retention and business rates tax more generally are fundamental to future financial plans. The Business Rates Retention arrangements have become increasingly complex over the years, partly due to the increasing number of reliefs introduced by government policy announcements but also annual changes to pooling arrangements. Whilst the council has benefitted from retaining

part of the growth achieved since 2013, business rate growth is now plateauing, collection losses from reliefs are increasing and there continues to be considerable volatility in the system caused by business rate appeals. With a business rates reset planned for April 2021 (which will impact hardest on those authorities such as Southwark who have seen the largest increases in business rate income), more frequent revaluations and proposals for a 75% retention arrangements, the risk/reward aspects of the Business Rate Retention arrangement will require careful and detailed consideration in future financial forecasts.

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.

This report will go to Overview & Scrutiny Committee for consideration on 27 and 29 January before being reconsidered alongside their recommendations at our next Cabinet meeting on 4 February before going on to Council Assembly for final approval.

## **RECOMMENDATIONS**

That cabinet:

1. Note that the provisional local government finance settlement published on 20 December 2019 was unchanged from that forecast in the report to Cabinet on 17 December 2019 (paragraphs 25-28).
2. Note that, as reported to cabinet on 17 December 2019 and recognising the continued uncertainty for local government funding, the intention remains for the council to prepare a balanced one-year 2020-21 budget for approval by cabinet in advance of council assembly on 26 February 2020 (paragraph 24).
3. Note the current budget options proposed to help achieve a balanced budget 2020-21 (Appendices B to E).
4. Note the proposed increase in the Adult Social Care precept of 2% in line with the government flexibility;
5. Note the proposed increase to the Southwark element of the council tax in line with the government threshold by 1.99% in recognition of the spending pressures in services, particularly those that protect and support vulnerable people (paragraph 56 - 57).
6. 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 £11.095m, including increased social care grant of £7.332m;
  - Estimated retained business rates growth of £24.739m (paragraph 59), a decrease of £1.261m over 2019-20 (paragraph 63);
  - Estimated council tax revenue of £117.849m, including growth in the tax base of £2.795m and additional income of £4.522m generated from increasing council tax by 3.99% (including 2% Adult Social Care precept);
  - A net brought forward deficit on the Collection Fund, after application of the 2019-20 Pooling Benefit, chargeable to the 2020-21 budget of £0.612m;
  - Pay award and contractual inflation of £3.919m (excluding Children's and Adult Services)
  - Retention of the contingency budget in the sum of £4m to mitigate underlying budget risks (paragraph 78).
7. Note the current budget options proposed to help achieve a balanced 2020-21 budget (Appendices B to D) including:
    - Efficiency savings of £5.964m;
    - Income generation of £2.376m;
    - Savings impacting on services of £0.420m;
  8. 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 totalling £19.805m, including £7.332m for Children's and Adult's Services (paragraph 85);
  9. Note the current budget proposed for 2020-21 is balanced after the incorporation of updated proposals and a 3.99% council tax increase.
  10. Note the Dedicated Schools Allocation of £332.7m and the continued deficit on High Needs provision (paragraphs 46-49).
  11. Note the performance of the London Business Rates Pool arrangement in 2019-20 (paragraphs 69-72);
  12. Approve the allocation of an additional £0.250m for the Positive Futures Fund funded from the London Devolution Reserve (paragraph 69) and to note unallocated London devolution Pool resources of £1.286m from 2018-19;
  13. Note the ongoing negotiations regarding the continuation of the London Business Rates Pool arrangement into 2020-21 (paragraph 71) and to delegate authority to the strategic director of finance and governance, in consultation with the head of legal services, to make any amendments as may be required by the Secretary of State, and to enter into the final Memorandum of Understanding on behalf of the council.
  14. Note the Departmental Narratives (Appendix A) and the equality analyses provided for the budget proposals.
  15. Note that this report 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 95).

## **BACKGROUND AND PURPOSE**

16. 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.
17. 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.
18. 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.
19. 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.
20. 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 one-off purposes approved by Cabinet.
21. 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.
22. 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.
23. At cabinet on September 2019, the financial remit was considered which included known and estimated resources available at that time, and assumptions regarding the costs of pay awards and inflation. The report highlighted that funding uncertainties made meaningful financial planning extremely challenging and we outlined a range of potential scenarios suggesting a funding gap in 2020-21 of anywhere between £4m

and £32m. Officers were asked to prepare indicative savings and commitments for 2020-21 on a cash limited basis in order to balance the budget. Subsequently at Cabinet on 21 December 2019, a further report was considered setting out a budget gap of £6.853m. 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.

24. As noted by Cabinet in December 2019, the budget will be prepared on a one-year basis for 2020-21, recognising that the settlement is indicative and a range of other significant uncertainties relating to the council's financial position. A one-year budget is considered by the section 151 officer to be the most appropriate strategy at this time given the significant uncertainties and complexities regarding the future funding of local government beyond 2020-21, including:
- Government multi-year Spending Review during 2020
  - A new local government needs based funding formula, the Fair Funding Review,
  - Redesign of the Business Rates Retention System from 2021-22
  - Resetting of the business rates baseline from April 2021,
  - Proposals for longer-term, sustainable social care funding
  - Continued uncertainty regarding the outcome of Brexit negotiations and wider economic pressures on inflation, interest rates and area costs within London (especially housing).

## **KEY ISSUES FOR CONSIDERATION**

### **Provisional Local Government Finance Settlement 2020-21**

25. 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 20 December 2019, later than planned due to the General Election. The LGFS details the provisional Settlement Funding Assessment (SFA) for 2020-21 together with other grant funding included within Core Spending Power (CSP).
26. The 2020-21 headlines are unchanged from those reported to Cabinet in December and are set out below:
- An increase in the core Settlement Funding Assessment (SFA) of £2.442m (1.6%);
  - All existing grants to support social care (Improved Better Care Fund, Winter Pressures and Social Care Grant) will continue into 2020-21 at the same level;
  - Additional grant funding for children and adults social care of £7.332m
  - Additional funding to support children with Special Educational Needs which will be provided via the Dedicated Schools Grant of £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, a 1.99% increase would yield £2.255m;

- that there will be a real terms increase in the Public Health Grant – final allocations have not yet been published;
  - that the Department of Health and Social Care’s contribution (the Better Care Fund) will grow in line with the 3.4% real terms growth in the National Health Service – final allocations have not yet been published;
  - 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 of £0.716m;
  - an increase to early years spending to increase the hourly rate paid to childcare providers through the government’s free hours offers;
  - No new business rate pilots for 2020-21.
27. The Government has also announced that a longer-term Spending Review will be undertaken during 2020 alongside reviews of the allocation and distribution of those resources (Fair Funding Review), reforms to the operation of the Business Rates Retention Arrangements (including a business rates reset and more frequent revaluations).
28. With respect to the long-awaited Government Plans for social care reform and sustainable funding solutions, the prime minister has indicated that changes would be put before MP’s this year and enacted “within this Parliament”, which would be by mid 2024.

#### **Updated financial remit 2020-21**

29. In accordance with instructions from the December 2019 cabinet, this report provides updated budget proposals for 2020-21. These proposals, together with updated estimates of government funding, business rate and council tax income have contributed towards achieving a balanced budget. This has been achieved under challenging circumstances, not least in the context of the savings that the council has had to make throughout the austerity period since 2010 and the increased ring fencing of a large element of resources available for social care.
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 arise from issues such as price, demand pressures and costs arising from the delivery of council plan priorities.
31. 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).
32. A summary of the 2020-21 proposed budget (assuming no council tax increase) is shown in the table below:

	<b>2019-20 Budget £m</b>	<b>2020-21 Proposed £m</b>
Settlement Funding Assessment	149.875	152.317
BRRS growth	25.000	24.739
Council tax	110.531	117.849
Collection fund surplus/(deficit)	5.018	(0.612)
Government grants	63.861	74.956
<b>Total resources</b>	<b>354.285</b>	<b>369.249</b>
Base budget brought forward	348.041	354.285
Inflationary pressures	9.653	3.989
Commitments and growth	16.206	19.805
Efficiencies, income and savings	-19.615	-8.760
<b>Net spending</b>	<b>354.285</b>	<b>366.249</b>
<b>Gap (cumulative)</b>	<b>0</b>	<b>0</b>

33. Whilst the Provisional Local Government Finance Settlement enables us to plan a 2020-21 budget on a sound basis, 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.

## **GENERAL REVENUE FUNDING AND GRANTS**

### **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 for 2020-21 is £152.317m, which is an increase of £2.442m in line with the CPI measure of inflation (1.7%). This is the first increase after a decade of austerity where core funding reduced by £146m between 2010 and 2019.

### **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. Final allocations have not yet been confirmed.

### **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 LGFS confirmed the total NHB funding for 2020-21 is £14.359m reflecting the continued growth in new homes in Southwark.
45. The LGFS also confirmed the Governments intention that the 2020-21 allocations would not result in legacy payments indicating 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.

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

46. 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 2020-21 has provisionally been set by the Department for Education (DfE) at £332.7m, 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.
47. Dedicated Schools Grant can be broken down into the following spending blocks:

	<b>2019-20 £m</b>	<b>2020-21 £m</b>	<b>Change £m</b>
Schools Block	247.3	254.2	6.9
High Needs Block	44.5	50.0	5.5
Early Years Block	26.7	26.8	0.1
Central Block	1.7	1.7	0
<b>Total</b>	<b>320.2</b>	<b>332.7</b>	<b>12.5</b>

48. The figures within the High Needs (SEND) Block reflect the additional revenue funding that was announced as part of the 2019 Spending Round. This will partially reduce in-year pressures but will not resolve the accumulated deficit – forecast to be in the region of £18m by the end of 2019-20.
49. 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*”.

## **REVENUE FUNDING FROM LOCAL TAXATION**

### **Council Tax**

50. 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.
51. 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.
52. Council tax remains below the charge it would have been if CPI had been applied each year since 2010-11.
53. 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

54. 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.
55. The government has confirmed 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 that 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

56. 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.
57. In the context of pressures on council finances, the resilience of reserves and the continued year on year reductions in spending power, council tax remains a key source of income for the council. An increase of 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.
58. 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 D properties will see a council tax bill rise of 82p per week;
  - Over 60% of residents in the borough live in Bands A-C properties. Residents in Band C properties and below will see a council tax bill rise of up to 73p per week;
  - 12,000 of the residents continuing to receive support through the local council tax relief scheme (CTRS) will pay no more than 13p 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

59. As reported in the 2020-21 Council Tax Base report approved by Cabinet in December 2019, 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. The collection rate was maintained at 97.2%, reflecting current performance and in consideration of the increased collection risk as universal credit is rolled out.
60. The 2019-20 collection fund forecast outturn position is a surplus of £1.425m and this will be accounted for in the council tax calculations for 2020-21.

### **Business Rates**

61. 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. The Business Rates Retention arrangements have become increasingly complex over the years, partly due to the increasing number of reliefs introduced by government policy announcements but also annual changes to pooling arrangements.

62. Net business rate income is subject to three key variables:
- (a) Changes to the Rateable Value list (growth and losses);
  - (b) Income foregone from reliefs and whether compensated by the government;
  - (c) Accounting adjustments for appeals and bad debts.
63. The budget includes a forecast Business Rate Retention income of £140.608m in 2020-21. This is £24.739m in excess of the baseline funding level of £115.869m (i.e. business rates baseline of £80.015m and 'top-up' of £35.854m). This retained growth is marginally down on that for 2019-20 reflecting a plateauing of growth but also due to significant losses on collection from increases in reliefs and other changes to rateable values.
64. Analysis of the 2018-19 outturn showed that gross rates payable increased by 6.9% over the period since 2017-18, at a time when the small business rates multiplier increased by 3%. However, over the same period, reliefs increased by 45%, reducing the net rates payable and income for the council. This trend has continued, albeit at a lower rate, in 2019-20. As indicated above, the forecast of retained growth in 2020-21 has been adjusted downwards, despite a 1.6% increase in the multiplier.
65. Business rate income also continues to be subject to significant volatility as a consequence of appeals and Valuation Office Agency changes to rateable values. Careful review of financial risk reserves will be required to manage this volatility. The council was able to set aside additional resources in closing the 2018-19 accounts for this purpose. It is further proposed to apply the estimated one-off benefit arising from the London business rate pooling in 2019-20 to offset the deficit brought forward from 2018-19 and further mitigate risk.
66. 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**

67. 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.
68. 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:

<b>Initiative</b>	<b>£m</b>
Positive Futures Fund	0.750
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
Pilot extension of gym and sports facilities into parks	0.150
Unallocated balance	1.286
<b>Total 2018-19 Pool Benefit</b>	<b>10.186</b>

69. The council recognises the detrimental impact that serious youth violence and knife crime has on our communities and is committed to work with communities to find local solutions that help young people stay away from knives and crime. In 2019 the council launched the positive futures fund with the intention of supporting community organisations to provide inspiring opportunities for young people that divert them away from crime. Young People have been at the heart of the programme's design and delivery and involved in making decisions on how the funding has been allocated to the 24 projects funded to date. An additional investment of £250,000 from the London Devolution Reserve will allow the council to sustain the support for successful projects and to continue to support projects that are led by young people for young people. This investment is additional to the council's existing investment in Youth Services, grants to voluntary sector youth providers and the Youth Fund that was established by the council in 2011. The fund complements these existing programmes but is targeted at those young people most likely to become involved in crime.
70. 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 £4.9m. As indicated above, this additional resource has been applied to mitigate the impact of the one-off deficit brought forward on the business rate collection fund with the intention to replenish the Devolution Reserve when there is more certainty on business rate retention and future funding arrangements..
71. The Government has recently confirmed that there will be no further pilot pools in 2020-21. However, it is anticipated that the existing London Business Rates Pool will continue into 2020-21 as there are a number of strategic benefits for London authorities to continue to work as a pool including mitigating risk, influencing future government policy, as well as some potential financial benefits (and risks). The MHCLG has written to each authority with a Business Rates Pooling Invitation for 2020-21. A revised Memorandum of Understanding (MOU) has been drafted for the continuation of the Pool in 2020-21. Delegated authority is sought for the strategic director of finance and governance, in consultation with the head of legal services, to make any amendments as may be required, and to enter into the final Memorandum of Understanding on behalf of the council.
72. 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.

## **REVENUE EXPENDITURE ASSUMPTIONS**

### **2019-20 Financial Performance**

73. Budget monitoring variances are a fundamental consideration to inform the Policy and Resources Strategy for future years' budgets. 2019-20 budget monitoring continues to evidence sound financial management. With the exception of Dedicated Schools Grant (DSG), it is anticipated that overall in year revenue spending will be contained within approved budgets.
74. The outturn for 2018-19 confirmed that the budget recovery work in Children's and Adults' has been effective in putting the service on a sustainable financial footing with the services coming in on budget after setting aside resources in an adult social care resilience reserve. This improved performance has continued in 2019-20, demonstrating improved practices have been embedded. This is reflected in the latest forecast, which indicates a small favourable variance at year-end. Notwithstanding this, the department remains exposed to significant risk and uncertainty in 2019-20 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.
75. 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 2019, there was an accumulated deficit of £11.5m. This is forecast to be in the region of £18m by the end of 2019-20. As reported elsewhere, the additional funding announced as part of the Spending Review 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 Draft DSG Recovery Plan which will be discussed with the Education and Skills Funding Agency (ESFA).
76. The outturn position for H&M remains as previously reported and is expected to be broadly neutral at year-end, notwithstanding the continuing cost pressure in temporary accommodation and additional investment required for the SICTS (Shared Information and Communication Technology Service). The key budget headlines are:
  - Temporary accommodation has been and remains one of the council's most intractable budget pressures, requiring significant budget growth over the medium-term, most recently, £3.2m (net) in the current year. This was predicated on a saving of £2m being achieved through discrete policy changes in relation to the discharge of duty into the private sector and out-of-borough being adopted in advance of the start of the financial year. However, implementation was delayed until mid-year, which has impacted achievement of this challenging target and has been exacerbated by the council's drive to cease use of nightly paid accommodation. Furthermore, ever rising demand, the high cost of procuring suitable properties and availability of estate voids, which are projected to decline at a faster rate than previously estimated, all contribute to a projected overspend of £1.5m in 2019-20.

- Amongst a raft of critical upgrade projects to the council's IT infrastructure and systems is the migration of the existing data centre to a cloud computing environment with Azure and Office 365. These developments will deliver a number of long-term benefits for the council and underpin the council's SMART working transformation programme. However, this is a subscription service rather than a traditional asset ownership model which has the effect of switching the source of funding from capital to revenue, creating a budget pressure in the current year of £0.8m and requiring a budget commitment of £1.5m in 2020-21.

77. 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 2019-20 budget and to ensure that a balanced position is achieved by the year-end.

### **Planned Corporate Contingency**

78. It is proposed that the planned corporate contingency of £4m be maintained in 2020-21 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**

79. 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 February, including any relevant financial implications.

### **Inflation**

80. The Consumer Price Index (CPI) 12 month rate for October was 1.5% with the longer-term view that this will converge with the Office of Budgetary Responsibility (OBR) forecast of 2%. 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**

81. 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 £5.964m (detailed in Appendix B).

### **Income generation**

82. 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**

83. 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.
84. Comprehensive equalities analysis of the impact of these savings will be considered before the budget is finalised.

### **Commitments**

85. 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:

<b>Detail</b>	<b>£m</b>
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
<b>Total</b>	<b>7.332</b>

86. 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**

87. 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. Fees and charges schedules were approved by Cabinet in December 2019.

### **Reserves and balances**

88. 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.
89. 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.

90. 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.

### **Climate change emergency**

91. 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.
92. A Climate Change Emergency reserve of £2m is to 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.

### **Consultation**

93. 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.
94. 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.
95. 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**

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

<b>Date</b>	<b>Meeting</b>	<b>Report</b>	<b>Purpose</b>
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**

97. 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.
98. 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 has undertaken 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.
99. 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.
100. For many services, the budget proposals will include efficiencies which have staffing implications. As specific proposals are brought forward, and at each stage of implementation thereafter, the different impacts on different categories of staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.
101. 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 required. 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. A summary of the Equalities Analysis is attached at Appendix F.

### **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

#### **Director of Law and Democracy**

102. 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.

103. 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.
104. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.
105. 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.
106. 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**

107. 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 21 January gives the opportunity for debate prior to presentation of budget figures to cabinet on 4 February 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 and 29 January 2020.

#### **REASONS FOR LATENESS**

108. The provisional local government settlement was published on 20 December 2019. 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
<b>Link (please copy and paste into your browser):</b> <a href="http://moderngov.southwark.gov.uk/documents/s77446/Report%20Policy%20and%20Resources%20Strategy%20revenue%20monitoring%20report%20including%20treasury%20management%202018.pdf">http://moderngov.southwark.gov.uk/documents/s77446/Report%20Policy%20and%20Resources%20Strategy%20revenue%20monitoring%20report%20including%20treasury%20management%202018.pdf</a>		
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
<b>Link (please copy and paste into your browser):</b> <a href="http://moderngov.southwark.gov.uk/documents/s56454/Report%20and%20appendices%202016-17%20PR%20Scene%20setting.pdf">http://moderngov.southwark.gov.uk/documents/s56454/Report%20and%20appendices%202016-17%20PR%20Scene%20setting.pdf</a>		

## 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	Summary Equalities Impact Assessment

## AUDIT TRAIL

<b>Cabinet member</b>	Councillor Victoria Mills, Finance, Performance and Brexit	
<b>Lead officer</b>	Duncan Whitfield, Strategic Director of Finance and Governance	
<b>Report author</b>	Rob Woollatt, Interim Departmental Finance Manager	
<b>Version</b>	Final	
<b>Dated</b>	17 January 2020	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
Cabinet Member	Yes	Yes
<b>Date final report sent to constitutional team</b>		17 January 2020