

Item No. 11.	Classification: Open	Date: 18 October 2011	Meeting Name: Cabinet
Report title:		Policy and Resources Strategy 2012/13-2014/15: Scene setting report	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance, Resources and Community Safety	

FOREWORD - COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY

This report sets out the key considerations and challenges for the council's policy and resources strategy and its budget over the next period. Of those challenges, the clearest is that arising from the significant further reductions in government funding in future years. We have an understanding of what that reduction will be for 2012/13 but a high degree of uncertainty surrounding grant funding for 2013/14 and 2014/15. Not least, these include the significant lack of clarity surrounding the impact of central government's proposed changes in how local government is financed from April 2013.

Other significant challenges include the low level of return on our investments due to low interest rates and inflation continuing to run well ahead of government targets: 4.5% at the time of writing, compared to 3.1% when the 2011/12 budget setting process began back in July 2010. The stalling of the economic recovery over the last year creates a high level of economic uncertainty. This makes it exceedingly difficult to plan for 2014/15 in a meaningful way.

In addition to these challenges, there are growing pressures on areas of council services that we will need to manage carefully in the budget-making process.

What is clear amongst this uncertainty is that there will be greater pressures on our finances for a number of years.

The Medium Term Resources Strategy that Cabinet agreed in June provides some local stability in the face of these challenges and our Fairer Future promises give a clear sense of direction on how we should address them. The extensive consultation in preparation for the 2011/12 budget also gives us a clear indication of the priorities of local residents and communities in our borough as the council determines what further efficiencies and savings will need to be made in our spending and services. It is also clear that we will need to utilise our existing reserves and balances to address the shortfalls in government funding.

RECOMMENDATIONS

1. That cabinet reaffirm their commitment to the ten fairer future promises as set out in the Council Plan and Medium Term Resources Strategy (MTRS) and the seven budget principles to guide and underpin the work of officers in arriving at a balanced budget proposal in February 2012.

2. That cabinet note that this is the second year of a three year budget framework, agreed in February 2011 which was supported by an extensive consultation undertaken in autumn 2010.
3. That cabinet instruct officers to continue to work on budget options for presentation to the cabinet in January 2012, for onward recommendation to council assembly.
4. That cabinet note the continuing uncertainty in the budget environment for 2013/14 and future years and that the government is currently undertaking a consultation on the future of local government finance (the "Local Government Resource Review").

BACKGROUND INFORMATION

A three year budget framework

5. The 2011/12 budget process was one of the most difficult that the council has had to face in recent years. The 2011/12 budget had to address issues arising from the national emergency budget, and the spending review of October 2010. These matters were extensively reported as part of the budget setting process.
6. The 2011/12 budget process also encompassed the setting of the seven budget principles, these are:
 - At a time of unprecedented cuts proposed by central government, the Southwark budget should continue to prioritise the commitments made in support of the vision to create a fairer future for all by promoting social and economic equality in an economically vibrant borough.
 - We recognise that some services currently provided by the council may be lost, and some may change. However, we will do all that we can to protect our front-line services and support our most vulnerable residents.
 - We will ensure that the services which the council delivers provide value for money, value for council tax payers and contribute towards delivering our vision of creating a fairer future for all in Southwark.
 - We will explore alternative ways of providing a service prior to proposing any cut or reduction. This will include talking to partner organisations, the voluntary sector, the trade unions, the business community and other local authorities.
 - We will be transparent with any specific group or groups of users who may be affected by any cut or reduction in service provision as soon as possible and explore with them other ways to provide the service. We will conduct an equalities impact assessment for our budget proposals.
 - Before proposing any cut or reduction we will have a clear and comprehensive explanation for why that service should be cut, reduced or no longer provided by the council, and this explanation should be capable of being subject to robust challenge.
 - Budget proposals should be based on a three year approach (2011-14) and should have regard to innovative ways of providing services and maintaining employment in the borough.

7. In line with the budget principles above, the setting of the budget in February 2011 was supported by an extensive consultation process, a commitment to publish draft proposals, significant work by the overview and scrutiny committee, and a commitment to inviting and considering public comments on the draft proposals. These activities fed into the final budget setting in February 2011.
8. For the 2011/12 budget the council decided to, as far as possible, align the Housing Revenue Account (HRA) and General Fund (GF) revenue budget setting processes. This is considered especially important given the changes to HRA subsidy and a move to a self-financing position for all councils. For 2012/13 the HRA and General Fund reports will be considered together.
9. In July 2011, Council Assembly agreed the 10 year capital programme. This will also be refreshed as part of the 2012/13 budget setting process.
10. Council Assembly in February 2011 agreed a budget for 2011/12 and put in place a 3 year framework. The detail of the budget agreed for 2011/12 and indicative budgets for 2012/13 and 2013/14 is set out in table 1 below.

Table 1: 2011/12 budget, and indicative budgets for 2012/13 and 2013/14

	2011/12 budget £m	2012/13 indicative budget £m	2013/14 indicative budget £m
Formula grant	(232.8)	(214.8)	(214.8)
Council Tax income (<i>note 1</i>)	(90.2)	(93.5)	(96.8)
Council Tax freeze grant in 2011/12 (<i>note 1</i>)	(2.2)	(2.2)	(2.2)
Social care and benefit health grant	(4.3)	(4.1)	
Total income resources	(329.5)	(314.6)	(313.8)
Revised previous year's budget	349.6	332.9	317.4
Inflation	0.0	0.0	3.6
- Pay award – pay frozen for 2011/12 and 2012/13; 2% assumed for 2013/14			
- General inflation (running costs) allowed for 0% for 2011/12, 0% for 2012/13 and 2% for 2013/14	0.0	0.0	3.4
- Inflation based on contractual commitments (linked to industry specific rates)	3.5	3.6	2.6
Commitments	7.5	4.9	5.4
Growth	6.1	3.4	3.4
Efficiencies and improved use of resources	(22.3)	(13.7)	(12.7)
Income generation	(0.5)	(0.3)	(0.1)
Savings impacting on service delivery	(11.0)	(13.4)	(11.3)
Budget	332.9	317.4	311.7
Contribution (from) and to balances	(3.4)	(2.8)	2.1

Note 1: Government proposals on Council Tax freeze grant for 2012/13 were announced on 3rd

October 2011 and were not available for the report to Council Assembly in February 2011.

11. Following agreement of the budget in February 2011, the Medium Term Resources Strategy (MTRS) and Council Plan were also finalised. Both were presented to Cabinet in June 2011 and the Council Assembly agreed the Council Plan in July 2011.
12. The Council Plan sets out ten fairer future promises for the delivery. The plan sets out the most important actions that the council will be doing across all services and areas to deliver the vision of a Fairer Future for all. The promises are:
 - Provide improved value for money and keep council tax increases below inflation.
 - Work with residents and the police to make the borough safer for all by cracking down on antisocial behaviour and implementing our new violent crime strategy.
 - Deliver the first three years of our five year plan to make every council home warm, dry and safe.
 - Improve our customer service with more online services, including delivery of a better housing repairs service, independently verified by tenants.
 - Introduce free healthy school meals for all primary school pupils, and champion improved educational attainment for our borough's children.
 - Support vulnerable people to live independent, safe and healthy lives by giving them more choice and control over their care.
 - Encourage healthy lifestyles by transforming Burgess Park, opening a new swimming pool at Elephant and Castle and awarding £2m to local projects to leave a lasting Olympic legacy.
 - Open Canada Water library in autumn 2011, open a library in Camberwell and conduct a thorough review of the library service.
 - Bring the full benefits and opportunities of regeneration to all Southwark's residents and build new family homes on the Aylesbury Estate and at Elephant and Castle.
 - Double recycling rates from 20 percent to 40 percent by 2014 and keep our streets clean.
13. It is important that the budget principles and ten fairer future promises, alongside the resource remit set out through the MTRS, continue to guide officers in the implementation of 2011/12 budget, preparation of the 2012/13 budget and refining proposals for 2013/14.

KEY ISSUES FOR CONSIDERATION

2011/12 budget

14. Over the three years (2011-14) the council will need to deliver in the region of £85m of savings. In 2011/12 alone the council is working to deliver some £34m worth of savings. This is three times the level of savings that were achieved in 2010/11. Savings on this scale present a significant and considerable challenge to the council, not only in identifying proposals but also in implementing such proposals.

15. The council is closely monitoring the implementation of the 2011/12 budget decisions, including agreed budget reductions, savings and efficiencies, and how these are being delivered. It is also essential to continue to manage and mitigate against rising demand pressures. Monthly monitoring and formal quarterly reporting is in place to ensure that the challenges in the delivery of the budget are addressed.
16. The 2010/11 outturn position had a positive variance and the council was able to move just over £3.9m into the modernisation reserve to pay for future costs arising from the need to redesign services to make the council fit for the future. This includes changes following reduced support from central government, redundancy and costs in 2011/12 and the future.
17. There are a number of new commitments emerging that will impact on the delivery of the 2011/12 budget and will require consideration in the setting of the 2012/13 budget. Some changes may require a level of further consultation and there is a possibility of new proposals arising from the need to address demand pressures and other unforeseen circumstances.
18. Likely cost pressures may come from the proposed fare increases for Transport for London of RPI plus 2%, which would increase average fares by around 7% from January 2012. London Councils estimates that London boroughs will have to pay an extra £22m towards the Freedom Pass scheme in 2012/13. The effect for Southwark in particular is not yet known, but given the council has a large number of Freedom Pass users, is likely to be considerable.

Future funding settlement

19. The government issued a final settlement for 2011/12 in January 2011, following the national spending review. This included a commitment to a minimum funding guarantee (the 'floor'). Southwark is one of many authorities where the settlement would have been significantly lower if there wasn't a minimum funding guarantee. Southwark experienced a total reduction in formula grant in cash terms of £29.7m for 2011/12 (a 11.9% reduction).
20. In January 2011 the government also presented an indicative formula grant for 2012/13, and it is anticipated that this will be the level of funding received. Southwark will experience a further £17.2m in 2012/13 (a 7.4% reduction). The minimum funding guarantee will continue to operate in 2012/13.
21. The government has not yet presented an indicative formula grant for 2013/14, and has made no announcements as to the future of the floor for 2013/14 and beyond. For the agreed indicative 2013/14 budget it is assumed that the same level of formula grant is received in 2013/14 as in 2012/13, but this is subject to a high level of uncertainty.
22. In looking beyond 2013/14, the government has not yet presented an indicative formula grant, and so any predictions would be highly speculative.

Inflation

23. Current inflation is 4.5% (CPI as at August 2011) with little indication from the key economic indicators that this rate will fall in the coming months. CPI, RPI and RPIX all rose between July and August 2011. The latest quarterly letter from the Governor of the Bank of England to the Chancellor of the Exchequer

was in August and reported that inflation (CPI) is expected rise to around 5% in the coming months, then fall back through 2012.

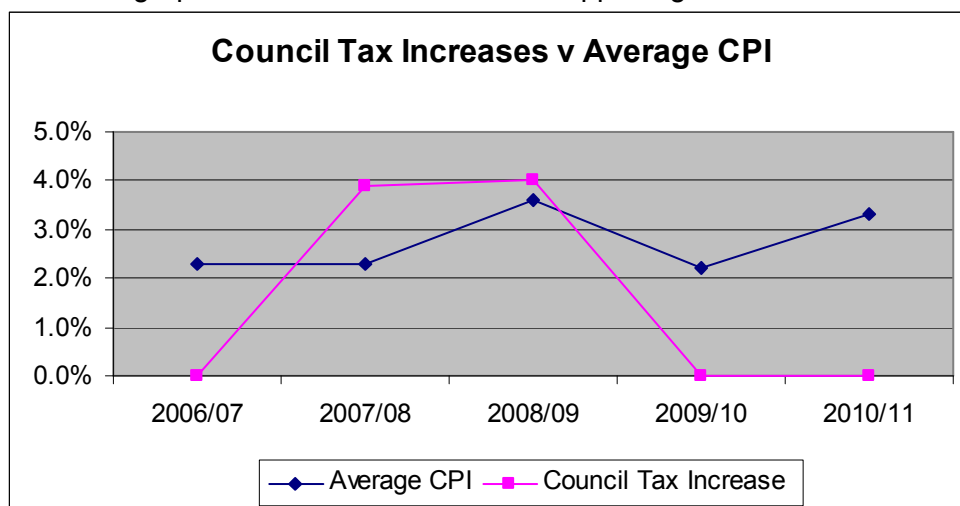
24. 2012/13 will be the second year of the public sector wage freeze, and as such salaries budgets will not be inflated. For 2013/14 pay inflation has been assumed at 2%. This assumption will be subject to clawback if the pay award is actually lower, and the costs will be met centrally if the award is higher. The central contingency will need to be maintained to mitigate the real risks presented by this planning assumption. The council is committed to ensure all staff employed by the Council are employed at or above the London living wage which will need to be considered in forward planning assumptions.
25. The Council has been reducing the numbers of agency staff used which will mitigate the financial impact. The Agency Workers Directive has a number of implications for the Council, first as at 1 October 2011 (when it comes into force) and more specifically 12 weeks later when the new terms have to be applied.
26. The Directive requires that any agency staff with assignments greater than 12 weeks have comparative pay rates, and many terms and conditions as for permanent staff. The major impact will be on low graded posts, such as street cleaners, who will receive a pay increase. It is estimated that the extra cost to the Council could be greater than £500k. This will be monitored through the second half of 2011/12. Efforts are underway to renegotiate agency prices and the full financial impact will be included in the budget report for 2012/13.
27. The 2011/12-2013/14 budget modelled non employees inflation (running costs) for 2012/13 at 0% and 2013/14 at 2%, this assumption will remain in place in order to deliver a balanced budget. However, subject to the outcome of the initial phase of budget planning, it may be necessary to cash limit budgets to base levels (that is, nil inflation), with final decisions dependant on available funding, savings and budget pressures identified.
28. Where there are contractual commitments there is an expectation that officers will continue to work with contractors and partners with a view to reaching joint agreement on variations required to contracts to operate within the Council's affordability constraints.

Council Tax

29. It is very likely that future spending reviews and grant settlements will require authorities to make an even greater level of efficiencies than ever before. These factors must be taken in the context of the fairer future promise to "provide improved value for money and keep council tax increases below inflation".
30. In 2011/12 council tax was frozen, and there was no increase. The council was in receipt of the funding made available to authorities from government which was to reflect the loss of resources that the council would otherwise have gained if council tax had increased by 2.5%.
31. At the time council tax was set inflation was running at 4% (CPI) and has now increased to 4.5% (August 2011), with expectation of further rises. Inflation rates are unlikely to fall until well into 2012/13.
32. Government grant meanwhile, is set to fall by 7.4% in 2012/13, with further falls anticipated in future years. This is outside of any impact of changes associated

with the wider review of local government resources which is currently underway by the government. The combination of average inflation at 4.5% and a loss in grant of 7.4% represents a significant cash loss and puts additional pressure on the achievement of additional savings whilst managing service demand pressures.

33. The graph below shows council tax mapped against CPI.



34. On 3 October 2011 the Chancellor announced that if an authority freezes council tax in 2012/13 (i.e. sets the basic amount of council tax in 2012/13 at a level which is no more than the basic amount of council tax in 2011/12) it will receive a one-off grant equivalent to a 2.5% increase. This grant is for one year only (2012/13) and will therefore 'fall out' and not be included in any financial settlement for the council in 2013/14 and beyond.

Housing Revenue Account (HRA)

35. All savings proposals that would impact on the service delivered to, or income received from the HRA must be identified gross and be netted off for the general fund savings proposals. Only the general fund element can be counted against savings contributing towards the general fund targeted budget savings, the HRA element must be used to reduce the recharge to the HRA. These should be discussed with the Strategic Director of Housing.
36. The current HRA subsidy system ceases on 31/03/12, and 'self-financing' will commence. Modelling undertaken indicates that there will be a loss to the HRA of around £26m in the first year.
37. There are a number of uncertainties over the debt adjustment which will occur at the end of March 2012, including the base data submission on stock numbers and inflation (based on September 2011 RPI).
38. The opening debt adjustment is assumed by the government to leave the HRA with debt which is affordable over 30 years. The provisional calculation reduces debt by £270m, with an annual debt charge saving of around £20m.
39. Overall, the self-financing is likely to create an initial budget gap in 2012/13, before other budget movements or changes of £14.9m. The HRA ringfence from the General Fund will remain in operation.

Capital Programme

40. In July 2011, Council Assembly agreed the recommendations of the cabinet for a refreshed 10-year general fund capital programme 2011-21 of £351m.
41. The general fund capital programme 2011-21 reflected new and emerging priorities, latest information on existing projects and a refreshed estimate of resources. The total programme included expenditure of £351.0m with projected funding of £414.8m. Within this there has been some £70m of new additions to the programme including;
- major works to roads,
 - a new leisure centre and improvements to existing centres,
 - projects to deliver an Olympic legacy,
 - creation of new places and improvements in local primary schools
42. The Housing Investment Programme is a substantial part of the capital activity of the council, and a report elsewhere on the agenda highlights the key aspects of the council's housing investment strategy as:
- To agree a minimum affordable standard based upon the known resources realistically available that will enable the council to bring all council homes up to the same agreed standard by March 2016
 - To ensure that all Council homes benefit from the resources available
 - To agree the minimum budget envelope and to continue to work to bring in additional funding to bring schemes wherever possible in order to complete the programme more quickly and ahead of schedule
 - To develop a 30 year housing asset management plan which will be used to inform and shape future programmes

New Homes Bonus

43. A report "The Housing Investment Programme – Confirmation of Five Year Programme" elsewhere on the agenda confirms that the new homes bonus is a general fund resource to support council infrastructure provision and, for 2011/16, resources of £2.3m will be made available to the housing investment programme from these funds.

Reserves and balances

44. Reserves and balances are maintained to finance expenditure for items that are difficult to predict and that are not included in revenue budgets or within the capital programme. They relate especially to invest to save opportunities that form part of the modernisation agenda and are expected to deliver future ongoing revenue savings. They are also held for investment in regeneration and development where spend may be subject to an unpredictable market and other influences. The position on reserves as at 31 March 2011 was fully reported in the Statement of Accounts presented to Audit and Governance Committee on 27 September 2011.

45. The budget approved by Council for 2011/12 included a planned release of reserve of £3.363m. This call on reserve provided some flexibility in terms of budget setting and the profile of savings that the council assembly agreed in February 2011.
46. The 2011/12 budget includes a planned contribution to reserves of some £1.3m. This included £300k set aside for the future costs that will arise through changes in the council's management structure as the modernisation agenda is taken forward, and £1m contribution to reserves to support the ongoing regeneration and development agenda within the borough.
47. The indicative 2012/13 budget as reported in February 2011 included a planned release of reserves of £2.8m. This will be kept under review in preparing for the setting of the 2012/13 budget.

Contingency

48. Contingency funds are different to reserves and balances in that these are held more specifically to mitigate the many different risks that the council carries in delivering services across the borough. Contingency funds also assist the council in planning effectively for the future, which is important when there is uncertainty attached to future income streams (such as is currently the case with future government grant beyond 2012/13).
49. In setting the 2012/13 budget the council will need to consider the sufficiency of its level of contingency, particularly given the scale of uncertainty currently attached to local government finance from 2013/14 onwards.

Impact of the recent civil disturbances

50. On Monday 8 August 2011 Southwark experienced disturbances across the borough. The disturbances were a difficult and challenging time for all concerned with pressure put on local resources.
51. In the days following the disturbances the Leader of the Council, Cabinet Members and senior officers met with community representatives and members of the public to listen, learn and respond to what needed to be done by way of help for local areas.
52. This series of community conversations were inspired from the community-led "Peckham Wall of Love", where local people set up a space to post their messages on what they thought of the disturbances and their affection for their local neighbourhood. The Wall has been retained by the Council as a symbol of the positive and constructive community response to the disturbances and the community conversations continue.
53. As an immediate response to the disturbances the council set up an emergency small business recovery fund of £100,000 to provide immediate, short-term support to small businesses in Southwark physically affected by the public disorder. The fund was covered from the Financial Risk Reserves. Other resources have also been set out by the government to support local areas to recover from the public disorder and the Council continues to pursue all opportunities to secure this funding for the borough.

54. It is impossible to draw conclusions as to the full impact of the disturbances at this time. There is a considerable amount of evidence that has not yet been fully assessed. In implementing the 2011/12 budget and setting the budget for 2012/13 the council will therefore need to consider the ongoing impact of the disturbances on the business and wider community.

Broader policy and financial implications

55. On 18 July 2011, the government published its Local Government Resource Review along with a consultation process that ends on the 24 October 2011. The review proposes that councils retain locally raised business rates, furthering government measures to reduce local government dependency on central government grant funding. The government's intention is for this to be in place by April 2013 so these proposals will take effect in the final year (2013/14) of the current three year budget framework put in place in February 2011; however it is important to note that full details are yet to be provided.
56. Local government funding for 2013/14 and 2014/15 will be driven by this local government funding review. This makes planning with any level of certainty more challenging. The council will therefore need to build sufficient capacity into its resource plans to be able to respond to any changes in funding arrangements both flexibly and in a way that ensures that frontline services to the most vulnerable remain as protected as possible. The importance of ensuring there is an appropriate level of contingency to deal with the uncertainty of future income streams is therefore key to future resource planning.
57. DCLG has published a consultation proposing to bring all aspects of the council tax benefit system together at local level, freeing local authorities to best support working age households and establish stronger incentives for councils to get people back into work. The changes to these benefits sit alongside the Government's wider welfare reforms. It is proposed that the changes will help to deliver a 10% reduction in the current £4.8 billion annual council tax benefit bill across Great Britain. The changes to the system will be introduced in 2013/14 and there may be costs associated with this. Officers are currently working through the details of the impact of the potential changes and any outcomes will need to be built into future planning considerations.
58. In the Open Public Services White paper the government proposes that for individual services, which are personal services such as education, adult social care or housing support, 'more power' will be put in the hands of users through mechanisms such as direct cash payments, personal budgets, vouchers, tariff payments, loans and entitlements.
59. For neighbourhood services, i.e. services provided locally and on a collective basis, such as maintenance of the local public realm, the government wants to put 'more power' in the hands of neighbourhood councils (parish, town and community councils) through mechanisms such as devolved functions and budgets. For commissioned services, i.e. local and national services that cannot be devolved such as tax collection or emergency healthcare, the government wants to 'open up' commissioning. Consultation is ongoing at a national level, with the impact on local government finances generally, and Southwark in particular still to be determined.

Community impact statement

60. As with last year's budget, each department will need to undertake "equality analysis" for its budget proposals. The 'Equality Impact Assessments', or EqIA from last year are now being referred to as 'Equality Analysis' in line with the guidance on the Equality Act 2010
61. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with last year's budget, each department will undertake "equality analysis" on its budget proposals. Equality impact assessments are now being referred to as 'equality analysis' in line with guidance on the Equality Act 2010
62. Undertaking equality analysis will help the council to understand the potential effects that the budget proposals may have on different groups. The analysis will also consider if there may be any unintended consequences and about how these issues can be mitigated. Analysis will also be undertaken to consider any cross-cutting and organisation-wide impacts.
63. The equality analysis undertaken will build on previous analysis including the equality impact assessments carried out as part of last year's budget and the equality analysis undertaken on decisions to implement the budget this year. The development of equality analysis will commence now to ensure that it informs decision making at each stage of the budget process.
64. There a number of new requirements on local authorities through the public sector Equality Duty to publish equality objectives and equality information. A new approach to equality and human rights is being developed to reflect these new requirements.

Consultation

65. This report is an introduction to the planning for the second year of a three year budget framework, agreed in February 2011. The budget agreed in February 2011 was supported by an extensive consultation undertaken in autumn 2010.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

66. The constitution determines that cabinet consider decisions regarding the strategic aspects of the regulation and control of the council's finances. The council has obligations under Section 32 of the Local Government and Finance Act 1992 to calculate and agree an annual budget. The issues contained in this report will assist in the future discharge of that obligation.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Budget setting papers for 2011/12	160 Tooley Street	John Braggins 020 7525 7489
Statement of Accounts 2010/11	160 Tooley Street	Dennis Callaghan 020 7525 4375

APPENDICES

No.	Title
None	

AUDIT TRAIL

Cabinet Member	Councillor Richard Livingstone, Finance, Resources and Community Safety		
Lead Officer	Duncan Whitfield, Finance Director		
Report Author	Jennifer Seeley, Deputy Finance Director		
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