

<b>Item No.</b>	<b>Classification:</b> Open	<b>Date:</b> February 12 2008	<b>Meeting Name:</b> Executive
<b>Report title:</b>		Policy and Resources Strategy 2008/09-2010/11 - The 2008/09 Revenue Budget (The Budget and Policy Framework)	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Finance Director	

## RECOMMENDATIONS

That the Executive

1. Notes the final local government settlement for 2008/9-2010/11 and instructs officers to continue the Fair Funding for Southwark lobbying campaign.
2. Notes that the Local Area Agreement (LAA) grant has been replaced by the new, general Area Based Grant (ABG) which is not ring-fenced (paragraph 17).
3. Agrees a balanced budget for 2008/09 for recommendation to Council Assembly on 20 February as set out in paragraph 56, based on a Council tax increase of 4%, in line with January 2008 Retail Price Index.
4. In light of the significant cost pressures and resources gap facing the council over the medium term, instructs Chief Officers to implement the policy changes arising from this report at the earliest opportunity in 2008/9 and undertake the necessary consultation where appropriate.
5. Instructs the Chief Executive to undertake a review of the Council's support to voluntary and community organisations through the annual grant programme and report back to the Executive with recommendations in the new financial year.
6. Instructs the Strategic Director of Health & Community Services to report back to the Executive at its next meeting on consultation with users, carers and local people on changing the eligibility criteria for adult social care services.
7. Approve draft indicative budget proposals for 2009/10 and 2010/11 (paragraph 63) subject to formal budget reports to Council Assembly for each of these years.

## BACKGROUND INFORMATION

### The policy and resource context

8. The 2007/8 settlement, in which Southwark received a 2.73% rise in grant (compared to an national average increase of 3.8%), at that time represented the end of the government's spending round thereby adding greater uncertainty to the national public spending framework. On 21st February 2007 Council Assembly set a balanced general fund revenue budget of £292m for 2007/08 with a 3.9% increase in the level of council tax for Southwark's element.

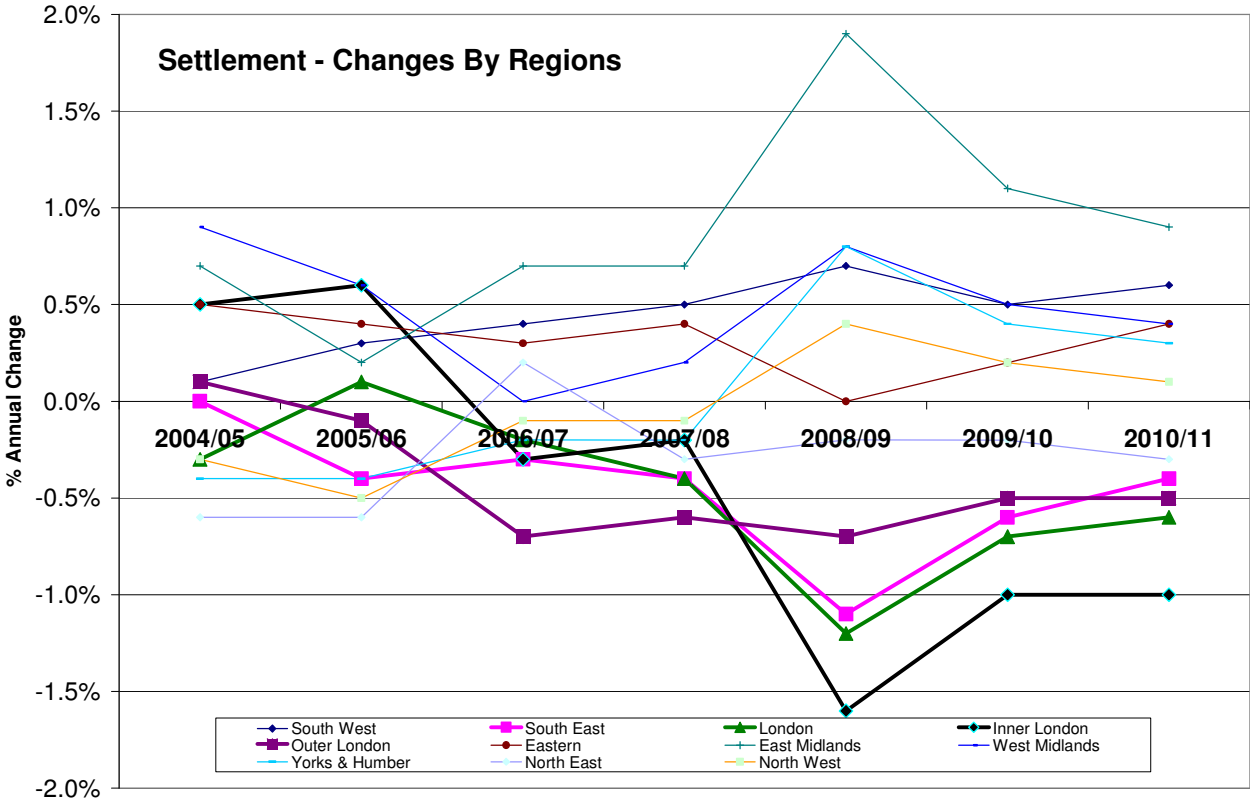
9. In February 2007, to take account of the difficult financial circumstances in which local government was operating, and the need to further focus resources to local priorities, the Executive requested that officers pay particular regard to reviewing policies that may be suitable for inclusion within budget options for 2008/11.
10. Ensuring a consistent focus on delivery of continuous improvement and modernisation in service delivery whilst achieving cost-efficient performance outcomes is a key component of the Council's medium term performance and resource management framework. The policy and resources strategy process for 2008/11 focused on producing detailed, comprehensive and extensive options and choices that would ultimately form part of the Council's medium term budget proposals moving forward.
11. Through the summer 2007 officers worked on the renewal of the MTFs, which provided a clear and consistent baseline upon which to further investigate policy options and choices across all service areas. On the 13<sup>th</sup> November 2007 the Executive approved the refresh of the four year Medium Term Financial Strategy (MTFS), which aligned the financial strategy of the Council with local priorities, including choices on Council Tax, as expressed through *Southwark 2016*, the Community Strategy, the LAA and the refreshed Corporate Plan.
12. The refresh of the MTFs reiterated the policy imperative that the financial framework of the Council must deliver modernisation and service improvement and maximise efficiencies. Since 2003/4, the Council has achieved savings in excess of Government targets. Savings of £38m have been generated (of which £22m are efficiency savings) and redirected to front line service pressures and priorities. A further £8.3m of efficiency savings and improved use of resources have been identified to balance the 2008/9 budget. This solid track record of achievement on delivery efficiencies is particularly important given the continued government restraint on public spending.
13. Achieving value for money through maximised efficiency is integral to supporting the Council's commitment to keep Council Tax increases to the minimum. Southwark's Council Tax has increased by 13% in the last five years compared to a London average increase over the same period of 32.3%. Inflation over this period has increased by 16%. However, the current level of funding from Government (which funds almost 73% of the council's net revenue budget) means that the Council cannot achieve a sustainable level of savings, keep Council Tax low, support local priorities and maintain current levels of service provision.

### **Local Government Settlement**

14. On 18<sup>th</sup> December the Executive noted the first three year provisional local government grant settlement for 2008/09, 2009/10 and 2010/11 as announced on 6<sup>th</sup> December 2007. The settlement followed the outcome of the Comprehensive Spending Review (CSR) 2007. Southwark for the next three years will receive the minimum increases in grant of 2.0%, 1.75% and 1.5%, which is significantly below the current rate of inflation of 4.0% (January 2008 RPI). The lack of Government funding for inflation has created a budget pressure of £15m over the three-year settlement period.

15. Without the minimum-funding guarantee in 2008/09 Southwark's actual grant allocation would lead to a reduction in funding of £22m. This is largely as a result of the full implementation of formula changes for children and younger adults in social care. The Government has not provided any assurance that a grant floor will continue to be in place after the 3-year period of the CSR2007 (i.e. 2011/12 onwards). Under the Government's current formula arrangements, the council would not reach the grant floor until 2023.
16. This minimum increase equates to cash increases of £4.4m, £3.9m and £3.4m over the three years. Assuming no change in service levels and demand, the 2008/09 increase in grant will mean a real terms cut of about 2.0% (£4.4m). This equates to an increase of 6% on council tax.
17. In announcing the settlement, the Area Based Grant (ABG) replaces the LAA grant from 2008/09. ABG in 2008/09 to 2010/11 has been cut in real terms by £5.2m (20.4%), £0.6m (1.47%) and £2.0m (4.6%) respectively for each year. Unlike the previous LAA grant, the ABG consolidates a number of former specific grants into one block grant that will be without restriction, in that the funding is not for the sole purposes of achieving LAA targets. In effect this means that ABG is treated increasingly as another layer of formula grant, with the significant exception that grant floor protection does not apply. The removal of the ring-fencing into one general block grant will, in accordance with Government guidance, allow the Council to rationalise the use of resources more effectively in line with Council priorities and national performance targets. The government have given no assurance that the ABG will continue beyond the current spending review period (2010/11).
18. The government has ceased the Neighbourhood Renewal Fund (NRF) and a new Working Neighbourhoods Fund (WNF) has been created and consolidated into the new ABG. Indicative allocations announced by the government will result in a real terms reduction in grant of £4.2m (or 59%) for 2008/09. The position for 2009/10 and 2010/11 also remains uncertain. Criteria for this new fund are different from NRF and the ability of the Council and its partners to support a variety of key projects across the borough has been compromised. The Council will need to seriously consider medium term options that balance the achievement of local priorities with the reduced resources available. Given the importance of this funding stream, lobbying government to restore funding levels will continue and the Executive will be kept informed of the position.
19. Specific grants are projected to increase by £3.7m in real terms (1.8%) in 2008/09 largely as a result of the rise in Dedicated Schools Grant (DSG). Aside from DSG, however, all other remaining specific grants have been cut in real terms by £0.6m (-1.3%).
20. The overall impact of the provisional settlement lead to the Finance Director and Chief Executive instigating more detailed scrutiny of options that had been presented within the established policy and resources strategy process to ensure that the resourcing of council priorities could be secured over the three-year period of the settlement.
21. Following the announcement of the provisional settlement, the Council continued to lobby the government and made direct representation to the Minister for Local Government, John Healey MP. John Healey MP asserted that the formula changes were to remain and that no assurance could be given on the future floor protection arrangements. At the time of writing this report, no formal response has been received.

- 22. Southwark, in line with the majority of London Boroughs and London Councils have consistently challenged the robustness of the formula used to determine grant particularly as population projections have been significantly underestimated. Furthermore, the formula changes regards social care have used average unit costs, which do not fully reflect the multiple and complex needs of clients within urban areas such as inner London.
- 23. On 24<sup>th</sup> January 2008, the final settlement was announced and Southwark's position remained the same (i.e. receiving the minimum increase in grant for the next three years). The level of resource planned by government for Southwark falls well short of needs and expectations and is consistent with that of London Authorities and Inner London in particular.



- 24. The government have emphasised as part of the settlement that council tax increases should be minimised and current indications are that they will consider capping any increase above 5% although this is still subject to confirmation. For Southwark a 1% increase in council tax represents approximately £800k. This report assumes a recommended increase in council tax at the current RPI of 4%, which is in line with the MTFS stated objective to maintain council tax increases within inflation levels.
- 25. Taking all of the above into account it is increasingly unaffordable and unsustainable to achieve national and local policy outcomes without a significant re-configuration of service design arising from local policy changes. This is key to achieving a balanced budget in 2008/9 and over the medium term.

## KEY ISSUES FOR CONSIDERATION

### 2008/9 BUDGET AND MEDIUM TERM FORECAST

26. Throughout 2007/8, demands on Council services have continued to increase. This position has been reflected through the regular monitoring processes taking place within the Council, as noted through the second quarter monitoring report that was submitted to the Executive in December 2007. Work continues to manage and contain specific budget pressures that are evident across most services. Health and social care in particular continues to experience significant pressure from the cost of care packages due to increased complexity and volume.
27. Based on current resource forecasts over the three-year period of the settlement there is a total funding shortfall (including ABG) of some £40m. In order to bridge this funding gap over the medium term, plans are being developed which are expected to deliver some £30m of savings from efficiencies and the more effective use of resources. This saving of £30m will exceed the government target for achievement of efficiencies.
28. Within the context of government restraint on public spending and recognising the scale of the funding gap the Council has initiated a process to maximise the opportunities to raise income that will support local priorities and help deliver service improvement. The budget proposals therefore assume additional income accruing from measures to raise income, which exceed existing MTFs targets. Maximising income opportunities will continue to be a focus in the Council's medium term plans.
29. A significant element of savings will be achieved through reducing corporate and strategic budgets, which will be essential to avoid impact on frontline service delivery. Specific efficiencies will be achieved through the rationalisation of corporate and departmental services with a particular focus on reducing the costs associated with the running of the Council. This will include savings of up to 25% of the Council's communications spend across all departments. It will also include a reduction in the number of buildings that the Council owns and maintains.
30. Efficiencies from corporate and strategic budgets will also include a full consolidation of strategic initiatives, activities and support across human resources, finance, policy and performance and procurement, with a number of senior management posts removed from the organisational structure. Streamlining of management structures will also take place across the Council. In addition, there will be a significant reduction in back office functions and the use of consultants and agency staff throughout the organisation will decrease in order to redirect and focus additional resources to frontline service delivery.
31. It will not be possible to streamline back office functions and share support services if the Council continues to work across a large number of locations. The current approach has hidden risks as the costs of administering these buildings to an acceptable standard will become prohibitive and impact adversely on revenue and capital budgets. The result of reducing office space will reduce operational costs (e.g. business rates; utilities; etc.) and will reduce the need to improve the current poor quality of many buildings.

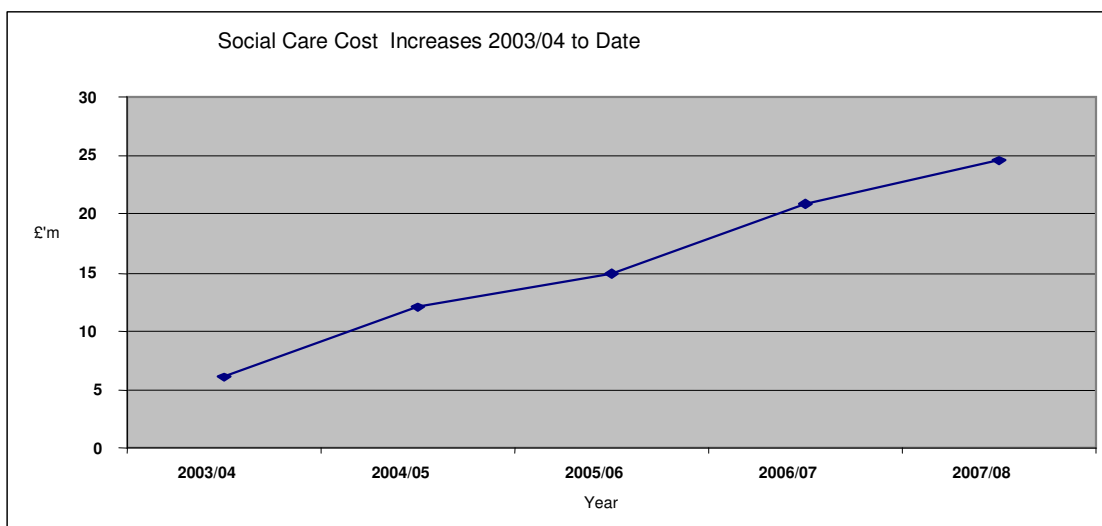
32. The need to achieve improved economies of scale and reduce the strategic and corporate size of the organisation is a key element of a longer-term approach to modernisation and service improvement. This is core to the Council's priorities of achieving modern and accessible services in line with *Southwark 2016*. The modernisation programme and the move to Tooley Street (as part of the office accommodation strategy) will act as a platform to achieve these greater efficiencies, not least with regards to the streamlining of the back office functions and the sharing of support services.
33. However, these ambitious and demanding efficiency plans will not in themselves be sufficient to bridge the funding gap over the medium term. This is because the forecast level of resources within Southwark is failing to keep pace with the rising cost and demand across all council services.

### **Policy and service implications**

34. Prior to the provisional settlement announcement Council officers had been undertaking business and budget planning as part of the policy and resources strategy including assessment of new and unavoidable commitments, efficiencies, other savings, reviews of fees and charges, etc. Budget options were prepared on the basis of a financial remit produced in accordance with the MTFs agreed by the Executive in September 2006 (and subsequent refresh in November 2007) and the request from the Executive in February 2007 to consider more fundamental policy and service areas.
35. As stated earlier in this report, following the announcement of the provisional settlement more detailed scrutiny of options that had been presented within the established policy and resources strategy process has taken place. This section of the report takes each service area in turn and summarises the options considered and conclusions reached.
36. There are key pressures within **environmental** services particularly the Council's commitment to the groundbreaking agreement of the integrated waste management solutions contract (£4m). This represents a significant budget pressure but if the Council were to do nothing and maintain existing provision this would cost an additional £200m over the lifetime of the contract and fail to meet demanding national and local performance targets.
37. A significant level of efficiencies will be achieved through the policy changes for **community warden** service. Options have been investigated ranging from deletion of the service altogether, through to maintaining existing provision. It was considered that the deletion of the service would not effectively address community needs as it is clearly desirable to have a warden service that covers aspects of anti-social behaviour and community safety not covered by the police. To maintain existing service levels, however, was not considered sustainable or cost effective and it has been concluded that a reconfiguration of the service including merging the parks team with the 8 community council warden schemes will produce a level of saving that does not adversely impact on community safety but directs resources to where the public will most benefit.

38. Within **children's services** significant service reductions have been ruled out. Options considered included revisions in children's mental health and in looked after services but as these options continue to carry an unacceptable level of risk to young people and their families at this time no change in service provision is recommended in this report. However, specific areas for greater efficiency use of resources and service improvements have been identified. The creation of integrated multi-disciplinary teams will bring about service improvement from the users perspective by reducing duplication and improving quality of service outcomes.
39. Although significant investment in new children's centres has been delivered over the last few years the attainment of children leaving early years centres needs to improve significantly. The focus for children's services remains the quality of outcomes within fit-for-purpose buildings that points to fewer council maintained settings offering more places and better environments. The resources released from the reduction in council maintained settings will enable the upgrade of existing buildings as part of the long term children's centre programme. There will also be significant savings on running costs and the council will avoid non-cost effective refurbishment work.
40. Furthermore, a greater focus on mixed market provision for early years childcare and education will lead to more choice and a better service. Taken together, and through greater partnership working within the Schools Forum, the proposals outlined above will result in a reduction in costs and improved service to users.
41. All **culture and leisure** facilities are discretionary and remain highly popular with the public. For example, the Camberwell leisure centre continues to attract widespread public support despite its current state of repair and proximity to two other leisure centres. Libraries with relatively low public usage (e.g. Nunhead; East Street; Blue) could be potentially removed from service but these are areas where improving literacy, adult education and children's attainment are highly important for the future of Southwark. This report does not recommend any library or leisure centre closures although Camberwell leisure centre is subject to an ongoing review (see paragraph 44) as previously stated in Executive reports.
42. Given current financial constraints the Council needs to concentrate its limited resources on cost effective cultural and leisure facilities that continue to provide a good range of high performing services to the community. A range of options to better support the Council's overall priority of providing modern, fit for purpose amenities have been considered as part of the overall culture and leisure portfolio with due regard given to service performance, affordability and value for money. After detailed appraisal and in order to avoid long periods of uncertainty or delay this report proposes closure of the Livesey Museum and the Tourist Information Centre in the north of the borough.
43. Reviews of each of the **Town Halls** are currently underway. The reviews include Southwark (31 Peckham Road), Walworth (151 Walworth Road) and Bermondsey (19 Spa Road) Town Hall. The viability of maintaining the Town Halls need to be considered within the context of a poor local government settlement, and guided by the Council's updated asset management plan and MTFS. The asset management plan sets a framework whereby closure of unfit buildings is considered best use of resources taking into account the cost of maintenance and refurbishment work and potential capital receipts. The MTFS aligns the financial priorities of the Council with the need to deliver service improvement in line with overall Council policies. Given the costs of maintaining and refurbishing the existing Town Halls it is difficult to envisage a scenario whereby each Town Hall and its services remain unchanged.

44. The reviews therefore need to consider the current provision of democratic functions (e.g. Council Assembly, Registrars etc.) provided at Southwark Town Hall. At the same time a feasibility study of Walworth Town Hall needs to look at options for the provision of services including locality based services and relocation of democratic functions. Furthermore, the future of Town Hall provision must be considered alongside a wider assessment of locality based services across the borough. This includes Camberwell and the current work underway on the future of the leisure centre, which is considering the feasibility of locating other Council services within a refurbished centre. A report will be brought back to Executive on the outcomes of all of this review work in the early summer 2008.
45. The most significant pressures on resources, as can be seen from the table below, are within **social care** where demand is unsustainable and is costing the council some £4m extra every year.



46. The rise in demand and cost pressure fail to be reflected in the distribution of government grant, which has been further compounded by the changes made to the formula used for determining grant. Under the new way of funding children's social services (introduced in April 2006 but fully implemented in 2008/09) inner London has lost some £125m and Southwark alone has lost £14.1m. In April 2006 a new formula was also introduced to distribute funding for social services for vulnerable adults and again its implementation was not fully carried out until 2008/09. The new formula fails to adequately reflect the complex needs of Southwark as the country's 26<sup>th</sup> most deprived local authority in England and therefore the borough loses £25.7million, which is 50% of the Council's current funding for adult social services.
47. Given the absence of adequate government support and the bleak medium term forecast in resources for social care, the pressure on spend is now both unaffordable and unsustainable, particularly if local priorities are to be delivered alongside the achievement of social care outcomes.



48. Service provision options on social care have been looked into in some detail. Taking into account the demographics of the borough and the high level of demand and need there are considerable sensitivities attached to taking forward any particular proposal that require service reduction. In total Southwark supports some 8,000 clients, with needs ranging from moderate towards the most critical, whereas nationally 75% of councils provide for critical and substantial needs only and in London only 8 out of the 33 councils continue to provide at the moderate level. As a result Southwark has high levels of demand and spend pressures within the social care system. Alternative options are not without complexity.
49. After looking at a range of options this report recommends that the Council considers changing the level of eligibility at which clients will receive support funded by adult social care for funding from “moderate” to “critical” and “substantial”. This option was driven principally by the lack of affordability attached to maintaining existing provision given the failure of government grant funding to keep pace with Southwark’s overall needs. In considering raising criteria the impact on those receiving social care covered by all bands of the eligibility criteria will need to be evaluated and very closely monitored to ensure Southwark continues to deliver long term improvement outcomes for clients. Taking into account all of the above, it is recommended that the Strategic Director of Health & Community Services report back to the Executive at its next meeting on consultation with users, carers and local people on changing the Eligibility Criteria for Adult Social Care Services.
50. There are options with regards the future provision of day care services for adults across the borough. Spare capacity has been identified in the north of the borough. In order to provide further improvements that secure better outcomes for service users alongside a more efficient and cost-effective service it is proposed to integrate existing provision. Integration will result in the merger of the two Council run day centres in the north of the borough without any loss of service for those users who currently attend either centre. These proposals will be subject to necessary consultation with users, carers, key stakeholders and staff.
51. The council funds welfare rights and advice services through partnership work with organisations in the voluntary sector as well as in-house welfare rights services. This service is currently provided across a number of council departments therefore there is scope through rationalisation to produce a one-stop point of access and advice, which will deliver improved services to users.
52. The Council’s **major regeneration** schemes are all discretionary services. The Council has the option to cease regeneration activities but this will reduce the Council’s ability to achieve long-term goals. The Aylesbury estate project offers the greatest opportunity for scaling back as it is still at an early stage of planning. There are significant project and development revenue costs associated with the Aylesbury Project Team amounting to a minimum of £600k per annum. In addition there are substantial upfront capital costs relating to site acquisition and preparation including leaseholder buy-back costs.

53. The draft budget for 2008/9 includes £2m of resources to support the development and regeneration of the borough but the lack of government support in the settlement means the Council must consider if this is the best use of resources. The Council is involved in detailed negotiations with the New Deal for Communities (NDC) Board regards ongoing support for the Aylesbury project to enable it to continue to proceed as planned which in turn will give residents confidence that the project can be delivered. The Executive will be kept informed as to the outcomes of ongoing discussions.
54. Recent changes to the procurement rules for Building Schools for the Future have significantly raised Council costs and London Chief Executives will be requesting urgent meetings with Partnership for Schools (PfS) to negotiate additional revenue support to meet the increased cost of DCFS prescribed procurement strategy (i.e. the establishment of a special purpose vehicle known as the Local Education Partnership). The Executive will be kept informed of outcomes of ongoing discussion.
55. The level of annual grant support given to the voluntary and community groups could be decreased by either reducing grants, top slicing grants or not passing on inflationary increases. The voluntary sector in Southwark is large and growing and the demands on the limited resources are always greater than this available. Since the voluntary sector is seriously hit by the reduction by NRF, it will be difficult for the sector to manage more reductions in one year with such a limited notice period. This report recommends that the Chief Executive in consultation with the Southwark Alliance will lead a review of the Council's annual grant programme and report back to the Executive with recommendations in the next financial year. The Council also gives significant corporate support to the Mayors charities and this will also be covered in the review.

## GENERAL FUND BUDGET 2008/09

56. Taking into account all of the above, the proposed budget for 2008/9 is summarised in the table below. The table sets out the expected resources based on the information received to date in the final local government settlement. Details relating to the commitments, efficiencies and other savings are set out in Appendices A to E respectively. It assumes central government grant (Formula Grant) of £223.6m and a council tax increase of 4% (RPI is currently 4%, January figures). The 2008/09 budget proposals are in line with the financial remit as outlined in the MTFs and the Corporate Plan.

	<b>£'000s</b>
Formula Grant	(223,544)
Council Tax	(84,347)
Projected collection fund surplus 2007/08	(1,139)
<b>Total Income resources (at 4% Council Tax increase)</b>	<b>(309,030)</b>
Adjusted 2007/08 budget updated for inflation and including contributions to balances.	310,284
Commitments	10,727
Efficiency savings and effective use of resources	(8,175)
Income, fees and charges	(1,546)
Other Savings	(2,260)
<b>Budget Requirement</b>	<b>309,030</b>

### Collection Fund Monitor 2007/08

57. The estimated balance on the Collection Fund for Council Tax transactions to 31st March 2008 is a surplus of £1.533m, of which Southwark's element is £1.139m.

	£M
Southwark Council	1.139
Greater London Authority	<u>0.394</u>
<b>Total surplus</b>	<b><u>1.533</u></b>

58. The surplus is due mainly to higher than expected total council tax billing in 2006-7 and a reduction in the provision made for bad debts based on advice received from the Audit Commission. The surplus is one-off and must be utilised to reduce the demand on Council Tax payers in 2008/9.

### Dedicated Schools Grant

59. The estimated allocation of Dedicated Schools Grants for 2008/09 is £172.9m and now makes up to 80% of the total specific grants to be allocated in 2008/09. However the DSG allocation is based on estimated pupil numbers, adjusted to reflect the transfers to academies, and so will be subject to change once the pupil numbers are verified. This estimated allocation gives a cash increase in 2008/09 of £10.7m (6.6%) and a real terms increase of £4.2m.
60. The DSG per pupil guaranteed level of funding will increase by 4.2%, comprising a 2.1% increase in the minimum funding guarantee, 1.1% for ministerial priorities and a further 1% headroom. The overall income to the Schools Budget will only increase by 3% instead of the 4.2% due to an estimated reduction of 325 in pupil numbers. All schools will receive at least the minimum funding guarantee (MFG) set by the government at 2.1%, comprising cost pressures of 3.1% less an assumed 1% efficiency saving.
61. The Executive will receive an updated report on the Schools Budget and DSG at its meeting on 11 March 2008.

### GLA PRECEPT

62. The GLA are to set their budget and precept on 13th February 2008. The draft budget has indicated an increase in precept of £7.28 (2.4%).

### INDICATIVE MEDIUM TERM FINANCIAL PLANS

63. The draft indicative budget proposals for 2009/10 and 2010/11 are set out in the table below. The table summarises the expected resources based on the information received to date in the final local government settlement. Details relating to future commitments, efficiencies and other savings are set out in appendices A to E respectively. The plans assume central government grant (Formula Grant) of £227.3m in 2009/10 and £230.7 in 2010/11. The plans are in line with the MTFs and local priorities.

	2009/10	2010/11
	£'m	£'m
<b>Estimated Resources</b>	<b>(314.8)</b>	<b>(321.3)</b>
Adjusted priors years budget updated for inflation	319.1.	326.4.
Commitments	9.1.	4.6.
Efficiencies and use of resources	(10.5)	(9.6)
Income, Fees and Charges	(0.4)	(0.1)
Other Savings	(2.5)	(0.0)
<b>Budget Requirement</b>	<b>314.8.</b>	<b>321.3.</b>

## **ACHIEVING EFFECTIVE AND EFFICIENT USE OF RESOURCES**

### **A strong and stable resource base**

64. In setting out the proposed budget for 2008/9 the Finance Director as the statutory section 151 officer is assured that spending commitments and proposed savings have been set within the resources available that meet local priorities. The budget for 2008/9 is therefore considered to be robust.
65. In addition to ensuring that sufficient funds are available to finance the ongoing management of Council services, the Finance Director needs to be assured that there is an appropriate level of reserves and balances available. Reserves and balances are needed in any event but especially to protect against risks due to the size, scale and complexity of projects and services.
66. Maintaining an adequate level of reserves, balances and risk are key factors in the Finance Director's assessment of the robustness of the budget. In November 2007, the Executive agreed to a refreshed medium term financial strategy that set a target level of working balances of £20m over the course of the current administration, in line with similar organisations in London. The Council has made progress to achieving this level of balances, currently standing at £16.8m as included in the audited accounting statement for 2006/07. The Finance Director will continue to review the level of balances and reserves and report to the Executive through the normal quarterly finance and performance monitoring process.
67. Furthermore, financial plans have been put in place for 2009/10 and 2010/11 to enable priorities to be delivered within the resources available to the Council.

### **Effective use of resources**

68. The Council is expected to use resources with regards to economy, efficiency and effectiveness. The Council's MTFS sets the framework for delivering a financial planning environment that achieves the effective and efficient use of resources and maximisation of resource opportunities in order to achieve long-term policy outcomes. In the latest Use of Resources judgment, which forms part of the Council's CPA, the Council was scored 3 out of 4 by the Audit Commission. Overall improvement was highlighted, particularly for the management of business risks, ensuring probity and overall financial reporting arrangements.
69. As part of the Use of Resources the auditors judged the Council to be performing well with regards the achievement and improvement of value for money, particularly highlighting the Council's strong awareness of cost and performance. The judgment highlighted the need to review high cost areas such as social care in seeking opportunities for greater efficiencies and sustained value for money outcomes. In agreeing the 2008/9 budget and implementing the policy changes highlighted in this report, the Council is having due regard to the medium term strategic and financial planning framework, including the refresh of the LAA and Corporate Plan through 2008/9.

## **Risk Management**

70. Risk management is integral to the Council's business processes and as such is being increasingly aligned to business and budget planning. In preparing budget options, officers have assessed associated potential risks and prepared containment actions as appropriate. These will be monitored on an ongoing process as part of the overall arrangements for risk management.

## **CAPITAL**

71. In February 2007, the Council agreed a ten-year capital programme, which secures the physical renewal of the borough by combining plans for major regeneration and housing, leisure, environment and schools with the Community Strategy and Council's Corporate Plan. The programme is fully committed and the Executive noted an in-year monitoring position with regards delivery of the programme on 29th January 2008. The future delivery of the capital programme needs to be considered within the context of current funding restrictions and will particularly suffer from any detrimental impact on the plans for major regeneration.

## **HOUSING REVENUE ACCOUNT**

72. The Housing Revenue Account (HRA) reflects the statutory requirement under Section 74 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It is a ring-fenced account, containing solely the costs arising from the provision and management of the Council's housing stock, offset by tenants rents and service charges, housing subsidy, leaseholder service charges and other income.
73. The HRA rent setting and budget report was approved by the Executive on 29th January 2008, following consultation, which commenced with the Tenants Council meeting of 8th January 2007. This meeting referred the report to individual area housing forums for consideration during January, and a consolidated response was received from a further Tenants Council meeting on 28th January 2008.

## **CONSULTATION**

74. The Council consults with relevant stakeholders with regards the wider Policy and Resources Strategy process.

## **COMMUNITY IMPACT STATEMENT**

75. This report outlines budget proposals for Council services following the local government settlement and with a Council Tax increase of 4.0%. It should be noted that the policy options being recommended for approval in this report will have a significant community impact and consultation will need to take place where required.

## SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

### Strategic Director of Legal and Democratic Services

76. The statutory requirement to calculate and agree the Council's annual budget of the Local Authority is derived from section 32 of the Local Government Finance Act 1992 ("the 1992 Act"). Section 65 of the 1992 Act imposes a duty on the Council to consult with representatives of the business ratepayers in the Borough before making the calculation required under section 32 of the 1992 Act.
77. It is provided under section 67 of the Act that final decisions on the budget and council tax level for 2008/09 must be made by the Council Assembly and cannot be delegated to the Executive or to a Committee. This provision is reflected in the Council's Constitution Article 4.

### REASONS FOR URGENCY

78. This report is urgent owing to the Council's obligation to set a lawful budget by statutory deadlines and the need to ensure all the necessary preparatory administrative and financial arrangements are in place prior to the next financial year. All local authorities are required to set their council tax by 11<sup>th</sup> March 2008, this Council will set the Southwark Council Tax on 20<sup>th</sup> February 2008. Any delay to this date would mean the council would have to move its instalment date beyond 1<sup>st</sup> April 2008 resulting in loss of income to the council.

### REASONS FOR LATENESS

79. Following the timing of the final announcement of the local government settlement and other specific grants on 24<sup>th</sup> January 2008 officers have been working towards finalising the budget proposals. It has not been possible to complete this final proposal until after the agenda despatch.

### BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resources Strategy and budget working papers	Southwark Town Hall Peckham Road London SE5 8UB	Cathy Doran, 020 7525 4396  Stephen Gaskell, 020 7525 7293

### APPENDICES

No.	Title
Appendix A	Summary of Proposed Budget Options
Appendix B	Commitments
Appendix C	Efficiencies and Use of Resources
Appendix D	Other Savings
Appendix E	One-off Commitments

**AUDIT TRAIL**

<b>Lead Officer</b>	Duncan Whitfield, Finance Director	
<b>Report Author</b>	Simon Hughes, Assistant Finance Director Cathy Doran, FMS Stephen Gaskell, Corporate Planning and Performance	
<b>Version</b>	Final	
<b>Dated</b>	7 February 2008	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Strategic Director of Legal and Democratic Services	Yes	Yes
Finance Director	Yes	Yes
All Chief Officers	Yes	Yes
<b>Executive Member(s)</b>		<b>Yes</b>
<b>Date final report sent to Constitutional Support Services</b>	7 February 2008	