

Item No. 4.1	Classification: Open	Date: 23/02/05	Meeting Name: – Council Assembly
Report title:		Policy and Resourcing - The Council's Medium Term Financial Strategy and the 2005/06 Revenue Budget (The Budget and Policy Framework)	
Ward(s) or groups affected:		All	
From:		Executive	

RECOMMENDATION (S)

1. That Council Assembly agrees:
 - i) a general fund budget of £437.2 million as set out in paragraph 11;
 - ii) a council tax rate of £859.06 for a band D property, for Southwark purposes only;
 - iii) the Medium Term Financial Strategy (as set out in appendix 1), including the objective of increasing working balances.
2. That Council Assembly note that one off expenditure identified in paragraph 19 be funded from underspends in 2004-05. Any further underspends to be used to increase working balances in line with the Medium Term Financial Strategy.

BACKGROUND

3. The Executive has worked up budget proposals for 2005/6 based on existing policy objectives (as described in the Corporate Plan, which is considered elsewhere on the agenda) and a 3.6% Council Tax increase. Budget proposals have taken account of local growth pressures, national government priorities and considerable attention has been given to achieving efficiency savings in 2005/6.
4. On 26th January, Council Assembly approved the Council tax base and collection rate for 2005/06.
5. The final local government finance settlement was announced on 27th January and formally approved in Parliament on 2nd February.
6. At the Executive meeting of 8th February an amendment was agreed that £115,000 of resources be allocated to working balances.

KEY ISSUES FOR CONSIDERATION

2004/5 Monitor

7. The latest revenue monitor is showing a projected underspend of £1.6m. £1m of this underspend relates to the as yet unused resources for “unsupported borrowing” in line with the prudential code. Executive agreed on the 8th February that underspends from 2004-05 be used to finance one-off activities (as set out in paragraph 19) in order to avoid the expenditure becoming a burden on the general fund budget in 2005/6.

Prudential code

8. The 2004/5 budget assumed £1m provision as agreed by Council Assembly on 18th February 2004 for “unsupported borrowing” in line with the prudential code. The prudential code was introduced so that authorities could maximise capital resources. In line with that agreement, Council Assembly moved an amendment that the £1 million for “unsupported borrowing” may only be utilised on the express instructions of the Executive in the event that other sources of finance for the capital programme cannot be achieved.
9. Although the £1m is not now expected to be utilised in 2004/5 the Audit Commission considers the use of the prudential code for maximising capital resources good financial management. Use of the prudential code is also likely to be linked to the ‘Use of Resources’ judgement as part of CPA 2005. On this basis, provision has been retained within the 2005/6 budget proposals.

Resources 2005/6

10. Assuming a 3.6% increase in Council Tax the resources now available to the Council for 2005/06 are:

	£'000s
Income from Formula Grant and NNDR	360,219
Income from Council Tax – assuming a 3.6% increase	76,992
TOTAL Revenue Resources Available	437,211

Revenue Budget 2005/6

11. The following two tables set out the expenditure profiles for 2005-06. The figures assume full passporting for the education service, savings, commitments and meeting policy objectives across all other key service blocks.

	£'000s
2004/5 budget updated for inflation	416,142
Commitments	7,196
Functional Changes	2,085
Less Growth agreed for one year only	(2,313)
Identified savings including efficiency and previous decisions	(5,568)
Passporting to Education	12,659
Growth	7,010
Total	437,211

12. Therefore the proposed allocation of the 2005/06 budget to services is;

2 0 0 5 / 0 6 B u d g e t	
	£ 'm
E d u c a t i o n	1 8 7 . 7
S o c i a l S e r v i c e s	1 2 1 . 2
E n v i r o n m e n t & L e i s u r e	4 8 . 9
R e g e n e r a t i o n	1 2 . 9
H o u s i n g G e n e r a l F u n d	1 9 . 2
S t r a t e g i c a n d C o r p o r a t e B u d g e t s	4 7 . 3
T o t a l	4 3 7 . 2

13. Despite what is regarded as a good financial settlement from the government practically all of the growth potential for 2005/6 as outlined in appendix 2 has been created through redirection of funding and identification of savings.

14. Appendices 3 and 4 highlight in detail the commitments and savings respectively, which have been accounted for in the figures above.

Council Tax

15. The 3.6% increase in Council Tax proposed by the Executive is based on an earlier government forecast of average Council Tax increase for England and Wales. In announcing the final Local Government Finance Settlement the government have now revised the expected national average increase to 3.8%. In announcing the settlement the Local Government Minister Nick Raynsford said:

"....we expect to see lower council tax increases next year. Average council tax increases in England in 2005/06 should be less than 5%. We used our reserve capping powers for the first time last year to deal with excessive increases. We are prepared to take even tougher action next year than we did in 2004/5 if that proves necessary. High council tax increases are a thing of the past. We will not tolerate excessive council tax increases either next year or in years to come."

16. All local authorities are required to set their Council Tax by 11th March 2005 therefore it is difficult at this stage to predict likely increases or compile comparative information for 2005/6. This Council will set its own Tax on 23rd February 2005 (the date to which this report refers). As in previous years any delay to this date will mean the Council would have to move its instalment date beyond the 1st April, which would result in a loss of income to the Council from cash flow and could seriously jeopardise Liberata's ability to meet its collection targets with the resulting cost to the Council.

17. In proposing a Council Tax increase of 3.6%, the Executive took into consideration the fact that for the past two years the Council has set Council Tax levels below both that assumed by government and other local authorities. This is explained in detail in the table below.

COUNCIL TAX COMPARISONS

2004/05 2003/04 & 2002/03

Local authority	Band D Council Tax for the authority	Increase in Council Tax for the authority	Band D Council Tax For the authority including GLA precept	Increase in Council Tax for the Authority Including GLA precept
	£	%	£	%
2004/05				
England	N/A	N/A	1,167	5.9
Greater London	878	5.3	1,119	5.8
Southwark	829	2.3	1,071	3.5
2003/04				
England	N/A	N/A	1,102	12.9
Greater London	834	15.5	1,058	18.2
Southwark	810	4.3	1,034	8.9
2002/03				
England	N/A	N/A	976	8.2
Greater London	722	4.6	895	6.4
Southwark	776	3.6	950	5.6

Southwark's council tax is now 8.2% below the national average and 4.3% below the London average.

GLA Precept

18. The Mayor of London is proposing a 5.5% increase in the GLA precept for agreement at the Greater London Assembly on 14th February. The table below sets out the overall increase if the Mayor's current proposals are agreed:

	2004/05	2005/06	Increase
GLA precept	£241.33	£254.62	5.5%
Southwark precept	£829.21	£859.06	3.6%
Total Band D council tax	£1,070.54	£1,113.68	4.0%

One-off activities

19. The growth package now proposed by the Executive includes a number of one-off activities. These one-off activities, totalling £1.6m, are listed in Appendix 5.
20. The one-off activities are to deliver improved corporate capacity and for meeting policy objectives. It would be prudent to fund such activity from underspends in 2004-05 in order to avoid putting additional strain on the base budget.

21. In addition, proposals are being prepared for the development of an end-to-end purchase to payment system. The system will result in improved processes and it is anticipated that savings will be generated, thereby contributing to the Council's drive for greater efficiency. A full business case will be required to be worked up before any expenditure is committed to this project.

A STRONG AND STABLE RESOURCE BASE

22. The Council has a good track record in achieving a strong and stable resource base. Managing risk and maintaining an adequate level of reserves and balances are key determinants in order for the Chief Finance Officer (CFO) to assess the robustness of the budget. The Annual Audit and Inspection Letter reported to Executive on 1 February noted that the Council's overall financial position remains sound. Risk management is integral to the Council's business processes and as such is aligned to business and budget planning.

Reserves and Balance

23. Under the provisions of the Local Government Act 2003 the Chief Finance Officer is expected to offer formal advice on the adequacy of the level of reserves underpinning the budget recommendations to Council Assembly. The Council has significant earmarked reserves and provisions. The reserves underpinning the budget recommendations are referred to as the "working balances" and are the funds available to meet unforeseen eventualities, risks or pressures.

24. The Council's guideline level of working balances has been £8 million for a number of years. This represents approximately 1.8% of current net general fund revenue expenditure. When this level was set it would have represented a higher proportion. Many local authorities, including those assessed as excellent under the CPA, have balances significantly higher than this level. Indeed there is some assumption through the CPA that local authorities need to consider balances of at least 5% of their net budgets. This would indicate a level of working balance for Southwark of £22million. The CFO would not currently advocate such a figure as being achievable in the medium term, however, there is a clear indication that the level of working balances at £8million is inadequate for the challenges inherent at this time.

25. The level of Council balances depends to a great extent on the level of risk inherent in the underlying decisions. The level of balances deemed sufficient is also informed by the extent to which the working balances have been called upon in previous years. For example, there have been calls on the balances of between £1.3 million and £4 million in previous years. This shows a level of volatility, which would be expected in an organisation the size and complexity of Southwark. This year, as indicated previously, and with the identification of a number of medium term pressures, it is therefore considered important to re-assess the appropriate guideline level of balances for the Council.

26. In these circumstances the CFO advises that the working balances within the context of the medium term financial strategy should be increased to £10 million. In accordance with this the CFO recommends that any further underspends from 2004-05 be targeted to increase the level of working balances.

A robust budget

27. Under the provisions of the Local Government Act 2003 the Chief Finance Officer is also expected to state formally whether the budget is a "robust" one. It is the CFO's view that the Council's process for setting the 2005/06 has, so far, been robust. Further advice will be offered to the Council Assembly should amendment be made to the proposals contained in this report.
28. A programme of redirection of resources and identification of savings has resulted in the opportunity to allocate resources to meet a number of medium term pressures and demands which include among others community safety, waste/recycling, Customer Service Centre (CSC) implementation, development of the Elephant and Castle and measures to tackle poverty and the regeneration of the borough. At a Council Tax increase of 3.6% for Southwark purposes the Council could meet its policy objectives and enhance reserves. This would provide an under-lying assurance against the inherent risks and medium term pressures that we are likely to face.
29. The steps that Members have taken to prepare the budget need to be consolidated through making some minor changes to the Council's Medium Term Financial Strategy. The full revised strategy is set out in Appendix 1.

Future years

30. Predicting future years funding is very difficult at present due to several factors. Firstly the freeze on changes to the formula grant calculation only apply up to 2005-06. Secondly the government channelled in additional resources to keep council tax increases low for 2005-06, which is unlikely to be repeated in future years. Finally the consequences of the completion of the Lyons review into the balance of funding, and the move to three year settlements are at this time unknown.

CONSULTATION

31. The necessary consultation requirements have been carried out.

LEGAL IMPLICATIONS

32. The requirement to calculate and agree the Council's annual budget requirement derives 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 business ratepayers in the borough before making the calculations required under section 32 of the Act. Under section 67 of the 1992 Act final decisions on the budget and council tax level for 2005/6 must be made by Council Assembly and cannot be delegated to the Executive or to a Committee.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resourcing Strategy and budget working papers	Town Hall	Cathy Doran, extension 54396
Corporate Efficiency Programme paper to Executive 8 th February		Stephen Gaskell, extension 57293

Audit Trail

Lead Officer	Bob Coomber, Chief Executive Eleanor Kelly, Director of Finance	
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CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	Comments Sought	Comments included
Borough Solicitor & Secretary	Yes	Yes
Director of Finance	Yes	Yes
<i>List other Officers here</i>	-	-
Executive Member(s)	Yes	Yes
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