

Item No. 5.1	Classification: Open	Date: 22/02/06	Meeting Name – Council Assembly
Report title:		Policy and Resourcing - The Council's Medium Term Financial Strategy and the 2006/07 Revenue Budget (The Budget and Policy Framework)	
Ward(s) or groups affected:		All	
From:		Finance Director	

RECOMMENDATIONS

1. That Council Assembly agrees a general fund budget for 2006/7.

BACKGROUND

2. On 31st January the Executive noted budget proposals for 2006/07, at indicative levels of Council Tax in the context of medium term policy commitments and pressures across the full range of Council services as outlined in the draft Corporate Plan.
3. The resource forecasts at that time were based on the provisional local government settlement as announced on 5th December 2005. The final settlement was initially announced on 31st January and formally approved in Parliament on 6th February. This report now amends the resource figures based on the final settlement. This amounted to an additional £68k in general grant for the Council.
4. It was noted within the report of 31st January that officers were proposing savings and efficiencies for 2006/07 and thereafter amounting to £8.6m per annum. At the meeting the Executive agreed to adopt these proposals and also a series of additional options for savings and efficiencies amounting to a further £1.083m.
5. The Executive agreed not to accept some of the potential savings options that were identified amounting to approximately £1.6m on the basis that they would impact on front line services. However they instructed officers to explore alternative savings and efficiencies. Specifically, the Executive requested urgent and more detailed reviews of back office functions and in particular the further potential for integrated support for the new Children's Service and improved working arrangements across the property function.
6. With regards to capital, on 31st January the Executive agreed that in addition to those resources previously approved for the capital programme 2005/2009, approval be given to the new capital bid proposals identified as unavoidable and urgent, totalling £3.25m (see Appendix C).
7. The Executive also noted that current forecast for capital resources are not sufficient to fully meet the level of demand from service departments. The Finance Director, following instruction from Executive, will complete a more detailed analysis of capital investment options for consideration by the Executive in the summer. A high level summary of the General Fund capital programme for the period 2006/09 is provided in Appendix D. The Housing Investment Programme resources and allocations are given in Appendices E(i) and E(ii).
8. Further, the Executive agreed to recommend to Council Assembly that prudential borrowing be used for the acquisition of the Old Kent Road site in support of the Waste PFI project in order to protect the Council investment as a result of the Mayor's proposal for a London Single Waste Authority. At their meeting of 2nd February, the Regeneration and Resources Scrutiny Committee requested that the Executive gain the fullest possible assurance from government

regards the transfer of the burden of debt to the Mayor should responsibility of power pass to the Mayor and GLA.

9. The Executive will propose their final budget recommendation for reference to Council Assembly at their meeting of the 14th February 2006. A supplementary report to this with a formal budget statement will be circulated following that meeting.

KEY ISSUES FOR CONSIDERATION

Position following Executive meeting on 31st January 2006

10. The report to Executive on 31st January, established a balanced budget position on General Fund at a Council Tax increase of around 3.5%. This reflected a comprehensive assessment of spending needs for all departments, offset in part by efficiency and savings targets of around £8.6m (approximately 3.1% of net expenditure). The efficiencies identified matched the minimum Gershon target for cashable savings and will require considerable programming, planning and management to deliver through 2006/07.
11. Options were provided by officers to meet a lower level of tax increase, subject to the agreement of the Executive. The Executive accepted a number of these options totalling £1.083m. A full list of the savings agreed to date are shown on Appendices F(i) and F(ii). In addition officers were requested to investigate alternative options for savings that would not impact on front line services.
12. After amending the 2006/07 Base Budget Requirement in line with these decisions, and taking into account the £1.083m of savings options agreed by the Executive on 31st January, the amount to be financed by Council Tax amounted to £78.897m. This represents a Council Tax increase of approximately 2.05% to balance the budget and to fully finance the estimated costs of service needs. Table 1 below summarises the current position following Executive on 31st January.

Table 1

Council Tax Requirement following Executive on 31st January 2006

	£'000	£'000
2006/07 Base Budget Requirement (including inflation and unavoidable commitments excluding savings and efficiencies)		295,927
Less :-		
Efficiencies	(4,514)	
Other Savings / Increased Income (including Youth PSA)	(5,176)	
Total Savings, Efficiencies and Other Income		(9,690)
Revised 2006/07 Base Budget Requirement		286,237
General Grant		(207,340)
Updated Council Tax Requirement after Executive 31st January 2006 (this equates to a 2.05% increase in council tax)		78,897

13. Given the decisions of the Executive taken on the 31st January, the three options for tax as originally requested are represented in Table 2 below:

Table

2

Council Tax Options following Executive on 31st January 2006

	Tax Options		
	No Increase	2.5%	5.0%
	£'000	£'000	£'000
Revised 2006/07 Base Budget Requirement	286,237	286,237	286,237
General Grant	(207,340)	(207,340)	(207,340)
Council tax	(77,314)	(79,247)	(81,180)
Total Resources	(284,654)	(286,587)	(288,520)
Net Position	1,583	(350)	(2,283)

14. Having taken into account the additional efficiencies and savings agreed by the Executive on 31st January and before including the outcome from further work requested from officers, further savings of £1.583m would be required in order to enable Council Tax to be set at current levels (0%). At an increase of 2.5%, a small surplus of £350k would be available for priority growth options rising to £2.283m at a 5% increase.

Current Position

15. As requested by the Executive, Chief Officers have established targets for further savings that enable the Executive to reconsider a range of Council Tax options. Further stretched targets are now included for the integration of support across Children's services to be shared equally across Education and Children's Services and for further back office efficiencies to include property functions. In addition, two additional sources of income have been identified that provide additional funding sources to support one off commitments in 2006/07 in the savings targets are set out in Table 3.

Table 3

Additional Efficiencies and One Off Income identified since 31st January

Description	Amount
	£'000
Further integration of children's support services	150
Further efficiencies in back office functions (including property management arrangements)	200
Additional one off income	500
Total Additional Efficiencies and One Off Income	850

16. While Chief Officers are committed to achieving these increasingly ambitious targets over and above those previously offered, they create additional financial risk and uncertainty within the base budget. In generating these targets there has been limited review in terms of assessing the options in detail. However the Finance Director is mindful that within a total net General Fund budget of £435.9m (including schools) such a level of risk is not unreasonable. However, these must be supported by appropriate levels of reserves and balances, which he will seek to

strengthen through the Medium Term Financial Strategy, subject to the agreement of the Executive and Council Assembly.

17. Furthermore in support of the ambitious efficiency programme, detailed plans will need to be established over the coming months and priorities and management arrangements reviewed to ensure delivery. This position will need to be closely monitored through 2006/07 and regular updates will be reported to the Executive.
18. In addition, since the Executive met on the 31st January the Council has been notified of additional one off income. This relates to an update on the Youth PSA reward grant and an announcement on Local Authority Business Growth Incentive (LABGI) scheme. The Youth PSA award has now increased by approximately £300k for 2006/07 and 2007/08 only. This includes the same increase for capital over the two years and options for use of this will be presented in a report to Executive in the summer.
19. The LABGI award represents a one off windfall of £1.3m in 2005/06. This is the first year of the LABGI scheme and it is still surrounded by some uncertainty. For 2005/06, 19 London authorities failed to receive any award; awards ranged from over £3m (Westminster) to as little as £1,400 (Lambeth). It is proposed that the 2005/06 award of £1.3m will be set aside to contribute towards one off pressures in 2006/07 and thereafter such as major regeneration and environmental projects, subject to the agreement of the Executive.
20. The award is only payable on achieving a certain level of business growth and this becomes more difficult year on year as the baseline is increased. It therefore cannot be assumed that the same level of grant will be received in 2006/07. However it is not unreasonable to assume that the Council could continue to receive an award and a modest estimate in the region of £200k is now anticipated in 2006/07 and included in Table 3 above.
21. If the Executive agree to these further options as outlined in Table 3, a Council Tax increase of approximately 0.95% (approximately £733K) would be required to fully resource the net spending requirements on General Fund for 2006/07. If the Executive agree to these new proposals, the impact on the council tax options will be as outlined in Table 4.

Table 4

Council Tax Options including new proposals

	Tax Options		
	No Increase	2.5%	5.0%
	£'000	£'000	£'000
Net Position (per Table 2)	1,583	(350)	(2,283)
Savings Target (Table 3)	(850)	(850)	(850)
Revised Net Position	733	(1,200)	(3,133)

22. Having taken into account the new proposals, further savings of £733k would be required in order to enable Council Tax to be set at current levels (0%). At an increase of 2.5%, a surplus of £1.200m would be available for priority growth options rising to £3.133m at a 5% increase.
23. This assumes that all of the one off LABGI award is taken into specific reserves for regeneration and environmental projects. Alternatively, in order to achieve a zero increase in Council Tax, the Executive may wish to consider using part of this windfall. However, this will not help support the base budget requirement beyond 2006/07 and will need to be addressed as part of the 2007/08 budget setting process.

Other Resource Considerations

24. The council was advised of a provisional Dedicated Schools Grant (DSG) for 2006/07 of £172.8m. This will be fully passed on to the individual schools budget and other pupil related services in agreement with the schools forum and in accordance with regulations. The Finance Director will be required under these regulations to sign off the Section 52 Education Budget Statement for 2006/07.
25. The Council is a key beneficiary to Neighbourhood Renewal funding (NRF). The NRF allocation of £12.2m and £10.8m for 2006/07 and 2007/08 respectively is given in detail at Appendix B.

GLA

PRECEPT

26. The GLA are to set their budget and precept on 15th February 2006. The draft budget has indicated an increase in precept of £33.80 (13.3%) and Band D Council Tax. This includes for the first time the £20 per household increase for the Olympics. Excluding the Olympics element, the increase amounts to approximately 5.5%. This overall increase would equate to a 3.1% rise on the Southwark Council Tax bill.

A STRONG AND STABLE RESOURCE BASE

27. The Council has a good track record in achieving a strong and stable resource base. This has been achieved while maintaining Council Tax at seventh lowest in London.
28. As noted in the report of 31st January 2006, managing risk and maintaining an adequate level of reserves and balances are key determinants in order for the Finance Director to assess the robustness of the budget. The Annual Audit and Inspection Letter as reported to Executive noted that the Council's overall financial standing continues to be sound although concern was expressed to sustain reserves and balances at an appropriate level.
29. Furthermore, it should be recognised that the Council has already achieved approximately £10m cashable efficiency savings over the last two years as recorded against Gershon targets. A further £4.5m has so far been agreed by the Executive for 2006/07 and an additional £350k is proposed as an option within this report. Increasingly these targets are being stretched and therefore the risks associated are increasing. Close monitoring will continue to ensure their delivery and enhanced management arrangements have been put in place to oversee the programme moving forward. However, the impact of any shortfall in achieving these targets will need to be managed appropriately to avoid impacting on front line services.

A robust budget

30. Under the provisions of the Local Government Act 2003 the Finance Director is expected to state formally whether the budget is a "robust" one. Following the Executive's budget recommendation to Council the Finance Director will be required to give his view on the robustness of the budget.
31. This report has outlined the resourcing framework for the delivery of the Corporate Plan. In doing so the Council continues to meet existing policy commitments with particular emphasis on demand pressures within adult and children's social care, waste management, community safety, and key regeneration schemes. This will be achieved alongside a low level of increase in Council Tax. It is only as a result of the drive for continuous efficiency, and effective management of resources that the council can achieve its overall objectives.
32. The District Auditor in his annual audit letter says "The Council needs to continue to ensure that its medium-term financial strategy is robust and that reserves and balances adequately reflect ongoing needs and new risks emerging from major longer term priorities". Under section 25 of the Local Government Act 2003, the Finance Director, as Section 151 officer, is

responsible for reporting on the adequacy of the proposed financial balances and may make recommendations in relation to this.

33. The latest revenue monitor for the current financial year is reporting a small surplus of £0.146m on General Fund activities. This position includes a range of positive and negative variations. All unavoidable pressures and ongoing gains being experienced during 2005/06 that flow through to future years have been included within the budget proposals laid out in this report. Any end of year underspends not otherwise earmarked will be transferred to general fund balances. The Finance Director will issue a report to Executive in 2006/07 on the recommended level of balances in the context of the medium term financial strategy.

COMMUNITY IMPACT STATEMENT

34. This report outlines budget proposals for Council services following the final local government settlement. As no decisions have yet been taken as a result of the issues arising from this report, there is no direct community impact at this stage. However, it is recognised that in drawing up proposals that the impact on the community of any potential change in service design, outcomes or access will be need to be addressed in future Executive reports that follow on from the budget decision.

CONSULTATION

35. The Council will consult with relevant stakeholders. It is suggested at this stage that the Council consults on the basis of what is contained within this report.

LEGAL IMPLICATIONS

36. 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.

37. It is provided under section 67 of the Act that final decisions on the budget and council tax level for 2006/07 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.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resourcing Strategy and budget working papers	Town Hall	Cathy Doran, extension 54396 Stephen Gaskell, extension 57293

APPENDIX A

Audit Trail

Lead Officer	Duncan Whitfield, Finance Director	
Report Author	Simon Hughes, Assistant Finance Director Cathy Doran, FMS Stephen Gaskell, Corporate Planning and Performance	
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CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	Comments Sought	Comments included
Borough Solicitor & Secretary	Yes	Yes
Finance Director	Yes	Yes
Chief Officers	Yes	Yes
Executive Member(s)	Yes	Yes
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