

<b>Item No.</b> 5.1	<b>Classification:</b> Open	<b>Date:</b> 22 February 2006	<b>Meeting Name:</b> Council Assembly
<b>Report title:</b>		Policy and Resourcing - The Council's 2006/07 Revenue Budget (The Budget and Policy Framework)	
<b>Wards or groups affected:</b>		All	
<b>From:</b>		Executive	

## RECOMMENDATIONS

1. That Council Assembly agrees a general fund budget of £284.077m for 2006/07 as set out in paragraphs 11 to 13.
2. That Council Assembly agrees a nil increase in Southwark's element of the Council Tax for 2006/07.
3. That Council Assembly agree that the acquisition of the Old Kent Road site in support of the Waste PFI project be funded through prudential borrowing in order to protect the Council investment in view of the Mayor's proposals for a London Single Waste Authority.
4. That Council Assembly notes that the Southwark Council Tax will have increased by only 4.2% in the four years of this administration which is significantly lower than the average London increase over the same period.
5. That Council Assembly further notes that the increase for the Greater London Authority will result in an overall increase of 19.7% in the last four years to 2006/07 (excluding the 2006/07 contribution to the Olympic and Paralympic Games); this is approximately five times higher than that set by Southwark Council.

## BACKGROUND

6. In formulating its budget and Council Tax recommendation to Council Assembly the Executive have undertaken a thorough review of options in order to achieve the optimal balance between the financial and policy demands associated with service provision and the desire to set an affordable Council Tax. The Executive have given particular attention to achieving the maximum gain through efficiency savings in order to achieve these twin objectives.
7. In proposing a budget of £284.077m and no rise in Council Tax for 2006/07 the Executive have taken account of information provided in the reports to the Executive by the Finance Director on 31<sup>st</sup> January and 14<sup>th</sup> February 2006 (annexed to this report).
8. In agreeing to this budget the Executive has continued to drive a progressive programme of efficiencies with a view to maximising the benefit derived by all users of services that the Council provides. This drive is supported by the ambitions and targets set by the Council in previous years. These have consistently met and exceeded targets laid down by Government.
9. The total of savings, efficiencies and additional one off income for 2006/07 as agreed by the Executive and included within this budget amounts to £11.273m. These economies act to improve the effectiveness and value for money of services provided by the Council especially in the context of a grant settlement that has not increased in line with inflationary and demand pressures facing the Council.

10. The Executive has 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, This is 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 2<sup>nd</sup> 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.

### Resources 2006/07

11. Assuming no increase in Council Tax for 2006/07, the resources now available to the Council for are:

	<b>£'000</b>
Income from Formula Grant and NNDR (excluding income from amending reports)	206,763
Income from Council Tax – assuming no increase	77,314
<b>TOTAL Revenue Resources Available</b>	<b>284,077</b>

### Revenue Budget 2006/07

12. The following two tables set out the expenditure profiles for 2006/07. The figures are net of the Dedicated Schools Grant (DSG) and the income from the ODPM amending reports for 2004/05 and 2005/06 received as part of the 2006/07 settlement.

	<b>£'000</b>
Revised 2006/07 budget (updated for inflation, commitments and functional changes and net of Amending Reports)	295,350
Identified savings, efficiencies and additional one off income	(11,273)
<b>Total 2006/07 Budget Requirement</b>	<b>284,077</b>

13. The proposed allocation of the 2006/07 budget across council services is:

	<b>2006/07 Budget (£000)</b>
Education Non Schools	25,346
Children's Services (Social Care)	47,817
Social Care (Adults)	85,355
Environment and Leisure	50,040
Regeneration	13,020
Housing General Fund	17,794
Strategic and Corporate budgets	44,705
<b>Total</b>	<b>284,077</b>

14. In allocating budgets across core functions, the Executive 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. It is only as a result of the drive for continuous efficiency and effective management of resources that the Council can continue to achieve its overall objectives within the limitations of the resources available.
15. The introduction of the new Dedicated Schools Grant (DSG) now formalises the ringfencing of schools funding. This follows on from the passporting arrangements that the Council has adopted over a number of years. Subject to consultation and appropriate agreement with relevant bodies (including the Schools Forum), the Executive will look into the opportunities in future years to use some of the DSG to support the overall children's agenda. However, any such future cross funding arrangement will need to be relevant to the support of the education of children.
16. The council was advised of a provisional DSG for 2006/07 of £172.8m. This will be fully passed on to the individual schools budget and other pupil related services and with the agreement of 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.
17. Local Authority Business Growth Incentive (LABGI) grant was announced on 8<sup>th</sup> February 2006. Southwark is in receipt of approximately £1.3m and is one of only fourteen London authorities to receive the award. This grant provides an incentive for local authorities to promote economic growth in their area by allowing them to be rewarded for an increase in rateable value, above a certain level. LABGI 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 is therefore recognised that it cannot be assumed that the same level of grant will be received in 2006/07 and beyond.
18. The Executive have chosen to allocate £618,000 from LABGI to support the Council's budget priorities in 2006/07. The remainder will be left in balances and may be used in future for investment in other one off initiatives. The Executive also agreed to redirect the uncommitted £115,000 from the budget carry forward for Office Accommodation. The issue of this carry forward was identified by the Regeneration and Resources Scrutiny Committee on 2<sup>nd</sup> February, 2006.

### **Council Tax**

19. All local authorities are required to set their Council Tax by 11<sup>th</sup> March 2006. Given this timescale, it is difficult at this stage to provide comparative information for 2006/07. This Council will set its own Tax on 22<sup>nd</sup> February 2006 (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 1<sup>st</sup> April. This would result in a loss of income to the Council from cash flow and could also put at risk the ability of the Council's contractor to meet its collection targets with the resulting cost to the Council.
20. In proposing no increase in Council Tax for 2006/07, Southwark's Council Tax will have only increased by 4.2% in the last four years. This is significantly lower than the average London increase over the same period. The general trend in comparative data on Council Tax for the last few years is given in the table below. Southwark's Council Tax is now 9.5% below the national average and 5.3% below the London average in 2005/06.

### **GLA Precept**

21. The Mayor of London's consolidated budget for 2006/07 was presented to and approved by the London Assembly on the 15<sup>th</sup> February 2006. This proposed a 13.3% increase in the GLA precept. This increase was made up of 5.5% for GLA services plus a contribution of

7.8% in respect of the 2012 Olympic and Paralympic games. The contribution in respect of the Games will continue at least until 2012. The table below sets out the overall increase:

	2005/06	2006/07	Increase
GLA precept	£254.62	£288.61	13.3%
Southwark precept	£844.14	£844.14	0.0%
<b>Total band D Council Tax</b>	<b>£1,098.76</b>	<b>£1,132.75</b>	<b>3.1%</b>

22. The Executive noted on 14<sup>th</sup> February 2006 that the currently proposed increase for the Greater London Authority will result in an overall increase of 19.7% in the last four years to 2006/07. This is approximately five times higher than that set by Southwark Council. The Executive has called on the Mayor of London to follow Southwark's excellent example of prudent financial management in future budgets.

#### Council Tax Comparisons - 2002/03 to 2006/07

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 %
<b>2006/7</b>				
England	N/A	N/A	Not available	Not available
Greater London	Not available	Not available	Not available	Not available
<b>Southwark</b>	<b>844</b>	<b>0.0</b>	<b>1,133</b>	<b>3.1</b>
<b>2005/06</b>				
England	N/A	N/A	1,214	4.0
Greater London	908	3.4	1,161	3.8
<b>Southwark</b>	<b>844</b>	<b>1.8</b>	<b>1,099</b>	<b>2.6</b>
<b>2004/05</b>				
England	N/A	N/A	1,167	5.9
Greater London	878	5.3	1,119	5.8
<b>Southwark</b>	<b>829</b>	<b>2.3</b>	<b>1,071</b>	<b>3.5</b>
<b>2003/04</b>				
England	N/A	N/A	1,102	12.9
Greater London	834	15.5	1,058	18.2
<b>Southwark</b>	<b>810</b>	<b>4.3</b>	<b>1,034</b>	<b>8.9</b>
<b>2002/03</b>				
England	N/A	N/A	976	8.2
Greater London	722	4.6	895	6.4
<b>Southwark</b>	<b>776</b>	<b>3.6</b>	<b>950</b>	<b>5.6</b>

## **Neighbourhood Renewals Fund**

23. On 14<sup>th</sup> February 2006, the Executive received and welcomed details of NRF Funding as agreed by the Southwark Alliance.

## **Capital**

24. On 31<sup>st</sup> 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. The Executive also noted that current forecast for capital resources are not sufficient to fully meet the level of demand from service departments. The Executive has instructed the Finance Director to complete a more detailed analysis of capital investment options for consideration by the Executive in the summer.

## **COMMENTS FROM FINANCE DIRECTOR**

25. The Council has a good track record in achieving a strong and stable resource base. This has been achieved while maintaining Council Tax as one of the lowest in London.
26. As noted in the report to the Executive on 31<sup>st</sup> 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 some concern was expressed to sustain reserves and balances at an appropriate level.
27. This concern is shared by the Finance Director, especially given the extent of major projects being undertaken by the Council, not least the overall capital programme, the Elephant and Castle and Aylesbury projects, Decent Homes, Building Schools for the Future and other key priorities. He will be presenting a further report to the Executive in the summer that outlines his assessment of current balances and the need to ensure their sufficiency over time. When compared to the level of unearmarked General Fund balances as held across other Inner London authorities, Southwark sustains a balance of approximately 2% (representing £8.9m) of net expenditure against an average (excluding the Corporation of London) of 4.2%. This comparative position will continue to be monitored.
28. The total of savings, efficiencies and additional one off income for 2006/07 as agreed by the Executive and included within this report amounts to some £11.273m (Appendix B). Increasingly these targets are being stretched and are further extensions to savings and efficiencies that have been incorporated in previous years' budgets. While officers remain committed to meeting these targets, they become increasingly challenging and therefore the risks associated increase. Close monitoring will continue to ensure their delivery and to provide early warning of any shortfalls. Enhanced management arrangements have been put in place to oversee the efficiency programme moving forward. However, the impact of any difficulties in achieving these targets will need to be managed appropriately to avoid the risk of impacting on front line services.
29. The programme for meeting many of the new targets for 2006/07 and beyond is still in the process of being established and the new risks arising will need proper management. In particular there is the danger of diminishing returns for projects that have previously been subjected to review and where optimum value has already been obtained from the procurement and other processes.
30. The Finance Director is mindful that within a total net General Fund budget of £284.077m the level of risk associated with the current efficiency programme is not unreasonable. However, it is recognised that the recommended Council Tax for 2006/07 reduces the

capacity to mitigate the risks identified above. While no earmarked reserves or general balances have been used to support the recommended level of Council Tax, the budget does not allow for any increase in balances.

### **Requirements of the Local Government Act 2003**

31. Under the provisions of the Local Government Act 2003, the Finance Director is expected to state formally whether the budget is a “robust” one. The Finance Director’s view is that the budget as recommended by the Executive to Council Assembly is “robust” although the targets contained within it are challenging.
32. 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 while maintaining Council Tax at current levels. 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. The risks involved in this programme are referred to above and actions in place to contain these risks.
33. 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. 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 and agreement of Council Assembly to the budget and Council Tax on 22<sup>nd</sup> February 2006. He does not consider it appropriate for balances to be reduced from their current level.

### **COMMUNITY IMPACT STATEMENT**

34. This report outlines budget proposals for Council services following the final local government settlement. The existing base budget includes £375,000 to support in particular the implementation of the recommendations in Lord Ouseley’s report.
35. It is recognised that in drawing up detailed proposals following on from the budget approval 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.

### **CONSULTATION**

36. The necessary consultation requirements have been undertaken.

### **LEGAL IMPLICATIONS**

37. 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.
38. 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.

## REASONS FOR URGENCY

39. 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.

## REASONS FOR LATENESS

40. This report is the late as the Executive recommendations were made at their meeting of the 14<sup>th</sup> February 2006 and the GLA set their budget and precept on 15<sup>th</sup> February 2006.

Background Papers	Held At	Contact
Policy and Resourcing Strategy and budget working papers	Town Hall	Cathy Doran, extension 54396
Executive Reports (31 <sup>st</sup> January and 14 <sup>th</sup> February 2006) Policy and Resourcing - The Council's Medium Term Financial Strategy and the 2006/07 Revenue Budget (The Budget and Policy Framework)	Annexes to this report	Stephen Gaskell, Extension 57293
Waste PFI Report - Implications for the Resource Programme of the Mayor of London's Proposal for a London Single Waste Authority and the Governmental review of Mayoral Powers relating to waste management.	Town Hall	

## Audit Trail

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<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Borough Solicitor & Secretary	Yes	Yes
Director of Finance	Yes	Yes
<i>List other Officers here</i>	-	-
<b>Executive Member(s)</b>	Yes	Yes
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