

Item No.	Classification: Open	Date: 16 th December 2003	Meeting Name: Executive
Report title:		Policy and Resourcing Strategy and Budget 2004/7 – Revenue	
Ward(s) or groups affected:		All	
From:		Chief Executive Chief Finance Officer	

RECOMMENDATION(S)

1. That the Executive note the resource forecasts and provisional budget proposals for 2004/5 and agree:
 - a. to include savings at 3% and indicate any additional areas of savings to be further investigated;
 - b. to fully fund social services at Formula Spending Share (FSS) in 2004/5;
 - c. any amendments to the budget proposals within the agreed level of resources (see Appendix: page 6).
2. That the Executive therefore agrees an indicative increase for Council Tax for 2004/5.
3. That the Executive notes the projected Housing Revenue Account for 2004/5 and agrees to receive a final report following consultation with tenants and stakeholders at its meeting on 3rd February 2004.
4. That the Executive indicates the amount of “unsupported borrowing” (under the new Prudential Code) it would want to recommend to Council Assembly for 2004/5.
5. That the Executive agrees the Council's response to the Finance Settlement Consultation paper (see Appendix: page 7)

BACKGROUND INFORMATION

6. The Policy and Resourcing Strategy allows Members to support, fund and deliver their medium term objectives for 2004/7, by matching resources to priorities. Members need to consider their three-year view within the context of government priorities and the central government spending regime.
7. The Council has five strategic priorities and a number of organisational and improvement priorities in terms of enhancing it's capacity to deliver better quality services and realise performance targets. On 7 October, the Executive asked that community safety be particularly prioritised as part of the 2004/7 policy and resourcing strategy.

KEY ISSUES FOR CONSIDERATION

National government agenda

8. National Government have a full agenda for modernisation of public services and are under pressure to deliver visible improvement on health, social care, education, law and order, poverty, transport and environment. Government grant will not necessarily reflect these priorities at a local level and in any case the grant formula will be capped once again in 2004/05 in order to provide resources for lower needs authorities. Whilst the Council's grant is expected to increase by some 5.8% the government has assumed that councils will need to raise council tax by 2.8% in order to provide sufficient resources to meet national and local spending needs.

Resource availability

9. The revised base budget for 2004/5 as outlined in table 1 is £404.7m. The Executive has asked officers to prepare budget options at 3.9% and 7%. At the indicative levels of Council Tax increase the Council will be able to fund a limited growth programme for 2004/5. Even with a 7% rise in council tax will the Executive be able to fund all its policy objectives in 2004/05 and Members will therefore need to consider the medium term prospects outlined later when considering priorities for 2004/05.

Table 1: Resource availability

<i>Resources available for 2004/05</i>	Council Tax at +3.9% £'000s	Council Tax at +7% £'000s
Formula Grant	-329,565	-329,565
Council Tax	-72,834	-74,822
	-402,399	-404,387
<i>Income from Formula Grant and Council Tax</i>		
	£'000s	
Council's 2003/04 adjusted Base Budget after inflation, commitments etc.	384,841	
Increase in Education passporting (after allowing for the effect of the transfer of the Warwick Park School to an Academy)	11,822	
Increase in Social Services Funding	8,059	
Revised Base Budget for 2004/05	404,722	
Less identified savings	-2,987	
Cost in 2004/05 (assuming savings agreed)	401,735	
	£'000s	£'000s
Available for Council Priorities in 2004/05 after a Council Tax increase	664	2,652

10. The main underlying assumptions in the figures set out in the above table are.

- **Council Tax Income** – an increase in the amount to be received (without an increase in the level) of £3.43 million due to the elimination of the deficit on the Collection Fund (£2.38 million); an increase in the Collection Rate from 96.5 to 97.5% (net £350,000); and an increase in the number of properties (£700,000).
- **Balances** – at the end of 2003/04 are estimated to be at the target level of £8 million. No contribution to or use of balances for 2004/05 is assumed.
- **Commitments and Inflation** – the base budget for 2003/04 has been increased to reflect the 2004/05 cost of current service levels. The commitments include the costs of sustaining the current Community Wardens and the revised costs of the Concessionary Fares Schemes.
- **Savings** – Officers proposals for savings of £2.987 million (listed in the Appendix to this report) are included in the above schedule.
- **Pension Fund** – the Council's contribution includes an increased contribution to the pension fund in anticipation of the deficit assessment due out in 2004. This is explained in more detail later.
- **Passporting** - full passporting of the increase in FSS to both Education and Social Services
- **Specific Grants** – where the Government has changed the balance of funding by transfers from or to Formula Grants these have been built into base budgets on a “no loss” basis.
- **Formula Grant** – The Formula Grant announced in November was provisional. The forecasts set out in this report assume there are no changes to the level of Grant announced when the final settlement is made at the end of January 2004. Any further changes will be reported verbally at the meeting.
- **Unsupported Borrowing** – the figures in the above Table **do not include** the increase in Council Tax (+1.5% = £1 million) in 2004/05 to fund the “unsupported borrowing” as explained at paragraph 57.
- **Financial Strategy** – continuation of the Council's Financial Strategy agreed by Council Assembly on 24th February 2003 (see Appendix: page 1).

Allocating resources to policy objectives

11. This is the first stage of the budget setting process for 2004/5 which:
 - a. recognises existing policy on education funding;
 - b. assumes the Executive determine a level of savings they wish to achieve. Without savings there will be no growth potential with a Council Tax rise at 3.9% and a very limited growth programme with a 7% Council Tax rise. Proposed savings (totalling £2.987m) are outlined at page 5 of the Appendix. The rest of this report assumes the Executive will endorse the proposed savings.
 - c. Is clear that the implications of funding social services at FSS will have a major impact on policy and resourcing strategy in terms of funding other key services in line with local policy objectives.

Education and culture

12. The proposed budget for 2004/5 Education (non-Culture) is £172m which includes a fully passporting grant rise of £11.8m. The schools block takes up approximately three quarters of the total education budget and as a result of the increased grant going into schools it is likely that schools will receive £2m more than the government's expected minimum level. This leaves £20m available in 2004/5 for Local Education Authority (LEA) services compared to £152m for schools. The LEA delivers the contractor side through the interim arrangements with Cambridge Education Associates and the client side under the Strategic Director for Education.
13. The non-schools budget covers services such as special education needs, youth and connexions, part of the early years development and strategic management.
14. It has already been assumed in the budget that the Secretary of State will make a further contribution of about £1.1million to cover the increased costs arising from the CEA/inhouse arrangements, compared to the previous Atkins contract. Whilst a positive response has so far been given, there is no certainty.
15. The view of both the Strategic Director of Education & Culture and the CEA Director of Schools is that there is virtually no scope for savings within the CEA block, the increased grant will simply cover inflation and there is virtually no scope to fund the growth associated with the behavioural support programme.

Future issues

16. The future shape of education will have policy and resourcing implications for the Council. The OPM report concluded that there was a need for coherent and consistent leadership with sustainable capacity so services could focus on the whole child. The Executive are minded that government policy on education funding is likely to remain consistent in the medium term therefore there will need to manage long term policy demands from within a sustainable resource base. Also, any additional funding is obtained from DfES in respect of the Atkins/CEA changes will only last until April 2005.

Social care

17. The Social Services department provide social care and support for the borough's most vulnerable residents. The Social Services proposed budget for 2004/5 is £116m (including increased grant at FSS, which is £8m more than in 2003/4), and is split broadly between a third spent on children and two thirds on adults.
18. Social services funding is extremely complex largely due to the transfer of specific grants into Council formula grant as well as the need to modernise service provision and meet policy and performance requirements of the Department of Health. This creates real resourcing pressures to ensure a quality service is provided which adequately meets the Council's statutory obligations for social care.
19. Southwark received a "two-star" rating for 2002/3 under the Department of Health Performance Assessment Framework with significant improvement towards targets in a number of key areas. Children's services particularly improved to be classified as serving most people well with promising improvement prospects.
20. Members are now asked to fund social services at FSS to ensure continuous improvement and avoid putting key services to vulnerable clients at risk. The Director of Social Services has analysed that real terms growth of £5m from formula grant is required to fund unavoidable pressures and meet performance expectations in 2004/05. Specific growth pressures that require funding from the grant rise are:
 - a) £1.8m to meet **funding gaps** caused as a result of changes in distribution of government grants affecting provision of services for care leavers (£400,000), services for disabled children (£757,000), delivery of the Council's contribution in meeting the needs of all those over the age of 18 in receipt of nursing care (£500,000) and meet the costs of legal requirements to provide a "safety net" for people with no recourse to public funds under Asylum Seekers legislation (£200,000). Failure to fund growth would mean the Council risks falling short of its obligations. For example, funding the gap for services to children with disabilities would directly benefit children who would not otherwise gain from an expanded service similar to the levels of many other London Boroughs. Funding nursing care is an area of growth resulting from a government funding change that leaves a gap in the Council's Nursing Care budget. This is caused because the formula applied overstated the actual level of NHS contributions, leaving the authority with a shortfall. Funding this gap is unavoidable as Nursing Care cannot be withdrawn from those assessed as needing it.
 - b) £1.8m to ensure **market stabilisation both in adults and children's services**. Social care market instability is a significant threat to service provision both in the short and medium term. By targeting extra resources at specific providers, the Council can expect qualitative and capacity improvements that will meet the requirements of the local population. An example includes the in-house foster care services where stabilisation would result in less reliance on expensive residential and agency fostering services thereby reducing overall costs over the medium term.
 - c) £1.4m to meet essential **performance and policy imperatives** which are:
 - i. £0.1m to deliver step change in the number of adults taking-up the direct payments scheme, which promotes the independence

of people with disabilities. Current performance is low and identified as an area in need of improvement by the Social Services Inspectorate (SSI).

- ii. £0.5m as a result of the volume of young adults entering the community care system that require complex placements. Costs have been contained where possible and this is the minimum expected to deliver the service to clients.
- iii. £0.4m for the expansion of intermediate care and commissioning of supported housing development for people with social care needs. Southwark is struggling to expand intermediate care capacity in line with national expectations and has low performance in supported housing. Growth would enable a range of services to be commissioned.
- iv. £0.35m investment for mental health services in particular to improve performance in early intervention (psychosis) services.
- v. £0.05m to provide better equipment, and more often, for people with disabilities, thereby meeting newly required performance targets.

Future issues

21. The recent Green Paper *Every Child Matters* demonstrates government's determination to act following failings in the delivery of children's services as a result of the Climbie case. Within the key proposals there are policy implications around integrating children's services within a single organisational focus and ensuring appropriate accountability. The Council will need to have the right level of resources to improve standards in the quality of children's care services boroughwide.
22. The continued progress towards integration of services with health and other agencies presents both policy challenges and opportunities and there will need to be sufficient resource capacity to deliver. It is aimed to have all funding, commissioning and a number of key services, such as older people's services, integrated by the end of 2006/7. Taken with the proposed changes in children's services the traditional Social Services departmental model will take on a radical new form in the medium term. The Council will need to ensure it continues to meet its statutory obligations and look into the opportunities new ways of service delivery could bring.

Meeting other local policy objectives

23. Members will want remaining resources to be directed towards those issues, which drive change, improve service delivery and meet local policy objectives. Approximately £114m of base budget proposed for 2004/5 is for other Council Services outside education and social services.
24. This report assesses the choices now available to the Executive after taking into account all the financial matters set out elsewhere by the CFO. After assessing those choices a decision is needed on how best to ensure local policy objectives are achieved which meet a medium term policy and resourcing strategy. The budget options are outlined in detail below.

Growth with 3.9% Council Tax rate

25. In line with the Executive's request, the draft budget for 2004/5 assumes that with a 3.9% increase in Council Tax, some £700,000 additional resources will be available for growth.
26. £700,000 could deliver a budget with a limited growth programme, which prioritises community safety, and/or limited growth to achieve cleaning and greening, objectives to tackle poverty and community engagement. However this level of resource will fall short of being able to fully meet local policy objectives. The options are:

Community safety

- The community wardens scheme directly meets this objective, is partially achievable in the short term and therefore must be considered of highest priority. Growth would allow the scheme limited extension to Phase 2 (Rotherhithe). The wardens are visible in the local community thereby impacting on the perceptions of fear of crime.
- New statutory obligations are associated with the removal of abandoned vehicles, which represent a blight on the local street scene. Growth allows the Council to take effective enforcement action and meet legal costs.
- By empowering young people through schemes such as Karrot youth diversion and the detached youth workers in priority neighbourhoods, Members will help to improve the outcomes of young people at risk. Thereby contributing to the delivery of the Council's Youth PSA and reduces crime by and to young people.

Clean and green

- The Council is publicly committed to meeting its target of tripling **recycling** by 2006 – the target of recycling 18% of household waste by 2006 is set in line with national government waste targets and therefore failure may result in penalties as well as impact on the Council's improvement profile in terms of future CPA. A good start has been made through the introduction of recycling facilities on every estate and increase in the types of materials, which can be recycled. The **introduction of green waste recycling** across the Borough which, in addition to the introduction of kerbside recycling (to be funded from external sources), will directly contribute to meeting the recycling target.

Measures to tackle poverty

- The Executive is committed to delivering an **anti-poverty programme** for Southwark. Progress on further development of the programme was reported at the last meeting. Additional resources would help progress a package of measures on anti-poverty including delivery of targeted projects and enhancement of management capacity.
- As the regeneration focus shifts to the social and economic aspects, new resources could be used to address local **employment** issues. A package of measures could deliver support and administration for the successful implementation of employment and enterprise strategies and secure a

budget for ongoing research and monitoring of labour market trends. This would put the Council, and its partners, in a better position to understand the labour market and support a stronger economy.

- **Tourism** plays an increasing role in the local economy and delivers a diverse local economy with associated labour market opportunities for the borough's residents. Given the prominent tourist sites particularly in the north of the borough along the South Bank and south of the Borough (e.g. Dulwich Picture Gallery), resources would go part way to delivering an improved tourist service and a range of tourist-related activities.

Community Councils

- New resources could fund additional support to community councils across the borough through additional staffing and related support thereby enhancing community engagement. Funding growth would allow for a review of the councils, which could look into opportunities for some longer term savings.

Growth with 7% Council Tax rise

27. In line with the Executive's request, the draft budget for 2004/5 assumes that with a 7% increase in Council Tax, some £2.7m additional resources will be available for growth.
28. £2.7m could deliver a budget with a more substantial growth package thereby enhancing the opportunity to meet local policy objectives, particularly around community safety and clean and green as well widen the scope of achievable objectives. Additional growth would increase the potential of extending access to schemes to a greater number of residents. The Executive could therefore have a more diverse growth package, which had wider reach to the local community at large.
29. In addition to potential growth options outlined at the 3.9% level (paragraph 26), a budget with 7% Council Tax could include the following options:

Community safety

- The **wardens scheme could be extended** towards Dulwich thereby extending coverage of the wardens even further across the borough and introducing the third phase of the scheme. Further coverage would not only ensure higher visibility across a greater range of areas within the Borough but also further achieve the policy objective on community safety.
- The Southwark Anti-Social Behaviour Unit (SASBU) plays an integral role in achieving policy objectives associated with the crime and disorder strategy. Additional support is essential in delivery of an **anti-social behaviour** strategy. Resources could fund two new members of staff and enhance management capacity for the provision of things like victim rehousing support.
- More detached youth workers could be resourced across the borough again giving greater reach and coverage.
- Additional resources could also fund a number **project initiatives** associated with delivery of community safety across the Borough such as schemes

targeted at combating burglary. Additional administrative support may be needed to help deliver such projects.

Clean and green

- The delivery of a **clean, green and safe** borough, which in turn improves local quality of life and therefore achieves community recognition for the services provided is a policy objective. Services are therefore shaped in line with the Council's priorities by achieving a clean borough and less crime through less grime.
- **Investing in parks and open spaces and the street scene** is therefore essential in a congested borough like Southwark. A number of growth options are available to Members to ensure greening policy objectives are further achieved, which also ties directly into the government's emerging liveability agenda.. Growth includes a revenue requirement to maintain the upkeep of park infrastructure developed through the cleaner, greener, safer capital programme. In Burgess Park specifically, revenue is required to resource the upkeep of tennis pitches and newly upgraded grass pitches. Additional resources would also allow revenue funding for a team of officers dedicated to improving access to parks for young people (currently funded from the Children's Fund which comes to an end in March 2004). The continuation of the street leaders scheme, reflecting the importance of high quality street scene and the positive impact of less grime on the borough's streets, could also be resourced.

Regeneration/Tackling Poverty

- The Council has achieved much on the physical side of regeneration and the shift is now toward social and economic aspects across a range of key service areas. The Executive may wish to make additional resources available in order to support this shift. Additional capacity is required in order to maximise the opportunities associated with new legislation concerning **Business Improvement Districts (BID)** and ensure the Council is ready for the implementation of BIDs over the medium term. Recognising the significant improvements made by the **Peckham Programme** additional resources would provide continued management capacity to deliver an effective forward strategy for the scheme.
- The work of the **housing** department directly meets tackling poverty objectives. Additional resources would allow for the policy implementation of the homelessness strategy and housing renewal strategies. The rent deposit scheme, which is a scheme to provide incentives to attract landlords within Southwark for priority homeless applicants, could be extended to non-priority homeless. Both areas are important policy objectives in achieving the tackling poverty priority.

Improving the health of the borough

- The Council has a public health role in ensuring the safety of people on the roads. Additional resources could fund the provision of a new **road safety officer** to help develop a strategy for road safety.
- Focusing particularly on the Executive's commitment to **children and young people** and building on the success of the 2003 London Youth Games, new

resources could fund the delivery of an integrated sports development programme for all 10-16 year olds across the borough including those with disabilities directly supporting health and equality objectives.

Widening access to learning through libraries

- Through the ongoing development of on-line learning within libraries and improvements to the existing library stock, additional resources would improve access and uptake of learning and modernise systems of service delivery within a community setting.

Member development

- Further resources would secure the implementation of a positive **member development** programme, which is considered a priority internally, within the CPA improvement plan and in line with the [forward@Southwark](#) project, and externally was noted as an important recommendation from the CPA inspection.

Equalities

- The Fast Track Review of Voluntary Sector identified that the resourcing of community based provision to meet **different communities of interest** does not reflect the full range of local needs. There is likely to be demand for relatively low cost non-social care based activities for older people, as well as pressure to provide direct support to LGBT. There is also a significant issue over the sustainability of a number of Black and Minority Ethnic organisations across the borough.

Future policy and resourcing issues

30. The Council can expect the shape of the 2005/06 settlement to follow a similar pattern to that for 2004/05. The Government is committed, and has promised on several occasions, to keep to the figures set out in the 2002 Comprehensive Spending Review (CSR). This effectively means that funding in future years is unlikely to be more than what is proposed for 2004/5 – but again most if not all of the increase will be channelled into Education and Social Services. The impact of the pensions fund (see paragraphs 60-63) and next CSR need to also be considered in future resourcing assumptions.
31. Future policy objectives particularly relating to roll-out of the wardens to cover the whole borough, meeting recycling targets, achieving the wider objectives of the anti-poverty programme and modernisation and improvement through the customer access strategy will result in additional resourcing pressures.
32. With a Council Tax rise of 3.9% achieving full roll-out of the wardens scheme alongside funding from the fall-out of existing grant requires additional investment of approximately £1.5m over the next two years. A Council Tax rise of 7% would decrease the level of investment required to £1m. The level of investment is based on achieving boroughwide coverage using the existing scheme plans.
33. The Council has ambitious targets in recycling and ensuring ongoing success of Southwark Cleaning will be essential to show the administration is meeting key commitments to clean and green objectives. The potential of significant additional costs upwards of several million pounds will arise from changes to conventional

service provision and new contract arrangements relating to waste management. Changes are required to meet key government targets.

34. The wider achievement of the anti-poverty programme will also create future resourcing demands not currently accounted for within the 2004/5 growth options. Funding for schemes such as the breakfast clubs have not yet been found and although external opportunities may be available there will be mainstreaming expectations associated with any wider roll-out of a programme.
35. The 2005/6 budget in particular will need to be prepared in the light of the changes arising from the customer access strategy to take account of transfer of services to the customer service centre, re-engineering of service provision and any associated contract costs (likely to be identified in the new year). Although such options will radically shift operational service delivery there will be key resource pressures to maintain a solid and stable resource base over the medium term.

Key performance drivers

36. The CPA is a key performance driver for national government in the delivery of better local government services and locally the Council has shown positive improvements against CPA recommendations by investing additional resources and/or improving management arrangements in areas previously identified as weak such as recycling and investing in ICT infrastructure. Achieving improvement in future CPA assessment is a medium term goal for the authority.
37. The outcomes of the CPA re-assessment will be announced on the 18th December 2003 and the CPA improvement plan will need to take account of the recommendations arising. The Executive will need take account of such recommendations in its medium term policy and resourcing plans as appropriate.

The Council's current financial position

Out-turn Expected for 2003/04

38. The Council's financial position for the period to the end of September 2003 (month 6) has already been circulated to all Members of the Council. The forecasts have recently been updated to reflect the position at the end of October 2003. Together the monitors show that the Council will achieve its target of replenishing balances to £8 million by 31st March 2004.

Council Tax income for 2003/04 and 2004/05.

39. The Executive will know from the quarterly performance monitoring reports that Liberata's collection rates, both for previous and current years, have shown significant improvement. Previously collection problems have led to a continuing deficit on the Council Tax Collection Fund. It is forecast that by 31st March 2004 this deficit will have been eliminated.
40. It will also be possible for the 2004/05 Collection Rate to be increased. The current target rate is 96.5%. Historically the Collection Rate has to be set, by statute, by Council Assembly; although the need for this has been amended by the Local Government Act 2003. The CFO advises that in his opinion it would be

reasonable for the Council to assume a higher Collection Rate for 2004/05 and recommends a rate of 97.5% (a net gain of £350,000). This improved figure is reflected in the resources set out in this report and will form the basis of the CFO's recommendation to Council Assembly in January 2004.

41. Council Tax income will also improve by a further 1% (£700,000) as a result of the increasing number of properties in the Borough.

Budget implications of the financial settlement

42. The broad issues arising from the finance settlement were dealt with in the report to the Executive on 25th November.
43. The Government has announced changes to the way in which the Licensing function is to be financed and administered from April 2004. Local Authorities will become the Licensing Authority from that date and will be allowed to charge a license fee, which, theoretically, should cover the costs of the service. Unfortunately, the Government has decided to set the scale of fees nationally. It is unlikely that all authorities will be able to "break-even". The Council will not know its own position until the fee scales are announced – perhaps before Christmas. However, current estimates are that it will cost the Council some £115,000 – this figure is included in the table set out earlier in this report.
44. The Government currently supports the net cost of Rent Allowances and Council Tax Benefits (on which the Council pays 5% and the Government 95%) through the Formula Grant. This is to transfer to Specific Grant from next year. The net cost of Rent Rebates is also to transfer from the HRA in 2004/05. All of these changes are anticipated to be "neutral" – although the exact terms of the transfers are still being evaluated at local and national level.

Allocation of resources to Education

45. On 25th November 2003 the Executive decided to passport the increase in the Schools Block FSS to Education. As Executive will know it is the Council's policy to passport all the Education FSS to Education. The figures set out in this report assume the continuation of that policy. The total Education FSS is set out below

	£' million
2003/04 Schools Block	140,531
Increase for 2004/05 (after the transfer of funding for the Warwick Park School)	+11,083
<i>2004/05 FSS for the Schools Block</i>	<i>151,614</i>
2003/04 LEA Services Block	19,679
Increase for 2004/05	+739
<i>2004/05 FSS for LEA Services</i>	<i>20,418</i>
TOTAL Education FSS	172,032

Allocation of resources to Social Services

46. The Council's current financial policy with regard to Social Services was set out in the Council Assembly report at the time the 2003/04 budget was agreed. That states

“The strategy seeks to control Social Services spending within the Council’s overall budget, recognising that without control the budget could drive the whole of the Council’s budget. It is recognised that there continues to be a need to direct more funding into children’s services. The strategy is to ensure that sufficient resources are invested in Children’s Social Services while exploring options for further pooling of Health and Social Services budgets.”

47. The Strategic Social Services Director has not been able to offer savings for 2004/05. His analysis of Social Services budget pressures has shown that real terms growth of £5m is required to fund unavoidable pressures and meet performance expectations in 2004/05. This is broadly in line with the actual percentage growth in government funding as expressed in the finance settlement.
48. The figures set out in this report assume that the Council passports the increase in the FSS for Social Services. If the Executive agrees to that approach then the resources needed amount to some £8 million or 7% of the 2003/04 base budget. It is for Members to decide whether they wish to allocate this – or another level of funding to Social Services. The increased costs of Concessionary Fares, although a change to the Social Services budgets, do not form part of the Social services FSS. Any additional costs will therefore fall outside the “passporting” figure.

Council Tax and Capping

49. Each 1% increase in Council Tax produces additional income for the Council of some £700,000. When considering any increase the Council will need to take into account the Government’s Council Tax Capping powers. Members will know that Southwark managed the only single figure tax rise in London for 2003/04. (8.9% including the GLA precept). In the House of Commons the Local Government Minister, when discussing capping, said:

“Local Authorities should be aware that the Government will be looking at next year’s Council Tax rises very closely. We will be looking for evidence that authorities have realised efficiency savings. We will take account not only of one year’s increases but also the trend in increases over more than one year. Every Local Authority must be in no doubt that we are prepared to use our targeted capping powers in 2004/05 if necessary to protect the interests of Council Tax payers.”

50. In the settlement the Government assumed a national Council Tax increase of 3.9%. They have reduced the total Grant due to Local Government by this amount. The Government has published a “national rate of tax” of £1,078 for a Band D property. This Council’s current year tax rate of £1,034 is lower than the national assumed rate of £1,037. Southwark’s current year Council Tax is the 8th lowest in London.

Local Government Act 2003 – CFO’s new responsibilities

51. Under Part 2 of the Local Government Act 2003 the CFO has new statutory responsibilities in relation to budget setting. The CFO is now expected to report to the budget-setting meeting of the Council Assembly. The report has to deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals. This is to give Members “authoritative” advice at the time they make their budget decisions. The Act requires Members to have regard to

the report in making their decisions.

52. With regard to balances it is the CFO's view that the Council's balances target of £8 million is the correct level in the circumstances in which the 2004/05 budget will be set.
53. Currently the CFO will be able to give positive advice with regard to the robustness of the budget process – the position with regard to the Pension Fund is analysed later in this report.

“Unsupported Borrowing” under the Prudential Code

54. Local Authorities have new powers to borrow money for capital purposes, under the Local Government Act 2003. This was reported to the Executive on 7th October 2003. The report elsewhere on the agenda dealing with capital sets out the advantages (in capital investment terms) to the Council of using these powers. Previously all of borrowing costs relating to the Council's debt was financed either directly through Housing Subsidy or indirectly through Formula Grant. Borrowing under the Prudential Code will not attract any Government subsidy; (which is why its called “unsupported borrowing”)
55. The powers can only be used with the specific authority of Council Assembly. The meeting at which Council Assembly are asked to make that decision also has to receive a report from the Chief Finance Officer on a series of “prudential indicators”, which the Government has designed in conjunction with CIPFA. These indicators will indicate to the Council whether the level of borrowing is “affordable” over the life of the borrowing.
56. The extent to which the Council uses the new “unsupported” borrowing powers is a matter for Members' judgement. The decision hinges on the advantages the Council would gain from new Capital Investment and whether the cost of that investment, expressed by way of Council Tax increases, is affordable.
57. Council Assembly may wish to later agree a capital programme of borrowing of up to £7 million over each of the next 3 years. The cost to the council would be some £1 million for each £7 million (£21 million in total) – an increase in Council Tax of 1.5% a year (a total of 4.5% by 2006/07).
58. The resources figures in this report *do not include* the amounts, which have to be raised from Council Tax to pay for the borrowing.
59. Unsupported Borrowing is also possible in Housing where the charges would fall through to the Housing Revenue Account. The same “return” applies – that is each £1 million of rent income will produce a borrowing “capacity” of £7 million. This decision is also reserved to the Council Assembly. The Executive may wish to consider this option along with a current monitor of the HRA revenue and capital projections for 2003/4.

Pension Funding

60. The expected position on the Pension Fund was last reported to the Executive on 2nd December 2003. That showed a notional funding deficit on the fund at 11th June 2003 of £230 million. The Actuaries have now completed an update review as at 14th November 2003, which indicates a reduction in the notional deficit to £170 million. It is inevitable that there be an actuarial (but not cash) deficit on the

fund at 31st March 2004. It is likely to be in excess of £140 million – although the exact amount depends on Equity and other Markets across the globe.

61. The Council's fund will undergo a full triennial revaluation at 31st March 2004; the revised contribution rates certified by the Actuaries at that time will be affected in the 2005/06 financial year. The result will certainly be the need for the Council's contribution into the fund to increase significantly. Many Authorities have begun to make contributions already; having built them into their budget decisions for 2003/04.
62. An initial discussion with the Council's actuaries indicates that additional contributions will be needed of some £2 to £5 million a year. The 2003/04 budget, within the Strategic Financing heading, has included in it the deficit funding currently needed for the Collection Fund. It is the CFO's strong recommendation CFO that this should be reallocated and used as a 2004/05 contribution to the Pension Fund. This will allow the increases in the rate of contribution to be smoothed in future years. The figures set out in the "Resources Available" section of this report assumes that Members endorse this approach.
63. As indicated above the CFO now has to indicate each year that the Council has a robust process for managing and developing its budget. The Council will need to make adequate provision for the continuing Pension Fund deficit in order for the CFO to make such a statement.

2004/5 growth and savings programme

64. At the Executive Meeting on 25th November 2003 Officers were asked to report back to this meeting on the implications for 2 levels of growth programme. The first level of increase – 3.9% would produce resources for a growth programme of £700,000 and 7% one of £2.7 million. This figure would increase if the Executive decided not to passport in full resources to the Social Services block.
65. However, in making decisions on the resources available Members need to consider the extent of the savings issues they are prepared to endorse. The list of savings attached as an appendix to this reports totals £2.987 million. Any reduction in this total will reduce the extent of their growth programme on a pound for pound basis. For instance the Council will need to draw down £2.3 million of the savings just to "stand still" at the 3.9% level of Council Tax increase.

Prospects for future years (2005/6 and 2006/7)

2005/06 financial year

66. The Council can expect the shape of the 2005/06 settlement to follow a similar pattern to that for 2004/05. The Government is committed, and has promised on several occasions, to keep to the figures set out in the 2002 Comprehensive Spending Review. The broad totals within the 2004/05 settlement will be repeated next year. The Council can assume another above inflation increase in Grant (subject to any tightening of the Grant ceiling) – but that most if not all of the increase will be channelled again into Education and Social Services.
67. However, the Council's financial position has been somewhat cushioned this year. The 2004/05 budget has been boosted by changes in the base budget – the deficit on the Collection Fund has been eliminated and the contribution to balances has not been needed. These two changes (amounting to £4 million in

total) have been absorbed back into service financing. Together they are the main reason the Council, in effect, is able to limit its Council tax to single figures whilst at the same time having the resources for a growth programme.

68. Any Council Tax capping regime is likely to put public pressure on Authorities to keep their Council Tax rises within reasonable levels.

2006/07 financial year

69. The Government's new Comprehensive Spending review (2004), time-tabled to complete in July 2004, is now underway. Although it will be impossible to guess with any accuracy the outcome of that review it will be significantly less favourable than the 2002 round. Nationally, there are increasing service pressures in the two priority services of Education and Social Services as well as in the Police and Fire services. In addition Waste costs are likely to increase in the 2004 review by at least 13% through increased volumes and the problems associated with disposal. All of this means that there will be little increase in the funds available for other services.
70. It is likely that the Treasury will want to fund these changes not through increased taxation but by forcing efficiency savings from existing delivery mechanisms. The Treasury seems to be particularly keen to ensure its investment in the "spend to save" and E-Government initiatives begin to show returns in the national context.
71. For planning purposes the Executive should assume that 2006/07 will be even more difficult a budget year than that envisaged for 2005/06. As set out above it is probable that 2005/06 will itself be more difficult than 2004/05.

Housing Revenue Account Budget 2004-5

72. Whilst there remains significant spending pressure arising from contractual commitments and volume and inflation increases, the projected position on the HRA budget for 2004/05 is now better than early Government announcements suggested.
73. The Housing Subsidy Draft Determination has confirmed Government proposals to change the allocation bases underpinning Management and Maintenance allowances from April 2004. The effect of these changes is to redistribute resources to authorities in the North, at the expense of authorities in London and the South. The impact is especially severe on those authorities (particularly Southwark), where there is a greater incidence of high-rise flats within the stock, the cost weighting for which has been significantly reduced.
74. The initial Government proposals would have meant that Southwark would be subject to a cash freeze in allowances for 2004/05 and 2005/06. However, following widespread lobbying of ODPM by authorities and representative bodies some mitigation of the effects has now been proposed in the short-term so that allowances will now rise by 2.59% in line with the GDP deflator, which is Government's preferred inflation indicator.
75. Nevertheless, the underlying position remains unaltered and the Government has confirmed reductions in spend targets for Southwark of 9.7% for management and 8.1% for maintenance respectively. This means that Southwark will receive no share of the 6% real-terms increase that is available in 2004/5 for housing subsidy nationally.

76. The draft determination remains subject to consultation until 16th December 2003 and Southwark, alongside the ALG, will again make representations to ODPM regarding the impact of the proposed changes. It seems unlikely, however, that any significant improvement will be achieved in respect of the position for 2004/5. The final position should be confirmed by ODPM in late December.
77. The draft 2004-5 HRA revenue budget includes provision for higher costs arising from general inflation, volume increases and for a limited programme of service enhancements and growth targeted towards the Council's strategic priorities. Provision has also been included for an additional contribution from the HRA towards funding of the deficit on the pensions fund and for additional SLA charges relating to insurance. The additional resources requirement will, to an extent, be mitigated through the identification of efficiency savings and income generation initiatives.
78. The Government's policy of rent restructuring and convergence with Registered Social Landlords commenced in April 2002 and was fully implemented in Southwark with the introduction of tenant service charges with effect from 1st April 2003. Rent restructuring effectively removes any local discretion with regards rent levels and will drive rent setting up to 2011/12. For 2004/5, Government guidelines will mean that individual property rents will need to be increased by 4.09% (2.59% GDP deflator, plus 1.5% real terms move towards RSL rents), plus an incremental move towards formula rent target, which adds around 0.94%, resulting in a total average increase of 5.03% or some £2.98 per week (subject to confirmation).
79. The new powers granted to Local Authorities for unsupported borrowing under the Local Government Act 2003 also apply to the Housing Revenue Account. Prudential Indicators are currently being devised which will indicate whether there is scope for unsupported borrowing (non-subsidised) within the HRA. Whilst there remains some uncertainty around the housing subsidy regime in the longer-term, it is likely that a limited level of ongoing HRA revenue resources could be set aside to fund prudential borrowing for investment purposes. As set out above, work on the 'Prudential Indicators' is currently being finalised and the outcome of this will be reported to Executive and council in the New Year. In the meantime, the Strategic Director of Housing is currently examining the output from the recently completed stock condition survey to determine whether a further coherent package of major works funded from unsupported borrowing could be programmed in 2004/5 to contribute to the achievement of the decent homes standard
80. As with the General Fund, there is a requirement under the Local Government Act 2003 for the CFO to formally advise members of the level of HRA reserves and balances. A general HRA reserve of £6M is currently held and this will be carried forward in to 2004/5. This is considered sufficient by the Strategic Director of Housing and the CFO to meet any potential unplanned calls on HRA resources in that year, based on projected gross expenditure of some £220M.
81. The HRA Budget report is scheduled to be considered by Tenant Council on 12th January 2004, followed by the usual consultation with neighbourhood forums and other representative groups. The results of the consultation will be reported to Tenant Council on 2nd February 2004 and recommendations made to Executive on 3rd February 2004.

Budget Risk Register

82. The updated version of the Council's Budget Risk Register is attached. This will be updated as the budget process unwinds over the next few weeks.

REASONS FOR LATENESS

83. The report is late to ensure there is final clarification on all the information relating to specific grants at this time.

REASONS FOR URGENCY

84. The report is urgent because of the need to comply with the statutory timetable for setting the Council's budget for 2004/05. At this stage the Executive is asked to propose a budget strategy for 2004/5 set within a medium term horizon. If this report were not taken now there would be insufficient time available to complete the necessary consultation, in particular with scrutiny, and in accordance with the budget timetable.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and Resourcing Strategy 2004/7 – 7 th October	Corporate Strategy, Town Hall	Stephen Gaskell, Ext 020 7525 7293.
Budget Settlement Working Papers and Government Announcements	Town Hall	Alan Layton 020 7525 4309

APPENDIX A

Audit Trail

85. *This section must be included in all reports.*

Lead Officer	Bob Coomber, Chief Executive Keith Brown, Chief Finance Officer	
Report Author	Keith Brown, CFO Stephen Gaskell, Corporate Strategy	
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CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
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Borough Solicitor & Secretary	Yes	Yes
Chief Finance Officer	Yes	Yes
<i>List others:</i>	All Chief Officers; All Executive Members	
Date final report sent to Constitutional Support Services		