

## **MEDIUM TERM FINANCIAL STRATEGY**

### **FUNDING PRIORITY SERVICES**

- √ Align spending with the Council's corporate priorities and the key priorities in the Community Strategy.
- √ Passport education funding increases in accordance with the Education Act 2002.
- √ Looking to ensure sufficient resources are invested in Children's Social Services while exploring options for further pooling of Health and Social Services budgets.
- √ Develop the need to modernise Council services by setting aside resources for the Customer Service Centre and e-government initiatives.
- √ A high priority is given to investment to 'clean and green' the borough.

### **INCOME GENERATION**

- √ Keep council tax increases at reasonable levels taking into account the Government assumptions implicit in the current and future settlements, and the evolution of general economic circumstances and borough priorities.
- √ Increase income and reduce the Council's debt, halving it by 2006.
- √ Increase fees and charges by at least inflation each year.
- √ Increase housing rents by the government guideline and progress towards the formula rent target over 10 years.
- √ Maximise external income.

### **MAINTAINING ADEQUATE LEVELS OF RESERVES AND BALANCES**

- √ Maintain General Fund Reserves at their guideline level of £8 million.
- √ Maintain average debt at the average credit ceiling.
- √ Monitor the evolution of pension fund assets and liabilities. Develop an asset management strategy that is coherent with the Council's overall risk posture.

### **FUNDING FUTURE CAPITAL AND REVENUE INVESTMENT NEEDS**

- √ Ensure effective use is made of all Council assets including property and IT.
- √ Release for disposal all Council assets surplus to service requirements.
- √ Seek out new sources of capital funding including where appropriate regeneration receipts.
- √ Give priority to investment in new Education assets, refurbishment of the Housing Stock and improving the environment.
- √ Attract external funding in order to deliver these priorities.
- √ Prioritise spending on the Council's existing assets in line with the Council's Asset Management Plan.
- √ Ensure "invest to save" is promoted whenever possible
- √ Create a Modernisation Fund to facilitate future investment

## PROCESS AND GOVERNANCE

- √ Ensure financial realism underpins all Council decisions.
- √ Ensure best value is achieved in all Council services.
- √ Ensure best value reviews generate at least 2% savings and where appropriate these savings are released for corporate priorities.
- √ Annual efficiency savings of 2.5% are expected from all services.
- √ Strategic Directors are required to manage their services within the budget given.
- √ 50% of any year-end departmental surplus may be carried forward to be used on one-off projects in the following year.
- √ Year-end overspends, with approval, are carried forward as a first call on that departments following years budget.
- √ Ensure the Council's budget properly reflects the Council's risk management strategy.

## Budget Risk Register

Risk	Mitigation
Spending exceeding the budget.	<ul style="list-style-type: none"> <li>- The monthly monitoring processes now in place across the Council mean that it is now unlikely that any significant under or overspend could occur without it being identified by the Strategic Director.</li> <li>- Underlying the budget strategy is the Council's commitment to holding balances at their target level of £8 million.</li> <li>- This is supported by the Council's medium term financial strategy, which allows 50% of underspends to be carried forward and invested in one-of initiatives in the following financial year. All overspends are carried forward and become a first call on the next years budget</li> <li>- Resources for the Council's Education service are tied to the Government's view of the need to spend on that service. It is proposed for 2004/05 that Social Services resources are "passport" in a similar way.</li> <li>- The CFO has to indicate formally each year whether the Council's budget has been prepared using a robust process.</li> <li>- Members now have a statutory duty – under the Local Government Act 2003 – to monitor the Council's budgets.</li> </ul>
Increases in demand impacting on the budget (e.g. Services and Community Housing).	<ul style="list-style-type: none"> <li>- Under the Council's "Forward to Sound Financial Management" project a review is now underway to ensure all the Council's budgets are prepared on the basis of service drivers. The processes currently in use in the Social Services Department will be used as a pilot across the Council.</li> <li>- A detailed assessment is carried out each year, as part of the budget review, to ensure that the Council's Business Planning process allies budget and service development. It is intended to ally the Council's Risk Management process to that for Business Planning.</li> <li>- The Council's Policy and Resourcing strategy ensures there is a very close</li> </ul>

	correlation between budgets and objectives and service delivery.
Non-achievement of the agreed savings.	<ul style="list-style-type: none"> <li>- The Council's Internal Auditors are currently reviewing the process used to ensure that savings actually feed through into changes to either service delivery or improved efficiency. All proposals have been reviewed and Departmental action plans to deliver savings will be monitored.</li> </ul>
Increasing deficit on the Pension Fund.	<ul style="list-style-type: none"> <li>- The report sets out a strategy for dealing with the expected actuarial deficit. The approach recommended is affordable within the Council's resource constraints</li> </ul>
Annual capital programme funding shortfall needing to be met from revenue	<ul style="list-style-type: none"> <li>- Budgeted capital programme fully funded.</li> <li>- Prudent release of scheme approvals as funds becomes available.</li> <li>- Regular and robust capital monitoring undertaken in all departments.</li> <li>- Quarterly reporting to the Executive.</li> <li>- The report sets out the options for "unsupported" borrowing to underwrite the Councils Capital Investment Strategy.</li> <li>- Full implementation of the recommendations emanating from the Best Value Review of Capital, together with those from O&amp;SC re Charter, will ensure that the Capital Programme is well managed.</li> </ul>
Failure to meet Council Tax Collection Rate	<ul style="list-style-type: none"> <li>- Target for 2004/05 has been increased to 97.5% (subject to Council Assembly approval). This is now possible because of improved Collection performance by the Liberata. The CFO considers that the current rate of progress can be maintained as long as the current co-operation and effort continues. This is a stretched target – however the financial implications of non-performance are relatively small – the net gain is £350,000 for each 1% collected.</li> </ul>

## SAVINGS PROPOSALS

Department and Description	2004/05 £'000	2005/06 £'000	2006/07 £'000
<b><u>Strategic Services - Savings</u></b>			
FMS - Fair Funding repayment from Social Services	-519	-519	-519
Housing Benefits - COLT	-250	-258	-265
Legal and Democratic Efficiency Savings	-75	-79	-83
Community Councils	-60	0	0
Increased SLA income (recovery of inflation)	-239	-239	-239
S & P - Best Value Team efficiency savings	-35	-36	-37
<b>Total Strategic Services Savings</b>	<b>1,528</b>	<b>1,389</b>	<b>1,408</b>
<b><u>Housing General Fund</u></b>			
Net savings on Bed & Breakfast	-183	-188	-190
<b>Total Housing General Fund Savings</b>	<b>-183</b>	<b>-188</b>	<b>-190</b>
<b><u>Environment &amp; Leisure Savings</u></b>			
Increased sponsorship income	-50	-50	-50
Trade Waste - efficiency & increased customer base	-100	-100	-100
Decrease funding to Southwark Community Recycling	-40	-40	-40
Increase Parking Income	-200	-200	-200
Introduction of Commercial Events	-100	-100	-100
Decrease funding Surrey Docks Farm	-70	-70	-70
<b>Total Environment &amp; Leisure Savings</b>	<b>-560</b>	<b>-560</b>	<b>-560</b>
<b><u>Education &amp; Culture Savings</u></b>			
Early Years Best value savings	-800	-1300	-1550
Culture	-16	-16	-17
<b>Total Education &amp; Culture Savings</b>	<b>-816</b>	<b>-1316</b>	<b>-1567</b>
<b>Total Savings</b>	<b>- 2,987</b>	<b>- 3,453</b>	<b>- 3,725</b>

**Budget for 2004/5 at indicative Council Tax levels at 3.9% and 7%**

	Revised Base 2003/04 £'000s	2004/05 Including growth @ 3.9% £'000s	2004/05 Including growth @ 7.0% £'000s
Education (Passporting)	156,952	168,994	169,064
Education (Non Passporting)	13,321	12,505	12,605
<i>Total Education &amp; Culture</i>	<i>170,273</i>	<i>181,499</i>	<i>181,669</i>
Social Services	109,055	116,114	116,114
Environment & Leisure	36,844	37,113	37,919
Regeneration	10,977	11,222	11,467
Housing General Fund	7,638	7,455	7,652
Strategic Services	30,885	30,526	31,096
Corporate Budgets	15,241	14,781	14,781
Strategic Financing	3,928	3,689	3,689
<b>Total</b>	<b>384,841</b>	<b>402,399</b>	<b>404,387</b>

## DRAFT

Deputy Prime Minister

Date

Dear Mr Prescott,

### **Local Authority Finance Settlement 2004/05 Consultation Response**

This Council considers that the Council Tax is an unfair one. It is regressive. It forces Councils to make unfair taxation decisions. The operation of floors and ceilings will force Council Tax levels up even higher. And this at a time when the Council Tax is becoming even more unpopular.

The 2004/05 settlement does from a simple headline perspective provide an increase in funding well above inflation for Southwark. The Council will passport the whole of the Education increase in FSS through to that service. It would also wish to commit to hypothecating the increase in the Personal Social Services Block. However, once it does that, the settlement leaves the Council with a negative increase in formula grant of some £1.3 million. This is because the reduction in the grant ceiling from 8% to 5.6% takes some £3.8 million in resources away from the Council.

Fully passporting to Education and Social Services, in line with national priorities, will leave the Council little choice. It either has to increase Council Tax or reduce services elsewhere.

The Council expects to make a 3% efficiency saving in 2004/05 and this will be recycled into priority services. Inevitably, though, the Council Tax increase the community will have to bear will be in excess of the Government's assumed level of 3.9%. This Council had the lowest Council Tax increase in London on 2003/04 and has a current level below the national "standard rate". The capping limit, in itself will mean that the Community will either have to lose services to that value or bear an increase in Council Tax of over 5%.

#### ***Urgent Issue – Error in the Education Settlement***

Education settlement – loss of 178 spaces on city academy

#### ***Changes to funding in EPCS and Licensing***

The government needs to ensure that the funding changes introduced by the settlement in the EPCS block and the new responsibilities faced by councils such as Southwark for licensing next year need to be at no cost to the council. The Council would have no option but to pass on the consequences of any government shortfall to its local taxpayers. It currently estimates the cost of the transfer to be £115,000.

***Floors and Ceilings***

The Council welcomes the use of floors to guarantee minimum year on year funding increases to councils. Indeed if the government was serious about wanting local authorities to produce meaningful 3-year plans it should pre-announce the minimum floor percentage for 3 years in advance in the spending review. Through the use of ceilings Southwark's taxpayers have yet again lost the benefit of extra government funding, this year to the tune of £3.8 million and last year £2.5 million. Southwark believes that the government should abandon ceilings and fund in full the additional commitments it expects from councils instead of passing that burden onto local taxpayers.

***Capping***

The Council views the Government's announcement that it will re-introduce Council Tax capping with dismay. It is clear evidence of the failure of the current system. It is another nail in the coffin of Local Democracy and by implication blames Local Government by the inherent unjust nature of the whole Council Tax regime.

If the Government does use capping it should have the honesty and courage to announce the capping criteria in advance.

Yours sincerely