

<b>Item No:</b>	<b>Classification:</b> <b>OPEN</b>	<b>Committee:</b> <b>EXECUTIVE</b>	<b>Date:</b> <b>17 DECEMBER 2002</b>
<b>From:</b> <b>CHIEF EXECUTIVE ALL STRATEGIC DIRECTORS CHIEF FINANCE OFFICER</b>		<b>Title:</b> <b>THE PROVISIONAL FINANCE SETTLEMENT AND ITS IMPLICATIONS FOR THE COUNCIL'S REVENUE BUDGETS</b>	

## **RECOMMENDATIONS**

1. That Members note the key elements of the provisional local government settlement for 2003/04 and its impact on Southwark.
2. That Members note the continued requirement to passport education resources to schools and the education service and agree in principle to passport the additional resources into the education service.
3. That Members note the scale of spending in 2003/04 compared to available resources and agree to implement savings of £3.8 million identified in this report.
4. That Members note the implications for funding growth next year and determine priority growth proposals for next year, in principle which growth should be included in the budget for 2003/2004.
5. That Members note the funding position on children's services, the additional spending pressures and the changing spending needs and agree to the early implementation of savings identified by the Director of Social Services and the redirection of those savings into within Social Services.
6. That Members agree in principle to redirect savings from early years into children's services as soon as possible and consider revised options for achieving this redirection within the next six months.
7. Members note the position regarding provisions and the need to consider this further at a subsequent meeting.

## **BACKGROUND**

8. On 5<sup>th</sup> December, the government announced, through the provisional finance settlement, the majority of the funding arrangements affecting local government for 2003/04. Although these proposals are provisional they rarely change significantly before they are confirmed in early February 2003.
9. However, some elements are yet to be announced – these relate mainly to detail but also to the way the national reduction in specific

and ring-fenced grants impact on the levels of general grant the Council will receive next year. The announcement is a significant part of the Council's budget and council tax arrangements as the government funds 85% of the Council's net expenditure through general grant (revenue support grant – which has now been renamed the “formula grant”). In addition the Council currently receives some £40 million in specific grants (chiefly for Social Service activities) paid towards the costs of specific services and projects.

10. The main facets of the announcement at a national level are:
  - An overall rise in the level of government funding compared to last year of about 8%, significantly above the rate of inflation.
  - A significant move away from service specific grants for education and social services and a corresponding increase in the level of formula grant (revenue support grant) payable. This should give local authorities more flexibility in the financing decisions they can take for individual services – although this freedom is likely to be restricted to those “better” authorities – as categorised through the Comprehensive Performance Assessment.
  - A complete change in the formula for calculating the amount of grant individual local authorities should receive with standard spending assessments (SSAs) being replaced by the “formula spending share” (FSS).
  - New maximum (ceilings) and minimum (floor) targets being proposed for 2003/04 which mean that no London authority should receive more than 8% or less than 3.5% (in cash terms) compared to 2002/03.
  - Resource Equalisation which changes resource distribution to reflect what authorities, in total nationally, spend on services. Broadly this had the effect of increasing total SSA by £4 billion. However, this led to no overall increase in cash to local authorities. It will put even more pressure on local authorities to spend at the assured government level and will disadvantage low spending councils.
  
11. The overall effect of these changes has been:
  - i. A shift in resources from the South-Eastern Authorities towards those in the Midlands and the North – specifically away from London and the Shires towards the Metropolitan areas.

- ii. A greater concentration of resources on education and social services.
12. The government has also announced changes in the significance they now attach to SSAs. They have stated that

“We had no doubts on the need to replace the outdated and discredited SSA system. However, developing a robust, appropriate and fair replacement has been a challenging task, not least because of the many competing claims from different categories of local authorities.

“One of the major problems with the old SSA system is that it attempted to take a view on what authorities needed to spend. This was unrealistic, and inconsistent with our approach towards devolving responsibilities, so we will not continue with it. Notional spending allocations do not imply anything about budget or spending choices that will need to be made. Those are decisions that should properly be taken by councils, in consultation with their council tax payers.”

Despite this there remains:

- A requirement that local authorities pass on to schools that part of the grant calculated to be associated with schools spending need (or risk intervention by the Secretary of State for Education).
  - Similar but less explicit pressure so far as the rest of the education budget is concerned.
  - A similar trend in expectation that local authorities will pass on to social services that part of the additional funds paid to them in respect of that service but without any associated powers on the part of the Secretary of State for Health.
13. Lastly, the government has assumed as part of their proposals that it expects local council tax to rise by 6.3%.

## **LOCAL IMPACT AND LOCAL ISSUES**

14. The key elements of the proposals so far as the Council is concerned is:
- a) General grant will increase from £283.523 million to £312.501 million. Some £6m of this change relates to the inclusion of specific grants previously paid to Education and Social Services. On a comparable basis general grant has risen by £23.5 million, ie. 8.1%.
  - b) Southwark is one of a significant number of councils whose grant has been limited to a maximum of 8.1%. Had this artificial limit not

been applied in order to ensure that some councils received a minimum (floor) its entitlement would have been some £3m higher.

c) £12.3m of this general grant increase can be assessed as being related to education:

- schools £10.5m
- non-schools £1.8m

The expectation/requirement is that £10.5m will be passed on directly to schools and the £1.8m used to finance non-schools education services. Schools have been written to by the Secretary of State for Education telling them to expect this increase.

d) This means that the remainder of this general grant, £11.2m, plus whatever the Council chooses to raise from council tax, will have to finance increases in costs in all other services and any growth which the Council agrees.

15. In broad terms the position in 2003/04 is as follows:

	£'m
Base budgets for all services including inflation provision, changes to specific grants, and revised passporting figure for education	<b>378.0</b>
Resources available	
Formula Grant	-312.5
Council Tax at 2002/03 level	-62.0
Council Tax increase of 6.3%	-4.0
<b>Total Resources</b>	<b>-378.5</b>

16. As a starting point for 2003/04 therefore the projected spending level with the new education passporting figure is broadly equal to the projected resources for 2003/04. The budget however needs to be refined to reflect priority spending requirements and the Council's commitment to modernise customer access etc. Some further redirection will therefore be required. Factors which Members should take into account are:

- i. Officers have already identified some £3.8 million of savings of which £2.8m relates to efficiency savings and £1m relates to other changes which can be implemented next year. The Executive needs to decide whether to implement these or any other savings.

- ii. It is now that the children's service within Social Services is now under intense pressure and will require a resource injection if the Council is not to risk service deterioration. It is also likely to require a gradual and sustained increase in resourcing if this demand continues to rise. Even before the changes in the formula from SSA to FSS it was clear that the Council was spending less on children's services than assessment need. Only by including a large part of early years expenditure, for which the Council's spend is high relative to other councils, did the comparison with other assessed need look reasonable. However, early years expenditure is not directed towards children in need and is not being provided primarily for protective purposes. This funding discrepancy is even more apparent under the new system in which the calculation of spending need associated with children's services has risen to £51 million – some 30% more than the Council currently spends. This will need to be remedied at least in part in this year's budget. The Director of Social Services has identified high priority spending needs within Social Services of some £3million and a need for further investment in the medium-term.
- iii. When all these factors are taken into account the overall picture looks like:

	£'m
Base Budget for 2003/04	378.0
Add	
Social Services Growth	3.1
Other Growth	9.8
<b>Identified Costs for 2003/04</b>	<b>390.9</b>
Resources Available for 2003/04	378.5
<b>A potential gap of</b>	<b>12.4</b>

17. The choices open to the Council are therefore:
- to achieve savings by reducing the costs of existing services
  - reduce the amount of new growth proposed to be financed from the revenue budget
  - find alternative mechanisms to fund expenditure if possible
  - increase council tax more than 6.3%
  - a combination of the above

## PROPOSED WAY FORWARD

18. General Expenditure reductions - £3.8 million

Officers have already produced a schedule of savings, which amounts to £3.8 million (see attached schedule) excluding Social Services and Education. It is proposed that the majority of these are implemented as quickly as possible as it will be necessary to achieve this level of savings even with a standstill budget. It is assumed that because of the need to passport Education and the large growth in Social Services, any savings in these areas would be retained with the service.

19. Expenditure reductions – Social Services

The Director has identified two areas of savings which are not in priority areas where resources could be generated and redeployed into children's and other priority growth areas. If early implementation is agreed some £2.5m could be deployed into children's services in 2003/04. This issue is dealt with later in this report.

20. General Growth demands to be reduced

It is suggested that only very high priority growth should be financed next year. The Appendix sets out an assessment of growth required on the basis of being able to implement Executive priorities over a three-year period.

21. Alternative funding may be possible for the customer access programme in view of the fact that costs and those for 2004/05 are of a non-recurring 'preparatory' nature. These options include the possible use of capital resources/provisions and are currently being explored with the Council's auditors.

22. If the strategy were to be acceptable the budget could be brought into broad balance by:

<b>Achieving</b>	<b>£'m</b>
Efficiency savings	-2.8
Service Reductions	-1.0
Funding the Customer Service Centre from alternative sources	-2.0
Reduce general growth bids by	-4.1
Redirect Savings from efficiency and other measures inside Social Services to meet priority growth proposals	-2.5

23. The Council is still waiting for the Government to issue detailed schedules of the changes to be made to the specific grants the Council will receive in 2003/04. The Government expects the cost of continuing to deliver these services to be funded through the Council's formula grant. The Council's initial estimate is this will amount to some £9 million – although the Government anticipated, in the finance settlement, that this would not exceed £6 million. A list of the specific grants affected by this is attached to this report. The position may be clear before the meeting of the Executive. If not then it will be before the next meeting on 14<sup>th</sup> January 2003.
24. For this reason it is suggested that the Executive receive a further report in January 2003 setting out the funding options available to meet any balance of funding that still remains outstanding. The following table summarises the position overall:

	Social Services £'m	Education £'m	Other Services £'m	Total £'m
Base Budget for 2002/03	91.0	144.6	109.0	344.6
Cost of Inflation, Commitments and Passporting for Education	6.0	12.3	5.5	23.8
Funding for Specific Grant fall-out (now met from Formula Grant)	4.0	5.6	0	9.6
Priority bids for growth	3.1	0	9.8	12.9
Savings proposals	0	0	-3.8	-3.8
Alternative funding for the Customer Service Centre to be considered	0	0	-2.0	-2.0
Reduce Growth Bids	0	0	-4.1	-4.1
Redirect internal savings	-2.5	0	0	-2.5
<b>2003/04 Costs</b>	<b>101.6</b>	<b>162.5</b>	<b>114.4</b>	<b>378.5</b>
Resources available with a 6.3% Council Tax increase				-378.5

## SOCIAL SERVICES

25. As the Executive is aware there are increasing demand and cost pressures falling on the Social Services budget. These include
- Funding children's services to meet statutory requirements in the context of increased activities.
  - Underlying budget pressures associated with demand increases and loss of income.
  - The need to stabilise social care markets with above inflation fee increases.
  - And the possible negative impact of some specific grant changes.
26. In addition the Government has given priority to improving the rate of Hospital Discharges. It is intending to fine those Local Authorities that delay this process. Although the system is due to start in the next financial year the exact arrangements are still to be finalised. There have been indications that for some or all of 2003/04 Local Authorities will be given a specific grant to pay for all or some of these fines; but it is still very uncertain.
27. When taken all together there are limited resources to deal with what is the potential scope for almost unlimited service demands. The FSS for Southwark shows a 29% increase over the SSA for 2002/03. Clearly the Council has not the resources to allocate such large increases to the service, as grant has not been increased by a corresponding amount. What is proposed is that the underlying costs in the service – uprated for inflation and the knock on effect of the fall-out of specific grants and totalling over £10 million together - are funded through a base budget improvement. Whilst these cost pressures exist there are undoubtedly areas of spend in Social Services which do not reflect that of a modern service and it is therefore suggested that improvements in the use of resources within Social Services should take place before any additional resources are granted.
28. In the longer term it will still be necessary to put additional resources into Social Services if service quality is to be maintained. The way the Council chooses to exercise choice this year should be predicted by its longer-term strategy and service objectives. Particularly relevant here is the position that has already been identified in respect of early years which the best value review identified potential savings of £3.6m over the next four years, of which £0.6m has already been assumed in the 2003/04 savings proposals above. This is an exceptionally expensive non-statutory service, which has clearly not been properly targeted in the past to clients in need or for the development of a specific policy objective. If the pressures on Social Services continue to increase it would be appropriate to redirect



these savings over a shorter period (say three years) into the much higher priority needs associated with children's services within Social Services. Providing that Members agreed to both the redirection of funding and the shorter period, this would accommodate some of the additional spending in the medium term. The short-term problem remains however.

29. These proposals and issues are set out in more detail in the appendix to this report

### **COMMUNITY COUNCILS.**

30. Council Assembly on 5<sup>th</sup> November 2002 decided to go ahead with Community Councils from 1<sup>st</sup> April 2003. However, a decision about how they are to be funded has not yet been finalised.
31. Officers are currently exploring the various available options including funding which might be available through re-direction from the Community Development budget and from Members support services. It is anticipated that these should lead to a reduction of at least £220,000 from the figure in the growth proposals set out in this report. Further work will be completed soon to review what other appropriate savings can be brought forward for decision including those emanating from the Legal Services best value review.

### **CUSTOMER SERVICE CENTRE**

32. Executive agreed, on 5<sup>th</sup> November 2002, to start the process of identifying an investment partner for the implementation of a Customer Service Centre. The revenue costs arising from this initiative will be of a one-off nature and will fall to be met jointly from the General Fund and the HRA. The General Fund share of the costs amount to £2 million.
33. No specific resources for the CSC have been identified in this report. There are still uncertainties around the revenue budget which will not become clearer until later in the process. These are the costs the Council will have to find to funding the fall-out of specific grants, the extent of the Council's revenue and its bad debt reserves. The Council will not know the result of the Government's consultation on the Local Government finance settlement until early February 2003. For this reason the Executive should leave making recommendations on CSCs to full Council until late February 2003 by which time alternative funding sources may be clearer.

### **BALANCES AND RESERVES**

34. It is anticipated that balances at 31<sup>st</sup> March 2003 will be some £6.5 million – or £1.5 million below the prudent level that the Council should maintain. When Council Assembly agreed the 2002/03

budget on 25<sup>th</sup> February 2002 the following policy on balances was adopted.

35. "That the rebuilding of balances to £8 million over a period of 2 years, with balances for 2002/03 of £6.5 million be agreed."
36. Under the provisions of the Local Government Bill (due to be enacted in July 2003) the Secretary of State will have powers to determine the minimum level of balances. The most recent guidance on balance is from the Audit Commission, through the Comprehensive Performance Assessment documentation issued in May 2002, when they stated that an "adequate" standard is for Council balances to be at "least equal to 5% ... of forecast operating expenditure (excluding schools budgets)". For 2003/04 this is likely to amount to some £10 to £11 million.
37. The Council has asked its Internal Auditors (PwC) to examine in detail the extent to which the Council's bad debt reserves are still adequate – given the Council's latest performance in collecting the income due to it. The review will be conducted over the next two to three months. The report will be received by the Council before Easter

## **CAPITAL PROGRAMME**

38. The Government announced the extent to which the Council will be allowed to borrow for its capital programme on 10<sup>th</sup> December 2002. Although final details are awaited the announcement shows virtually no change from the current year. It is expected that most of the borrowing approval will relate to the Housing service.

	2002/03 £'000s	2003/04 £'000s
Annual Capital Guideline (ACG)	17,253	18,533
Single Capital Pot distribution	767	533
Add redistribution of capital receipts from other Local Authorities (RTIA)	1,936	809
<b>Total Borrowing Approval (BCA)</b>	<b>19,986</b>	<b>19,875</b>

39. A report on the implications of these announcements and an initial view of schemes that might be funded in 2003/04 will be presented to the Executive in January 2003.

## **REASONS FOR LATENESS AND URGENCY**

40. This report could not be drafted until after the Council received the finance settlement figures on 5<sup>th</sup> December 2002. Decisions on the overall shape of the Council's budget need to be taken now so that statutory consultation on savings etc can start as quickly as possible.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Budget calculations, Monitoring details, circulars etc from Government, briefing notes from LGA and ALG	FMS	Alan Layton Ext : 54309

## APPENDIX A

### Audit Trail

41. FMS attaches this section in the report for Audit trail.

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<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Borough Solicitor & Secretary	No	No
Chief Finance Officer	Yes	Yes
List other Officers here		
Chief Executive	Yes	Yes
All Strategic Directors	Yes	Yes
<b>Executive Member</b>	No	No
<b>Date final report sent to Constitutional Support Services</b>		

