

Cabinet

Tuesday 21 December 2010

4.00 pm

Ground Floor Meeting Room G02A - Tooley Street, London SE1

Supplemental Agenda No.1

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5.	Policy and resources strategy 2011/12 - 2013/14: medium term resources strategy and local government settlement To consider the initial implications for Southwark Council of the Provisional Local Government Settlements 2011/12 and 2012/13, and the draft update of the Council's Medium Term Resourcing Strategy.	1 - 29

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Date: 17 December 2010

Agenda Item 5

Item No. 5.	Classification: Open	Date: 21 December 2010	Meeting Name: Cabinet
Report title:		Policy and Resources 2011/12 to 2013/14 –provisional local government settlement and draft medium term resources strategy	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance and Resources	

FOREWORD - COUNCILLOR RICHARD LIVINGSTONE, FINANCE AND RESOURCES

1. On 13th December, the Government announced the provisional 2011/12 grant settlement for Southwark. The Government's figures show that Southwark's formula grant will reduce from £262.446m to £232.790m: a reduction of £29.656m or 11.3%. The Government also set out the provisional 2012/13 formula grant of £214.821m, a further reduction of £17.167m or 7.4%. Southwark is therefore facing the largest reduction in formula grant, in cash terms, in London. These cuts are at the upper end of our expectations and will necessitate extensive budget reductions for 2011/12 and 2012/13.
2. The Government have devised a new measure for the impact of grant reductions on local councils, termed *revenue spending power*. *Revenue spending power* is an aggregation of the formula grant, other specific grants, council tax and NHS funding for expenditure on social care. Using this measure, Government's figures show that Southwark will lose a total of £33.7m in 2011/12 and a further £16.2m in 2012/13. These amounts represent 8.4% and 4.5% respectively of our revenue spending power for those years.
3. The reductions set out below are all in cash terms rather than real terms. Once inflation is considered, the impact will be significantly greater. Despite having the largest cut reduction in London, Southwark has not been allocated the transition grant that has been offered to a number of other authorities.
4. As expected, in addition to the loss in Formula Grant, Southwark will be losing its £6.7m of Working Neighbourhoods Funding in 2011/12. The report sets out how the £103.5m that the council received this year in specific and unringfenced grants will be distributed. £31.7m has been moved into the Formula Grant, £33.1m to the Dedicated Schools Grant and £35.1m has been moved into other core grants. As yet, Government has yet to give an explanation on the fate of the remaining £3.6m.
5. Appendix 1 sets out the draft of the updated medium term resources strategy, based on the 'A Fairer Future for Southwark' vision agreed by Cabinet in June and the budget principles agreed by Cabinet in September. A final version of this will be presented to Cabinet on 25 January and will be put before Council Assembly for approval on 22 February.

RECOMMENDATIONS

That Cabinet:

6. Note the provisional local government settlement for 2011/12 and 2012/13 which was published on 13 December 2010.
7. Note that the issues in this report and subsequent analysis form the basis of a formal response to the consultation on the provisional local government settlement which must be submitted to government by 17 January 2011.
8. Note that the Leader is writing to the Right Honourable Eric Pickles, MP, the Secretary of State for Communities and Local Government (CLG) to request a meeting to discuss the proposals set out in the provisional settlement.
9. Confirm that the budget principles agreed by Cabinet on 21 September 2010 continue to guide and underpin the work of officers in arriving at a balanced budget in February 2011.
10. Taking all the issues in this report, instruct the Finance Director to report back to the Cabinet at its meeting on 25 January 2011, and in advance of the 31 January Overview and Scrutiny meeting, on the budget for 2011/12, and indicative budgets for 2012/13 and 2013/14.
11. Note the updated draft medium term resources strategy (Appendix 1) and instruct the Finance Director to present a final version at the 25 January 2011 Cabinet meeting.

BACKGROUND

12. In January 2010 the council received its final grant settlement for 2010/11 of £230.7m. This represented the last year of the three year spending review from 2008. Southwark also received £176.7m of Dedicated Schools Grant (DSG), of which £151m is allocated to schools formula budgets; the remainder is held centrally to provide pupil related services. The original allocation for area based grant (ABG) in 2010/11 for Southwark at the beginning of the financial year 2010/11 was £44m. Working Neighbourhoods Fund (WNF) represented £7.4m and Supporting People (SP) £18m. The council also received a number of other specific grants to support local service delivery which amounted to £62.5m.
13. In February 2010 Council Assembly agreed a balanced budget of £319.9m for 2010/11. This was based on a zero percent increase in Council Tax (Southwark element only). The agreed budget included £14.3m worth of financial commitments largely to meet increasing demand pressures particularly within social care. Some £13.4m savings were set out which included the rationalisation of management structures, shared service delivery, better use of information technology and reduced costs resulting from co-location.
14. In June 2010 the Cabinet set out its mission, 'Fairer Future for all in Southwark'. This sets out the broad local priorities of the new administration.
15. On 22 June 2010 the coalition government announced its national emergency budget which contained a number of measures to reduce the overall government deficit. On 20 July 2010 the Cabinet received a report that set out the impact of cross-government savings for Southwark which resulted in a reduction of £5.1m in grant income in 2010/11, of which £3.3m related directly to projects funded through Area Based Grants (ABG). This included £2.1m reduction

from Children's Services, a £0.7m reduction in WNF and a £0.3m reduction in SP administration grant.

16. On 21 September 2010 the Cabinet agreed seven budget principles to guide and underpin the work of officers in preparing a balanced budget for February 2011.
17. On 20 October 2010 the Chancellor of the Exchequer announced the SR 2010, covering the period from 2011/12 to 2014/15. He announced that funding to local government will be reduced by 7.1% for each year to 2014/15. On the same day 'SR 2010' (published by HM Treasury) stated that 'overall resource savings in Local Government 'departmental expenditure limits' (DEL) to councils of 28 per cent over the four years'. Also on the 20 October, the Secretary of State for Communities and Local Government (CLG) wrote to all councils explaining that 'councils will face an average loss of grant of 7.25%, in real terms, in each of the next four years'.
18. The SR set out that the number of specific grants to local government will be reduced as part of the government's intention to lift the ring-fencing of all local government revenue grants from 2011/12, with the exception of local health and schools grants.
19. On 2 November the Cabinet received an update report on the headline content of the SR. The report stated that there was still a great deal of uncertainty surrounding the allocation of resources to local government, including that:
 - no statements or publications were made on the data underpinning local government grants for 2011/12 and beyond,
 - no statement was made on the continuation of the floor or otherwise,
 - the government wanted to 'simplify' the schools grant system, including DSG, but the details were yet to be published,
 - the government had not yet published detailed information at a local level on ABG,
 - the precise details on how grants will be absorbed into formula grant or one of the other core grants were yet to be published,
 - the results of the consultation on the formula grant were not expected until later in the autumn,
 - personal budgets will be introduced for children with Special Educational Needs (SEN), although specific details on local determinations were yet to be published,
 - council tax benefits would be 'localised' from 2013/14, although the precise details on how this will be delivered were not specified,
 - councils had been informed of radical reforms to the Housing Revenue Account but the details of such reforms were not yet known.
20. A number of recommendations were agreed by cabinet on that report. These included: providing further information to voluntary sector providers and other stakeholder groups on the outcome of the SR; seeking further advice from government on the consequences of the SR for Southwark; and writing to local MPs seeking clarity on the financial settlement. A further recommendation was to work with other London councils to lobby the government for reform of the four block model to accurately reflect the costs facing London boroughs including the maintenance of the floor. Work continues with regards to these recommendations, particularly in requesting an early meeting with the Secretary of State for Communities and Local Government (CLG) and preparing a response to the provisional settlement.

21. The purpose of this report is now to set out the headline content of the provisional grant settlement and clarify, where possible, the uncertainty described in the 2 November report on the SR.

KEY ISSUES FOR CONSIDERATION

22. On the 13 December, the Secretary of State for CLG announced the 2011/12 and 2012/13 provisional local government settlement.

Formula grant – national position

23. In 2011/12 the total level of provisional formula grant funding to local government nationally will be £29.4billion, a reduction of 9.9% against the 2010/11 position. To ensure a like for like comparison between 2010/11 and 2011/12 the position for 2010/11 has been revised. This revision has involved the ‘rolling in’ of other government grants into formula grant as from 2011/12.

24. The government have announced a number of significant changes to the formula grant at a national level.

25. The way in which the minimum funding guarantee, or floor, is calculated and applied has changed. In 2010/11, there was a single floor for each class of authority. A class refers to the type of authority i.e. single-tier councils such as Southwark, two-tier councils such as districts and so on. For 2011/12 and 2012/13, there will be multiple floors, which are described by the government as ‘bands’, within each class of authority. The bands are based on the level of dependency a council has to its formula grant. Put another way, the greater the proportion of formula grant funding that makes up the net budget of a council, the ‘higher’ the band in which it will be placed. For single tier authorities the bands, and the percentage reduction in formula grant, in 2011/12 and 2012/13 are:

	Minimum reduction in formula grant compared to 2010/11	Minimum reduction in formula grant compared to previous year
Band 1	- 11.3%	- 7.4%
Band 2	- 12.3%	- 8.4%
Band 3	- 13.3%	- 9.4%
Band 4	-14.3%	- 10.4%

26. Southwark is a Band 1 authority in that it is one of those councils most dependent on formula grant. 72% of the council’s net budget is funded through formula grant. Nationally, there are 38 single-tier councils in this band, 17 of which are in London. The floors are self-financing. This means that those councils within a particular class that are above the floor will have the resources from their formula grant scaled back. The resources made available are then used to bring the councils which are below the floor up to their ‘band’ levels.

Transition grant and revenue spending power

27. The government have introduced a transition grant to manage the impact of spending reductions. Whether a council receives the transition grant or not is dependent on the extent to which their overall 'revenue spending power' has decreased as a result of the provisional grant settlement.
28. The revenue spending power is a new concept within the settlement process. It is made up of formula grant plus council tax income along with other government grants and NHS support for health and social care. If, as a result of the provisional settlement, a council's overall revenue spending power has decreased by more than 8.9% in 2011/12 they will be awarded sufficient transition grant to bring them back to an overall reduction of 8.9%.
29. Nationally in 2011/12 there are 36 councils that will see their revenue spending power reduced by the maximum 8.9%. Only one authority will experience an increase in revenue spending power, which is Dorset at 0.25%. A further 8 authorities will see their revenue spending power reduced by less than 1%. In London, Newham, Tower Hamlets and Hackney have experience more than the maximum reduction in revenue spending power and therefore will be in receipt of transition grant totalling £15.3m. No other council in London will receive the transition grant. Richmond-upon-Thames experiences the least reduction in revenue spending power at 0.6%. Inner London boroughs will lose revenue spending power of 7.5%. This compares with 4.3% in outer London Boroughs.

Other national formula changes

30. The government proposed a number changes to the formula grant distribution for consultation. This consultation ended on 6 October 2010. Two significant outcomes of the consultation which were implemented within the provisional settlement are:
- changing 'the labour cost adjustment' in the Area Cost Adjustment (ACA). The national impact of these changes are not known at this time. However, it has been previously estimated by the government that, before applying the "minimum funding guarantee", the changes to ACA would move over £100m of grants out of London, with a £6.5m reduction (again before the "minimum funding guarantee" is applied) for Southwark.
 - transfer of concessionary fares in two tier areas from district to county level authorities. Although London boroughs are single-tier authorities some of the arrangements for concessionary fares are handled directly through London Councils. The changes therefore may have an impact on London and Southwark although there is no detail published at this time.

Other core grants and area based grant (ABG)

31. The government have announced a number of changes with regard specific and unringfenced grants. From 2011/12 the number of grants to local government has reduced from over 100 to around 12 core grants. These changes will involve the movement of some grants into formula grant, some into the other core grants and the creation of new grants. WNF will cease from 2011/12.

Schools and national DSG

32. School funding currently includes over 16 individual grants including the Dedicated Schools Grant (DSG), Standards Funds and Standards Grants. As expected, the Department for

Education has simplified the funding streams by merging all these grants into the DSG in 2011/12.

The Localism Bill and local spending powers

33. In advance of the forthcoming review of local government resources, the Localism Bill, which was published on 13 December alongside the settlement, contains several provisions concerning local spending powers. These include:
- replacing the capping powers on council tax increased with a requirement that councils hold a referendum on any proposed rise above a certain threshold;
 - the ability for councils to grant a discount in business rates;
 - a requirement that councils allocate a proportion of Community Infrastructure Levy (CIL) revenues back to the neighbourhood from which it was raised.

Housing Revenue Account (HRA)

34. The draft HRA subsidy determination for 2011/12 was issued by CLG on 5 November 2010, and the consultation process ended on 16 December 2010. The draft determination sets out the proposed level of allowances and rent clawback in order to calculate each council's subsidy entitlement for 2011/12. Subsidy is due from government if notional expenditure, based on management, maintenance, major repairs and debt charge allowances, exceeds notional income, based on the proceeds of guideline rent.
35. 2011/12 will be the last year for HRA subsidy, following recent announcements that self-financing will be introduced from 2012/13 through the Localism Bill. The government is also planning to publish detailed proposals for HRA finance reform in January 2011.
36. Debt adjustments will be calculated for each authority in order to leave them from 2012 with a debt level affordable without subsidy over the long term.

Formula grant - Southwark's position

37. Overall, Southwark will experience a total reduction in formula grant in cash terms of £29.7m for 2011/12 (an 11.3% reduction in comparison to a revised 2010/11 position) and a further £17.2m in 2012/13 (a 7.4% reduction). The total reduction in grant in cash terms over two years is therefore £46.9m. This is the highest cash reduction of all London boroughs.
38. Southwark remains a 'floor' authority. This means the council receives more than that determined by the formula due to the application of a "minimum funding guarantee" that ensures no council receives less than a nationally determined minimum. Without the floor Southwark would experience an additional loss in cash terms of £13.6m grant in 2011/12 and a further £19.3m grant in 2012/13. This means that in cash terms the total reduction in grant for Southwark, without the floor, would have been £79.8m for 2011/12 and 2012/13.
39. As a result of the settlement, Southwark, like others in London, is even more dependent on the floor and how it is applied. The government made no announcements as to the future of the floor beyond 2012/13.

40. The table below shows how the formula grant has changed between 2010/11 and 2012/13 and how Southwark compares to the London and national position:

Table 1. Formula grant changes from 2010/11 to 2012/13 for Southwark

	Final 2010/11 formula grant	Revised 2010/11 formula grant (re- baselined)	Provisional 2011/12 formula grant	% change between revised 2010/11 and provisional 2011/12 formula grant	Revised 2011/12 formula grant (re- baselined)	Provisional 2012/13 formula grant	% change between revised 2011/12 and provisional 2012/13 formula grant
	£m	£m	£m	%	£m	£m	%
England	28,996	32,653	29,410	-9.9%	29,275	27,138	-7.3%
London	4,188	4,757	4,221	-11.3%	4,200	3,879	-7.6%
Southwark	231	262	233	-11.3%	232	215	-7.4%

41. There are a number of significant changes between the formula grant announced for Southwark in 2011/12 compared to that announced for 2010/11.

42. Some £31.7m of former specific and unringfenced grants have moved directly into the formula grant for Southwark. This means, as can be seen from the table above, that the council's revised formula grant for 2010/11 increases from £230.7m to £262.4m. This allows a like for like comparison to be made with 2011/12.

43. Normally any grant moving into formula grant would be re-distributed according to the standard methodology that determines formula grant. However some £21.2m of grants were subject to a tailored method of distribution that was applied by the government. This was done without any prior consultation with local government and without assessing the volatility of the impact to individual councils. This has resulted in a reduction of £2.7m in grant in 2011/12 for Southwark, which is largely due to the redistribution methodology applied to the supporting people grant. This reduction forms part of the overall grant reduction of £29.7m in 2011/12.

Transition grant

44. Southwark will receive no transition grant in either 2011/12 or 2012/13. This is because the level of reduction in Southwark's 'revenue spending power' in 2011/12 is 8.4% and in 2012/13 is 4.5%. In cash terms this equates to a reduction in revenue spending power of £33.7m in 2011/12 and a further £16.2m in 2012/13. Southwark's level of reduced revenue spending power is lower than the threshold of an 8.9% reduction set nationally by the government.

Existing other core grants and area based grant (ABG)

45. In 2010/11 the council received some £103.5m in specific and unringfenced grants (excluding DSG). Of this:

- £31.7m has been moved into formula grant;
- £33.1m has been moved into DSG;
- £35.1m has been moved into the other core grants.

Details on the remaining £3.6m are yet to be published by the government, the majority of which is in relation to children's services.

46. As a result of the movements described in the paragraph above the council has a revised baseline position of £38.7m of previously specific and unringfenced grants in 2010/11. These grants now form part of the other existing core grants that are no longer ring-fenced or restricted in any way.

47. In addition to this there was £12.2m of resources in 2010/11 given to the PCT from the Department of Health and then transferred to the council for learning disabilities. In 2011/12 these resources will be paid directly to the council. This is not new cash. It is a change in grant distribution. This therefore means that it is added to the £38.7m of other existing core grants so that a meaningful like for like comparison can be made with 2011/12 and future years. So, the total revised baseline position for other existing core grants received by the council in 2010/11 is £50.9m.

48. Based on current published information the council will receive some £38m in other existing core grants in 2011/12, which is a reduction of £13.2m on 2010/11. Of this reduction £6.7m is as a result of the abolition of WNF from 2011/12. £2.9m is as a result of the merging and subsequent re-distribution of previous grants into the Early Intervention Grant. £3.6m is yet to be accounted for by government.

49. Based on current published information the council will receive £34.6m in other existing core grants in 2012/13, which is a reduction of £3.4m on 2011/12. This reduction is largely due to housing benefits grant. However, no announcement has been made by the government on this.

New other core grants

50. Within the other core grants there is a total of some £12.8m of new grants over two years to 2012/13. These include indicative council tax freeze grant of £4.4m and funding to support social care and benefit health of £8.4m. The council will only receive the council tax freeze grant if council tax is frozen for 2011/12. Also, there is no published information as to whether the funding to support social care and benefit health grant comes with additional burdens or not.

Summary of other existing and new core grants

51. The scale of changes to grants resulting from the overall provisional grant settlement, as set out in paragraphs above, are complex with details continuing to emerge. The table below summarises these changes based on announcements made so far by the government:

	Revised 2010/11 (re- baselined)	Provisional 2011/12	% change between revised 2010/11 and provisional 2011/12	Provisional 2011/12	Provisional 2012/13	% change between 2011/12 and 2012/13
	£m	£m	%	£m	£m	%
Other existing core grants	50.9	38.0	-26.0	38.0	34.6	-8.9
New grants		6.5		6.5	6.3	-3.0
Total	50.9	44.5	-12.6	44.5	40.9	-8.1

Dedicated Schools Grant (DSG)

52. The 2011/12 per pupil value for the DSG is unchanged (i.e. the same rate as 2010/11, with no inflation applied); and the 2011/12 total cash value of the predecessor grants have been merged into the DSG with the exception of a £500k reduction in Primary and Secondary Strategy grants and a change in funding methodology for the extension to 15 hours education funding for 3 and 4 year olds. This means, that overall, the funding settlement for school is more favourable than other services. This assumption is dependent on Southwark's total pupil numbers remaining stable or rising. Therefore, the adjusted DSG per pupil in Southwark for 2011/12 will be £7,244; this is made up of £6,200 (2010/11 rate) DSG plus £1,044 to reflect the merged in grants; in total £213m based on current pupil numbers.

53. At individual school budget level, there will still be funding turbulence as the Schools Forum and Authority will be reviewing how to allocate these merged grants. Some of the predecessor grants contain historical anomalies and options for removing this unfairness and simplifying the funding allocations are under consideration.

54. In addition, all mainstream schools will receive a £430 Pupil Premium for each pupil that is eligible for a Free School Meal in year groups R to 11. It is estimated that this will bring an additional £3.5m into Southwark Schools (on average £42k per primary school; £80k per secondary school). Further, a Pupil Premium of £430 will also be allocated for looked after children (c£150k), pupils in special schools and in alternative providers (c£150k); how this funding will be distributed to schools and the Authority, as appropriate, is to be determined.

Business rates

55. The Localism Bill, published alongside the settlement, provides councils with the power to grant a discount in business rates. This builds on the white paper "*Local growth: realising every place's potential*" and will be taken forward through the Local Government Resource Review which will start in January 2011. The white paper also confirms the government's intention to introduce new powers to enable authorities to carry out Tax Increment Financing. Officers will work through the details of these changes for Southwark once further information is published.

Housing Revenue Account (HRA)

56. A report setting out the indicative rent-setting and budget for the HRA for 2011/12 for Southwark was presented to Cabinet on 14 December 2010. This report also set out the highlights of the 2011/12 HRA determination for Southwark.

Revenue monitoring position

57. The council is experiencing a number of new and emerging service pressures. The main pressure areas include placements for younger disabled people and delays to the transfer of people with disabilities from residential to community based care. There are also overall cost pressures within Children's services, particularly in managing the impact of 2010/11 in-year reductions in grant. The detailed revenue monitoring as at quarter 2 was set out in a report to Cabinet on 14 December 2010. It will be important to consider these pressures as part of the I budget setting process moving forward.

Medium term resources strategy (MTRS)

58. The spending review announcement and subsequent local government grant settlement has significant implications for the council's broader resource management framework, as articulated through the MTRS. Officers are currently working up the details on a revised MTRS so that it provides an effective framework to best reflect the changing environment in which the council operates.

59. The MTRS now captures the budget principles agreed by Cabinet in September and the broader vision for a fairer future as set out by Cabinet in June. Cabinet also agreed the Corporate Asset Management Strategy 2010 at its meeting on 14 December 2010, which forms part of the MTRS moving forward. The MTRS will also include the strategies for anti-fraud and procurement and the document has been updated to reflect these ongoing changes. A draft MTRS, which very much represents work in progress at this time, is attached at Appendix 1. Officers will continue to work on the MTRS as further details of the settlement are published. An updated MTRS will be presented to the 25 January 2011 meeting of the Cabinet.

Consultation

60. The cabinet have undertaken a number of 'fairer future for all' budget consultation events and consultation exercises. This has involved seeking views from each community council and meeting with key stakeholder groups. The outcomes of the consultation will be made available through the council's website and other communications and publications as appropriate, in time for budget setting.

61. At their meeting on 15 November it was agreed that Overview and Scrutiny interview all cabinet members about budget proposals for their portfolios on 31 January 2011.

Equalities

62. The council works in accordance with the general equality duties which are set out in section 71 of the Race Relations Act 1976, 49A(i) of the Disability Discrimination Act 1995 and 76A of the Sex Discrimination Act 1975. This means the council must have due regard to the need to: eliminate unlawful discrimination, harassment and victimisation; advance equality of opportunity between different groups; and foster good relations between different groups. Guidance on the

implications of the Equality Act and the duties it imposes on the council has been issued to Service departments and members.

63. In September 2010, Cabinet agreed seven principles that will guide its decision making on the budget. One of these principles is to limit the impact of its budget on the most vulnerable and to being transparent with any specific group or groups of users who may be affected by any cut or reduction in service provision, and to conduct an equalities impact assessment of budget proposals. These budget principles are consistent with the Council's existing Equalities and Human Rights Scheme. Alongside the wider fairer future for all budget consultation, the Cabinet and Overview and Scrutiny Committee will review equalities impact assessments as part of the budget setting process.

Next steps

64. Taking all of the information contained in this report a further report will be presented to Cabinet on 25 January 2011 on the draft budget for 2011/12, with indicative allocations for 2012/13 and 2013/14. This will be in advance of the Overview and Scrutiny meeting to discuss the budget proposals on 31 January 2011. The budget will be proposed to Council Assembly on 22 February 2011. Subject to agreement of the budget, a new council business plan will be prepared.

Community impact statement

65. This report describes the key highlights from the provisional local government settlement as published on 13 December. It concentrates on information published by the government and therefore is focused on the overall national financial position and how this relates to Southwark. However the financial information ultimately relates to a service or activity that the council provides and/or supports.
66. In itself, therefore, this report is judged to have no impact on local people and communities. However the actions that will be required by the council as a result of the provisional local government settlement through budget setting are likely to have an impact on local people and communities in terms of service provision and programme delivery. This will be considered when decisions around those services and programmes are proposed.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

67. The constitution determines that cabinet consider decisions regarding the strategic aspects of the regulation and control of the council's finances. The council has an obligation under Section 32 of the Local Government and Finance Act 1992 to calculate and agree an annual budget. The issues contained in this report will assist in the future discharge of that obligation.

REASONS FOR URGENCY

68. This report is urgent because of the significant impact of the provisional settlement 2011/12 to 2012/13 on the council's budget and resource planning process.

REASONS FOR LATENESS

69. It was not possible to prepare this report until details of the provisional settlement were made public which was on 13 December 2010. Officers have been working since to analyse the areas of potential impact of the settlement, in as far as is possible, on Southwark's resources for future years.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Local Government Settlement 2011/12 and 2012/13	Department of Communities and Local Government	Cathy Doran 020 7525 4396

APPENDICES

No.	Title
Appendix 1	Medium term resources strategy (MTRS) 2011/12 to 2013/14 – updated working draft

AUDIT TRAIL

Cabinet member	Cllr Richard Livingstone, Finance and Resources	
Lead officer	Duncan Whitfield - Finance Director	
Report author	Duncan Whitfield – Finance Director	
Version	Final	
Dated	17 December 2010	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Communities, Law & Governance	Yes	Yes
Finance Director	Yes	Yes
Date final report sent to constitutional team	17 December 2010	



**MEDIUM TERM
RESOURCES STRATEGY
2011/12 to 2013/14**

***“Delivering a fairer future for all by managing
our resources well”***

MEDIUM TERM RESOURCES STRATEGY (MTRS): 2011/12-2013/14

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DRAFT

The aim of the MTRS

The aim of the **medium term resources strategy** (MTRS) is to:

- *ensure best use of limited resources for maximum gain both in performance and in achieving value for money to deliver a fairer future for all in Southwark.*

Context

'A Fairer Future for Southwark' presented to Cabinet in June 2010 presented the leadership's vision for the future of Southwark.

Fairer future for Southwark sets out Southwark's vision. This vision is underpinned by an acknowledgement that public sector spending is going to fall far and fast and the council's budget will not be protected. The resources the council have are held in trust for the local community and we will manage every penny as carefully as local families look after their own household budgets.

The vision also spells out the council's ambition for change. We will work together with residents, businesses and partners to transform public services for the people of Southwark. This aligns with Southwark 2016, the sustainable community strategy, which sets out the long term vision with partners for improving outcomes for people, places and delivering quality services.

The council is also currently refreshing its organisational business plan (known previously as the 'corporate plan') and a new plan is being developed and drafted alongside the updating of this MTRS. The new plan, to be agreed by April 2011, will highlight the council's key objectives and actions over the medium term for supporting delivery of the fairer future vision.

The scale of the resource challenge in the coming years cannot be understated. Effective and efficient management of resources through a robust MTRS is central to meeting that challenge and delivering our plans for a fairer future for all.

Budget principles

In September 2010 the Council agreed a set of core principles for budget setting. These principles underpin the MTRS and provide a clear guide for how the council intends to manage resources over the coming years. In summary, the principles are to:

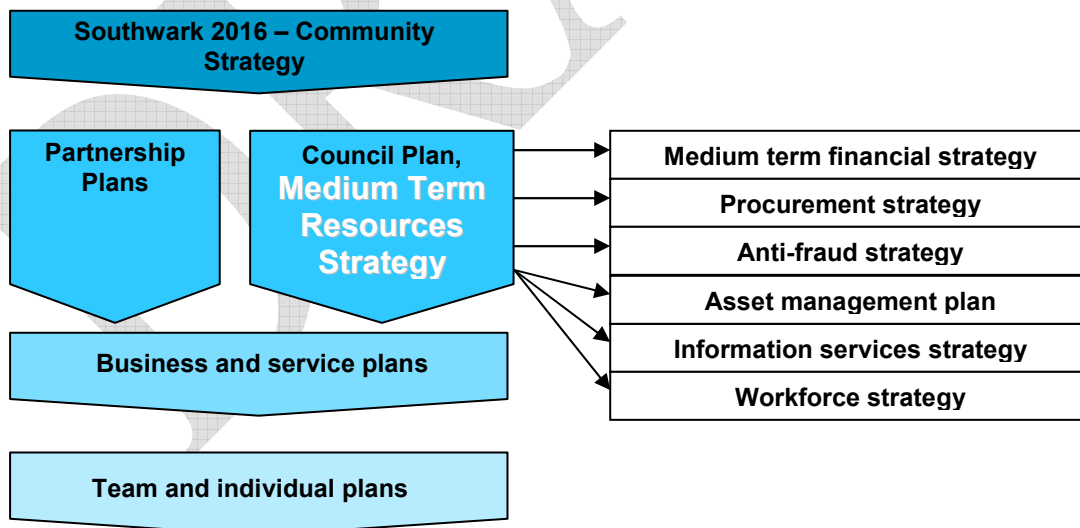
- restate the commitment to the fairer future vision;
- recognise that some services currently provided by the council may be lost, and some may change
- ensure that the services which the council delivers provide value for money
- explore alternative ways of providing a service prior to proposing any cut or reduction
- be transparent and conduct equalities impact assessments for budget proposals
- have a clear and comprehensive explanation for why a service should be cut, reduced or no longer provided by the Council
- take a three year approach and have regard to innovative ways of providing services and maintaining employment in the borough.

Key priorities of the MTRS

The key priorities of the MTRS are:

- To achieve excellent and robust resource management across the council to deliver a fairer future for all and promote social and economic equality in an economically vibrant borough
- To sustain a value for money culture and secure continued delivery of outcomes through effective business and budget planning, monitoring and challenge
- To ensure equalities and sustainable outcomes are achieved through effective resource and business management
- To seek opportunities to share service provision, including through joint procurement, to support the council's drive for efficiency, better ways of working and smarter use of limited resources
- To optimise the use of the council's anti-fraud resources available to detect, prevent and avoid the re-occurrence of fraud
- To align the council's capital programme with the council's asset management plans
- To deliver sound governance and accountability in respect of all council resources and assets
- To make investment and disposal decisions that are based on option appraisal and whole life costing
- To target investment in information technology to achieve medium term efficiency through modernisation and modern ways of working
- To manage resources to effectively recruit, retain and develop the right staff to deliver efficient and high quality services to our community
- To manage any withdrawal from services by the council in a planned and effective manner, and seek alternative means for delivery working with local business, other providers and partners in the voluntary and community sector
- To ensure fair and reasonable transition arrangements for the implementation of savings that impact on partner organisations, including those within the voluntary and community sector.

What is in the MTRS?



The MTRS comprises of:

- **The medium term financial strategy (MTFS)**

The MTFS sets out the financial priorities of the council and the financial remit within which the council plans its business.

- **Procurement strategy**

The procurement strategy aims to provide a framework for the Council to procure the goods and services it needs to deliver its priorities and achieve value for money.

- **Anti-fraud strategy**

The anti-fraud strategy sets out the framework in which to protect Council's resources and assets.

- **Asset management plan (AMP).**

The AMP sets out the strategic priorities for the delivery of effective asset management planning across the borough.

- **Information services strategy.**

The information services strategy sets out the strategic approach to the development of information and communications technology within the council.

- **Workforce strategy.**

The workforce strategy sets out how the council will recruit, retain and develop the right staff to deliver efficient and high quality services to our community.

Keeping the MTRS under review

In October 2010 the government announced the spending review (SR) for the period 2011/12 to 2014/15. The Chancellor of the Exchequer announced that the revenue grant funding for councils would fall by up to 28% over the four year period to 2014/15. The highest level of reduction in funding will take place in 2011/12. The Chancellor also announced a reduction in the number of grants to local government from 90 to less than 10. Further, the provisional local government settlement was published in December 2010. Southwark will receive an 11.3% reduction in revenue grant in 2011/12 and a further 7.4% reduction in 2012/13. In cash terms this equates to £46.9m revenue over two years to 2012/13.

Capital funding from all government departments will fall by around 45% over the SR period. The government has also signalled their intention to review local government finance, including capital.

The scale of the changes set out for the SR period further underline the need to keep the MTRS under regular review. This will ensure we are continually fit for purpose in meeting the overall aim of ensuring **best use of limited resources for maximum gain both in performance and in achieving value for money to deliver a fairer future for all in Southwark.**

Monitoring of the priorities within the MTRS will be achieved through the regular monitoring reports to Cabinet. Other means of monitoring and review will also be undertaken to ensure the council manages its resources in line with the local priorities.

Section 2 – supporting plans and strategies

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

Context

The overall aim of the MTFS is to achieve the effective and efficient use of resources and maximisation of resource opportunities in order to deliver a fairer future for all. It sets out a clear financial remit within which the council plans its business and supports the borough's broader partnership ambition.

Key priorities

Financial Management

- To achieve excellent financial management across the council
- To spend only within budgeted limits whilst sustaining and achieving performance improvement in line with strategic policies and priorities
- To rigorously review all proposed unavoidable commitments and ensure that all possible avenues for delivery, including alternative funding and delivery, have been explored; and that the costs have been kept to the minimum required to meet statutory and contractual requirements
- To only fund new service growth from additional departmental savings
- To carry forward into the new financial year 100% of departmental outturn overspends and 50% of underspends, subject to the discretion of the Finance Director
- To underpin all council resource allocation decisions with financial reality and health checks

Value for money and the management of performance

- To ensure that value for money is sustained and impact of spending reductions on service performance and quality is **mitigated as far as effectively possible**
- To monitor and benchmark service performance relative to costs against other councils, nationally and locally
- To ensure there is an appropriate test of value, efficiency and quality in commissioning arrangements.
- To continually improve council tax and NNDR collection rates as measured by inner London quartiles
- To act to reduce arrears overall, with particular emphasis on council tax, rent and NNDR, and seek prompt payment or payment in advance so as to improve the council's overall cashflow position
- To maximise returns on cash investments while maintaining capital preservation and liquidity within the context of the economic slowdown
- To target sustained upper quartile performance for pension fund investments

Reserves, balances and central contingency

- To present balanced budgets year on year without recourse to reserves and balances except for specific earmarked projects
- To maintain a central contingency at a sufficient level to cover demand pressures that are volatile, difficult to predict or unforeseen and cannot be reliably quantified at the time the budget is set
- To maintain reserves and balances at a level sufficient to manage the potential risks and opportunities of the organisation.
- To target an increase in general fund balances to £20m, which represents 6.25% of the council's general fund budget of £320m for 2010/11, over the course of medium term, in line with similar organisations in London

- To maintain appropriate earmarked reserves to mitigate risk and smooth cost pressures arising from major council projects and priorities, not least regeneration and development and modernisation and service improvement. To facilitate this any money received from relevant short-term funding streams be allocated to reserves to meet the implementation costs of major projects

Savings and efficiencies

- To maintain a robust programme of efficiencies and other savings that are in line with local priorities
- To invest to save on the basis of sound and robust business cases
- To return all windfall benefits not planned within base budgets to central resources for corporate allocation in line with strategic priorities
- To continually review the extent and costs of discretionary services or activity being provided in the context of service priorities and resources available; and explore alternative ways of providing a discretionary service or activity prior to proposing any cut or reduction

Income and investments

- To maintain council tax increases within CPI inflation levels over a medium term planning horizon
- To improve council tax collection rates and eliminate unnecessary waste in processes
- To maximise external funding opportunities whilst ensuring the continuance of and further investment in key priorities
- To achieve an effective and prioritised forward strategy when specific external funding streams cease
- To maximise the council's income generation by seeking income streams in line with council policies and priorities
- To increase discretionary fees and charges to a level, at a minimum, that is equal to the most appropriate London average (e.g. inner London, family, groupings etc) except where this conflicts with council policy, would lead to adverse revenue implications or would impact adversely on vulnerable clients
- To increase all fees and charges capped by statute to the maximum level the cap allows
- To secure increased funding levels of the pensions fund over time to achieve 100% funding within period recommended by actuaries
- To make appropriate representations to government to ensure the council receives the fairest possible level of grant to support Southwark's population and communities

Capital Programming and strategic projects

- To align the major strategic projects into mainstream capital programme
- To exploit opportunities afforded through the regeneration programme, including setting a target for capital receipts from regeneration projects to support the council's future capital programme
- To profile capital schemes realistically over their lifetime and apply full whole life costing principles to all major capital projects including investment and disposal decisions
- To establish over the medium term sufficient lifecycle maintenance provision for the council's fixed assets where the assets are essential for service delivery and it is cost effective to maintain them in line with the council's asset management plans
- To review uncommitted budgets within the existing approved programme annually and reprioritise as necessary
- To identify, review and select the procurement strategies and partnerships arrangements (where appropriate) for all major capital projects
- To maximise and accelerate the programme of capital receipts ensuring best consideration and due regard to service provision, in line with the asset management strategy and to obtain best value from the disposal

- To maximise use of planning gains and associated benefits in accordance with agreements and strategic priorities, by prioritising the use of external grants and planning gains ahead of corporate receipts
- To pool corporately all capital receipts without any specific earmarking unless so directed by the cabinet
- To use prudential borrowing where the business case is agreed
- To maintain a capital contingency reserve (£5m) to fund urgent and unavoidable works, including health and safety and DDA works – release of these funds to be subject to the prior approval of the Finance Director in consultation with the Cabinet Member for Resources

Housing finance

- To maintain Housing Revenue Account (HRA) balances at a prudent level, sufficient to meet any unexpected calls on the HRA
- To advise Cabinet on setting dwelling rents and associated charges at a level to optimise central government support and ensure a balanced HRA budget
- To manage the transition from the current HRA subsidy regime to one based on self-financing from April 2012 onward, and to design and ensure adherence to a HRA business plan to maintain a balanced HRA under self-financing
- To support the delivery of the Housing investment programme within the context of self-financing

Governance and partnerships

- To regularly review the financial regulations and contract standing orders to ensure their robustness and continued suitability in order to safeguard the council's assets, maximise its resources and ensure value for money
- To achieve a resources strategy that will in partnership with key stakeholders maximise the benefit to the wider community
- To ensure effective governance arrangements for all partnership agreements relating to the shared use of resources are in place
- To maintain a risk register for joint risks of these partnerships
- To optimise the opportunities for efficiencies afforded by improved partnership working and shared services

Procurement Strategy

The procurement strategy is under development and will be incorporated into later drafts of the MTRS.

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ANTI-FRAUD STRATEGY

Context

The Finance Director has a statutory responsibility under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Council's financial affairs. This includes advising on anti-fraud and corruption strategies and measures to deter, detect and prevent fraud. In addition, Section 5 of the Accounts and Audit Regulations 1996 requires the council to maintain an adequate and effective system of internal audit of the accounting records and control systems.

The core objective of the anti-fraud service is to therefore to protect the council's resources and assets to ensure they are utilised as intended, in line with our statutory duties set out above. Internal audit therefore provides an assurance function that gives an independent and objective opinion on risk management and control and governance, and assists management in supporting and delivering the council's vision of a fairer future for all.

With increasing pressure on the public purse and the council's resources, the strategic view for anti-fraud work is guided by assessing the emerging fraud risks. It is also guided by maximising recovery of losses and assets through proactive and preventative measures. We will do this in the most cost effective way that, wherever possible, reduces waste and duplication.

To minimise the risks and effects of fraud and corruption, the council will work collaboratively to:

- Prevent frauds and reoccurrence of fraud;
- Detect fraudulent activity;
- Provide an effective responsive reactive investigation process;
- Ensure appropriate sanctions; and
- Recover assets and losses.

Key Priorities

There are number of key priorities that will minimise the risks and effects of fraud and corruption.

These will be further developed through the updating of the MTRS. They are:

- To review controls, systems and processes and ensure proposals for improvement following fraud loss are robust.
- To promote efficiencies through collaborative, partnership and regional partnership working to tackle fraud.
- To share information and good practice with key stakeholders, within statutory guidelines in the interest of preventing and detecting fraud. This will include continuing to undertake statutory data matching across all relevant service areas.
- To ensure a systematic and comprehensive approach to fraud prevention across all service provision.
- To promote ethical behaviour and raise fraud awareness.
- To promote a zero tolerance approach towards fraud which ensures dishonesty is dealt with firmly and consistently.
- To constantly keep under review key fraud risks so that fraud exposure is minimised.

- To enhance the efficacy of the anti-fraud service through maximising and reinvesting losses recovered.
- To successfully manage operational demand through times of change.
- To conduct professional investigations in line with the changing statutory environment and requirements.
- To minimise fraud risk across all service provision through the effective provision of advice and support.
- To ensure continued fitness for purpose in the prevention and detection of fraud through regular and rigorous review of policies, procedures and working practices so that there is confidence in how services are delivered.

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ASSET MANAGEMENT PLAN

Context

The overriding objective of the Asset Management Plan is to achieve a corporate portfolio that is appropriate, fit for purpose, affordable and which contributes to improving operational and service delivery outcomes through review & challenge processes.

Therefore the AMP assesses the factors influencing the council's asset management decision making, the internal and external operating environment for property, service-side demand for assets, lessons learned from performance monitoring, and resource availability. From this basis it identifies the preferred options we have chosen to pursue in our asset management planning and how they will be delivered.

Much has changed in the public sector resources environment over the last few years, and today the strategic vision for assets in addition to good estate management practice, is shaped by escalating property holding costs, and mounting financial pressures on the public sector purse.

Built around the objective of delivering corporate priorities from available resources as efficiently as possible, Southwark council is refreshing its Asset Management Plan (AMP 2010) to establish a framework for rationalisation across the authority's £3 billion corporate asset base and achieving sustainability in the retained portfolio. The council's estate and those across the public sector (including those of our operating partners) will emerge very significantly altered and our overall vision is to plan for a smaller, sustainable corporate estate.

What does the refreshed AMP aim to achieve?

Strategic Alignment

- Provides an overview of the council's fairer future for all vision and where these impact on the council's property assets;

Analysis & Forward Planning

- Considers the present and future issues and challenges facing the council in realising the vision of a fairer future for all together with the internal and external drivers and influences impacting on the council's ability to effectively deliver its services; this particularly includes the squeeze on public spending resources, the global economic downturn, and the consequential increasing demand for the council's services;

Implementation & Review

- Highlights the areas where progress has been made. This includes the continuing transformation of our offices estate, exploiting Tooley Street to achieve maximum savings, the consequential rationalisation of other operational accommodation, major change in how facilities management is handled across the retained estate, a comprehensive review of operational property requirements, a detailed compliance audit and the commissioning of detailed space and condition surveys for the entire operational estate;

Measuring Outcomes & Improving

- Seeks to further develop benchmarks and key performance indicators which will enable the council to measure progress against its corporate objectives and consequently, more readily identify areas which are performing well and areas where further investment or a change in strategy is required.

Southwark's approach to asset management planning

The council's property holding is a key strategic resource. In view of the size and diversity of the estate and the wide ranging corporate objectives it is essential that a robust asset management planning process is in place to ensure that resources are aligned and prioritised to optimise the use of its property estate in terms of service benefit, financial return and value for money. Underlying this overarching objective is a requirement to ensure that the property estate:

- Is treated as a corporate resource and is managed corporately;
- Supports the delivery of the council business plan and sustainable community strategy;
- Is well maintained and fit for purpose (i.e. delivering services);
- Is fully utilised;
- Is suitably located and accessible;
- Is cost effective and represents a value for money return on the council's investment.

Key Priorities

- To achieve a corporate portfolio that is appropriate, fit for purpose, affordable and which contributes to improving operational and service delivery outcomes (sustainable; efficient; fit for purpose; value for money)
- To ensure strategic planning of the estate is fully integrated into the council's business planning processes
- To proactively mitigate the affects of the market downturn whilst reconciling this with the strategic objectives of the council
- To contribute to key regeneration projects through acquisition and disposal activity and use of CPO powers where appropriate
- To manage our estate in accordance with our obligations as a landlord and with regard to all relevant health and safety / statutory compliance requirements
- To constantly review and monitor the operational estate to achieve portfolio objectives, including the maximisation of opportunities and efficiencies from the council's occupation of 160 Tooley Street
- To successfully manage operational demand for corporate accommodation arising from extensive restructuring across the organisation and the ongoing drive to modernise
- To provide flexible solutions to operational requirements to allow for changing future demands in the operational estate (including through exit strategies)
- To respond to changing demand for property services from all parts of the organisation; balancing those demands against resources available
- To include consideration of external factors in all strategic decision making
- To promote collaborative/partnership working to provide efficiencies, either through occupational, operational or procurement arrangements
- To promote high environmental sustainability in both existing buildings and in procurement of new assets in order to minimise costs in use and emissions
- To deliver challenging capital receipt targets whilst maintaining best consideration principles and balancing revenue requirements
- To improve stock condition and minimise back log maintenance
- To ensure statutory compliance and minimise risk exposure
- To consolidate property management arrangements at strategic and operational levels
- To rationalise and repackage facilities management contracts to achieve management efficiencies, economies of scale and mitigation of corporate landlord compliance risk

- To maintain a sustainable corporate estate and preserve its inherent investment and utility value. This will be delivered through comprehensive facilities management arrangements and a planned preventative maintenance programme.
- To put in place a full condition survey programme for the operational estate
- To align and rationalise facilities management contracted services to provide informed procurement opportunity, efficiencies and minimise management overheads
- To consolidate facilities management budgets providing total cost of occupancy to support strategic asset management
- To undertake informed outsourcing based on fixed price repairs and maintenance bringing significant cost certainty and increasing transfer of risk to the supply side
- To continue the delivery of the corporate compliance programme, working toward best practice allowing effective and transparent management of risk
- To raise the profile of asset management planning corporately and operationally across the authority and reinforce the role of the Corporate Property Officer
- To renew and reinforce structures for asset management planning at a corporate level
- To ensure property strategies in support of corporate objectives are properly resourced and programmed
- To review and refine systems, data, and performance management arrangements in order to fulfil the growing expectations of them
- To safeguard the Council's legal position with regard to its land holdings by completing a comprehensive review and registration of title programmes
- To finalise a detailed Asset Management Plan early in 2011 for the management of Voluntary and Community Sector assets owned by the Council, building on the previous strategy framework that was put in place in 2009
- To manage rent reviews and lease renewals to maximise revenue income
- To take appropriate action to minimise the arrears of rent
- To proactively manage the investment portfolio to ensure compliance with lease terms and protect/enhance value
- To challenge reasons for holding investment property and monitor investment returns and performance
- To ensure the provision of effective, professional property advice in support of departmental strategic objectives

For further information and the detailed action planning refer to **Southwark's asset management plan – AMP 2010**.

INFORMATION SERVICES STRATEGY

Context

Exploiting the opportunities of technology, including through 'e-enabled' solutions, is integral to the council's drive to deliver high quality essential, universal services that get it right first time and reduce waste and duplication.

The use of computer and communications technology in the organisation means that a reliable, effective information service is essential to both front-line service delivery and the supporting administrative functions.

The effective use of technology – along with change management, process redesign and training - is fundamental to achieving service wide improvement in a time of resource restraint.

Southwark is committed to exploiting technology to the advantage of its citizens, wherever the resulting business benefits are justified by the investments required, and wherever the organisation needs to deliver service excellence.

Key priorities

The overarching priorities of the strategy are:

- To keep information services operational and realise the potential of existing systems through the effective implementation of changes to the infrastructure
- To improve the delivery and cost of services through the effective use of technology
- To have the technology which enables the sharing of data and information so that sound decisions can be made and processes can be streamlined
- To bring access to services closer to the residents in the Borough by improved on-line and interactive provision.

Work on these priorities will continue over the coming months. The MTRS will be further updated to reflect these changes.

WORKFORCE STRATEGY

Context – an evolving picture

Due to the medium term impact of the spending review and the uncertainties this throws up for the workforce structure and numbers, it is not yet possible to forward plan with accuracy.

There are some underlying principles that the Council will aim to maintain through this period of significant change whilst trying to meet financial challenges through collective means. These principles will guide the draft updated medium term resources strategy and are:

- To aim to maintain our standing as a good employer and as an employer of choice.
- To continue to provide opportunities to refresh the workforce through apprentices, trainees etc. and employ high quality specialist staff to critical hard to fill roles, particularly as recruitment is curtailed.
- To implement a framework for managing and learning from change process, overcoming barriers and emphasising the positive aspects.
- To undertake equality impact assessments at all critical stages of the change process.
- To encourage innovation and technological opportunities where these best deliver intended outcomes.
- To continue to invest in learning and development; and provide accessible, targeted and high quality corporate learning, targeting skills maximisation, leadership capacity and nurturing career development.
- To sustain a remuneration strategy that supports organisational objectives and is affordable, perceived as fair and retains a diverse motivated workforce.
- To review top pay in line with Hutton inquiry report (due March 2011); and review the application of terms and conditions and discretionary elements to ensure they are contemporary and fit for purpose.
- To promote innovation and voluntary schemes which contribute to the reduction of the overall pay bill for example through flexible working, flexible retirement; and to facilitate fast track approval.
- To continue to make progress in key areas of sickness management and agency controls.
- To maximise opportunities for redeployment utilising the existing workforce positively for future needs.

Key priorities

These will be worked up in due course in line with the principles set out above.

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