

Item No. 20.	Classification: Open	Date: 25 January 2011	Meeting Name: Cabinet
Report title:		Policy and Resources 2011/12 to 2013/14 – draft revenue budget	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance and Resources	

FOREWORD

INTRODUCTION – COUNCILLOR PETER JOHN, LEADER

1. Southwark faces an unprecedented budget challenge over the next three years. After 8 years of consistent growth amounting to a 31% increase in central Government funding, we now face a reduction of 29%, with unprecedented cash savings of £33 million and £18 million required over the next two years alone.
2. These savings have not been easy to find, but have been informed by the Cabinet's seven agreed budget principles, our core values and beliefs and the manifesto commitments and priorities upon which we were elected. We have sought to protect our most vulnerable residents, whilst at the same time have tried to do all that we can to preserve other front-line services for all of our residents. Inevitably some front-line services will be affected, but where these difficult choices have arisen we have sought to ensure that alternative service providers are available, or to investigate ways in which the voluntary sector or the community may help.
3. As an administration we were not elected to make cuts on this or any scale. But now that we have been presented with this challenge we will face it so that Southwark Council can continue to provide high quality public services to the residents of our borough, fulfill our role of providing community cohesion and opportunity and deliver our ambition of creating a fairer future for all in Southwark.

COUNCILLOR RICHARD LIVINGSTONE, FINANCE AND RESOURCES

4. Government has chosen to focus some of its most severe cuts on local government, in particular in the 2011/12 financial year. Whilst local government represents around 6% of annual government expenditure, it faces over 18% of the cuts made in the first year of the Coalition Government's Spending Review.
5. Southwark has received a particularly difficult settlement from government. The reduction in formula grant for 2011/12 represents an 11.3% cut in the cash value of our formula funding, which government calculates will create a £33.7m (8.4%) reduction in our overall spending power, ignoring inflation and other unavoidable budget pressures. At current inflation rates, this is a cut in our grant funding of 15% in real terms.
6. A further reduction in our formula grant of £17.2m will follow in 2012/13 and further cuts are likely in 2013/14, although we do not know the scale of these. It is therefore important that we manage these cuts carefully to ensure we are doing as much as possible to protect our frontline services.

7. Given the levels of deprivation in Southwark, we know that these cuts will disadvantage our borough disproportionately.
8. The draft budget below sets out how Southwark Council intends to address this shortfall over the next three years. The purpose of this document is to allow the community to comment on the draft budget before the council takes its final decisions in February.

RECOMMENDATIONS

That Cabinet:

9. Note draft budget proposals based on a nil council tax increase for 2011/12, and draft indicative budget proposals for 2012/13 and 2013/14, based on a provisional council tax increase of 2.5% for 2012/13 and 2.5% for 2013/14. Draft proposals are set out in Appendices A to E.
10. 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 final balanced budget.
11. Agree that a final balanced budget report for 2011/12, with indicative budgets for 2012/13 and 2013/14 be presented to Cabinet on 08 February 2011 for recommendation to Council Assembly due on 22 February 2011.
12. Note the formal response to the consultation on the provisional local government settlement was submitted to government on 17 January 2011. The response is set out in full at Appendix F.

BACKGROUND

13. 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 period from 2008. Over the three year period from 2008, Southwark received an overall percentage increase in formula grant of 5.6% (which equated to a real term increase of 3.8% when adjusted for Consumer Price Index (CPI) inflation or 5.8% when adjusted for 'Retail Price Index X', or RPIX).
14. In 2010/11 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. This grant is based on a guaranteed unit of funding per pupil which over the three years of the spending period from 2008, increased from a 2007/08 base by 12.2% in cash terms. This represented a real term increase of 2.9% when adjusted for CPI or 0.8% when adjusted for RPIX.
15. 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 £63m.
16. 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. Over the last three years from

2008/09 (i.e. the last local government spending review period), including the 2010/11 budget, the council has resourced some £39.9m commitments and delivered some £42.7m savings.

17. 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.
18. 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 £2.2m reduction from Children's Services, a £0.7m reduction in WNF and a £0.3m reduction in SP administration grant.
19. At the 20 July 2010 meeting the Cabinet agreed that strategic directors identify savings of 25% over the three years 2011/12 to 2013/14. This level of savings was at the upper end of expectations.
20. 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. These principles are:
 - At a time of unprecedented cuts proposed by central government, the 2011 Southwark budget should continue to prioritise the commitments made by the cabinet at its first meeting as a new administration in June and its vision to create a fairer future for all by promoting social and economic equality in an economically vibrant borough.
 - We recognise that some services currently provided by the council may be lost, and some may change. However, we will do all that we can to protect our front-line services and support our most vulnerable residents.
 - We will ensure that the services which the council delivers provide value for money, value for council tax payers and contribute towards delivering our vision of creating a fairer future for all in Southwark.
 - We will explore alternative ways of providing a service prior to proposing any cut or reduction. This will include talking to partner organisations, the voluntary sector, the trade unions, the business community and other local authorities.
 - We will be transparent with any specific group or groups of users who may be affected by any cut or reduction in service provision as soon as possible and explore with them other ways to provide the service. We will conduct an equalities impact assessment for our budget proposals.
 - Before proposing any cut or reduction we will have a clear and comprehensive explanation for why that service should be cut, reduced or no longer provided by the council, and this explanation should be capable of being subject to robust challenge.
 - Budget proposals should be based on a three year approach and should have regard to innovative ways of providing services and maintaining employment in the borough.

21. On 20 October 2010 the Chancellor of the Exchequer announced the Spending Review (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 2010, 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'.
22. 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.
23. On 2 November 2010 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 (HRA) but the details of such reforms were not yet known.
24. Following the report of 2 November 2010 officers provided further information to voluntary and community sector providers on the outcome of the SR. Three letters were sent to council funded voluntary and community sector organisations to inform them of the potential impact of the reductions in the council's funding. On 8 November 2010 all organisations commissioned through the WNF were sent a letter informing them that the WNF funding would come to an end at 31 March 2011 and there would be no further funding available. Also on 8 November 2010 the council wrote to all organisations which it commissions services from setting out that it would be prudent to prepare for at least 10-15% reductions next financial year and 25% over the next three years. This letter also set out possible reductions in capital funding and withdrawal of the WNF.
25. These messages to the voluntary and community sector were also repeated at the council's quarterly liaison meeting with the sector on 8 November 2010 and through the attendance of the cabinet member for finance and resources at meetings of the Southwark Forum on the 25 November 2010 respectively. At the meeting on 25 November 2010 the cabinet member for finance and resources also explained that the situation could be much worse than that set out in the 8 November 2010 letter and that the uncertain situation with specific grants could also mean

that the level of reductions to some organisations could be much greater. Southwark Forum is Community Action Southwark's forum for all local voluntary and community sector organisations.

26. On the 13 December 2010, the Secretary of State for CLG announced the 2011/12 and 2012/13 provisional local government settlement and a report on this was presented to Cabinet on 21 December 2010.
27. In 2011/12 the total level of provisional formula grant funding to local government nationally will be £29.4 billion, a reduction of 9.9% against the 2010/11 position. In proposing the provisional settlement the government frontloaded grant reductions that mean that the majority of savings that councils need to be made will have to be achieved in 2011/12. The government also announced a number of significant changes to the formula grant at a national level. From 2011/12 the number of grants to local government will reduce 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.
28. The way in which the minimum funding guarantee, or floor, is calculated and applied will change from 2011/12. Multiple floors have been created based on 'bands' of authorities. The band is based on the level of dependency a council has to its formula grant. Southwark is a band one 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.
29. 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.
30. Without the floor Southwark would experience an additional loss of grant in cash terms of £13.6m in 2011/12 and a further £19.3m 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. As a result of the provisional 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.
31. 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.
32. 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.
33. The Localism Bill was published on 13 December 2010 alongside the settlement and contains several provisions concerning local spending powers. These include: replacing the capping powers on council tax increases 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.

34. Royal Assent is expected on the Localism Bill in 2011, with some parts coming in to effect then, and secondary legislation to follow in 2012. Therefore no changes are expected in time for 2011/12 budget setting (including with regards capping powers, which will remain in place). However there remains a great deal of uncertainty with regards the financial impact of the measures proposed within the Localism Bill and the council will need to press for clarity on such matters especially ensuring that the potential cost burden on local authorities from national priorities are properly matched with resources. Further information about the passage of the Bill through parliament is pending. Officers will continue to monitor the implementation timetable and undertake more detailed analysis on the Bill when such details are published.
35. On 23 December 2010 a letter went out to all organisations in the voluntary and community sector funded by the council setting out details of the provisional settlement. This letter also drew attention to the government's transition funding for voluntary and community sector organisations, pointing out a timetable for budget decisions and asking what support the council could give to those considering applying for the fund.
36. On the 13 January 2011 the Leader of the Council met with Grant Shapps MP, Minister of State for CLG to outline Southwark's position following the provisional grant settlement and make representation on the impact. On 17 January 2011 the Leader wrote to CLG in response to the consultation on the provisional settlement. This is attached as Appendix F.
37. In light of the context above this report now sets out the draft budget proposals for 2011/12, with draft indicative proposals for 2012/13 and 2013/14, for consultation. This is in advance of the Overview and Scrutiny meeting on 31 January 2011. A report setting out a final balanced budget for 2011/12, and indicative budgets for 2012/13 and 2013/14, will be presented to Cabinet on 8 February 2011.
38. The lateness and complexity of the provisional settlement, and the need to consider any representations thereon, is likely to lead to a delay in the date of the final settlement which may not be until the beginning of February 2011. All of the information contained in this report is therefore based on the provisional grant settlement as announced to date. Revisions will be made in the light of the final grant settlement, if available, for the report to Cabinet on 8 February 2011.

KEY ISSUES FOR CONSIDERATION

Provisional grant settlement consultation response

39. Appendix F sets out the response to the provisional grant settlement consultation from the Leader of the Council. The specific considerations from that response are highlighted in the paragraphs below.
40. Grant floor mechanism. Although the council welcomed the introduction of banded floors, the Leader asked ministers to note that despite this introduction and that the council qualifies as a band one authority, it will still suffer the biggest reductions in London in cash terms in both formula grant and spending power. The Leader invited the minister to review the grant floor to see what flexibility there may be for band one authorities to raise this floor to alleviate some of the delivery and cost issues in the first year of the settlement. Factors such as deprivation,

community cohesion and loss of the area based grant (ABG) should be considered in any review.

41. ABG. The 'de-ringfencing' of ABG and other specific grants and the removal of burdensome targets previously associated with many of those grants is welcomed. However, given the grant floor position, a number of grants transferred into formula grant have effectively been lost to the Council as cash resources. The Leader invited the minister to reassess the impact of these losses in ABG.
42. Transition Grant. Whilst the government's recognition of the need for transition grant to cushion the impact of grant reductions of at least 8.9% in spending power is welcome, there is disappointment that this is the only criteria being applied. The council receives no transition grant. The Leader invited the minister to reconsider the criteria for transition grant in the context of the extent of cash funding lost to the Council and especially the front loading of this in the first year of the settlement. The way of calculating spending power also requires review.
43. Social Care Grants. The council welcomes the announcement of two grants (each of £1bn to be shared nationally). The first to support social care spending in local authorities and the second for re-abling. However there is disappointment that there seems no benefit arising from the direct local authority share as the first grant is lost in the formula grant for grant floor authorities. Access to the second grant requires formal agreement from our health partners (currently the Primary Care Trust, PCT). The Leader invited the minister to consider together with the Department of Health ways of ensuring the availability of these funds to support re-ablement without condition for the duration of this settlement, especially for grant floor authorities.
44. Future of grant formula. The response notes the serious limitations of the current grant formula and issues that it creates. A revised funding arrangement will be established to support future settlements, commencing from 2013/14. Given the diverse nature of the borough Southwark Council considers itself well placed to support ministers and the Department for Communities and Local Government (CLG) with preparation of these new funding arrangements. The Leader therefore invited the minister to consider this offer of support.
45. Business rates. The proposals in the White Paper "Local growth: realising every place's potential" are to be welcomed and the Leader invited the minister to consider Southwark as a pilot site for the retention of locally raised business rates.
46. Population size and content. The council is concerned that there has been a significant shortfall between Southwark's actual population and the population calculated by the Office for National Statistics (ONS) that is used for grant allocation. Over the life of the previous spending review (2008/09 to 2010/11) it is estimated that the council lost a total in pre-damped grant of over £22m. The council has lobbied ONS and CLG on this issue. Although the council supports the use of more up to date data in the formulae, there is continued concern about the Adult Social Care and Children's formulae since their introduction in 2006/07. The Leader invited the minister to consider this more fully.
47. Concessionary fares. Transport for London (TFL) has withdrawn from the five year deal signed with London Councils in February 2010 that would have capped the 2011/12 payment at £261.1m. This withdrawal has contributed a further £14m to the costs of concessionary fares to London boroughs. Some of the arrangements for concessionary fares have to date been handled directly through London Councils although from 2011/12 these arrangements cease. The transfer value for Southwark into the revised 2010/11 grant is £2.567m but this has been

lost in the formula and grant reduction. For 2011/12 Southwark's contribution towards concessionary fares will be £10.654m, an increase of £3.306m (45%). Southwark requires some £3.105m to meet this charge. The Leader invited the minister to reassess the impact of these losses.

Other issues arising

48. As stated above the government announced a number of significant changes to the formula grant at a national level. These changes will involve the movement of some grants into formula grant, some into the other core grants and the creation of new grants. Normally any grant moving into formula grant would be re-distributed according to the standard methodology that determines formula grant.
49. However some £21.3m 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. Southwark is one of the top five authorities in London that will have the highest reduction in supporting people grant through this redistribution. The other authorities are Camden, Islington, Haringey and Hammersmith & Fulham. Conversely the highest gainers from this redistribution are Harrow, Bromley, Croydon, Havering and Bexley.
50. The council, like all other London boroughs is required to contribute to the London Borough's Grant Scheme (LBGS) budget for 2011/12. This is a scheme administered by London Councils that distributes grant funding to voluntary sector and community organisations across London. On 14 December 2010 the Leader's Committee made recommendations on the budget for the LBGS for 2011/12. By virtue of section 48(4)(A) of the Local Government Act 1985 and the Grants to Voluntary Organisations (Specified Date) Order 1992, all constituent councils are required to agree the scheme's expenditure by the 1st of February in the year preceding the financial year in which the expenditure is incurred. It should be noted that a judicial review of this decision is due to be heard between 26 and 28 January and were this to succeed it would depend on the scope of the judgement whether this impacts on the level of this budget. In considering the draft budget proposals the council will therefore need to be mindful of this deadline and any issues associated with the agreement and subsequent implementation of the LBGS.

Frontloading

51. In response to the emergency budget the Cabinet agreed that strategic directors identify savings of 25% over the three years 2011/12 to 2013/14. This level of saving was at the upper end of expectations. It was set in advance of the SR and before any details was known on the provisional grant settlement.
52. In drawing up budget proposals it is worth noting that savings of up to 15% over the three years from 2011/12 would provide some choices for members when considering proposals to arrive at a balanced budget. However, to achieve savings of 25% over the three years from 2011/12 officers can only offer extremely limited choices for members to arrive at a balanced budget.
53. As stated above in announcing the provisional grant settlement the government have 'frontloaded' the grant reductions. This means that the majority of savings that councils need to make as a result of these reductions will have to take place in 2011/12. Southwark will receive

reductions in formula grant of some 11.3% in 2011/12 and a further 7.4% in 2012/13. This means that officers are required not only to set out proposals that meet the 25% savings target over three years but to frontload such proposals so a higher proportion are made in 2011/12. This further restricts the very limited choices available to members in reaching a balanced budget for 2011/12 and in future years.

Revenue monitoring position

54. It is important that the council consider current spending pressures and issues when drawing up future budgets. The council is experiencing a number of new and emerging service pressures. The revenue monitor for quarter 2 as presented to Cabinet on 14 December 2010 highlighted that there was an overall improvement in the general fund of £1.424m compared to the position reported at quarter 1 which is due to more favourable forecasts in a number of services including environment, health and community services and regeneration.
55. The main pressure areas reported at quarter 2 included placements for younger disabled people and delays to the transfer of residential to community based care alongside cost pressures across Children's Services, particularly in managing the impact of 2010/11 in-year reductions in grant. Management action is being taken across departments to contain cost pressures. The detailed revenue monitoring for quarter 3 will be set out in a report to Cabinet on 8 February 2011.

2011/12 draft budget and draft indicative budget for 2012/13 and 2013/14

56. The proposed draft budget for 2011/12, and draft indicative proposals for 2012/13 and 2013/14, is summarised in table 1 overleaf. Table 1 sets out the expected resources based on the information received to date in the provisional local government settlement. Draft high level descriptions of budget proposals including commitments, efficiencies and improved use of resources, income generation, other savings and non-committed growth are set out in appendices A to E.

Table 1. 2011/12 draft budget, and draft indicative proposals for 2012/13 and 2013/14

	2011/12 draft budget £m	2012/13 draft indicative budget £m	2013/14 draft indicative budget £m
Formula grant	(232.8)	(214.8)	(214.8)
Council Tax	(90.2)	(93.5)	(96.8)
Council Tax freeze grant in 2011/12	(2.2)	(2.2)	
Total income resources	(325.2)	(310.5)	(311.6)
Revised previous year's budget	349.6	327.8	312.5
Inflation	3.5	3.6	9.5
Commitments	9.9	4.9	5.0
Efficiencies and improved use of resources	(21.7)	(13.7)	(12.7)
Income generation	(0.8)	(0.3)	(0.1)
Other savings	(11.5)	(13.5)	(11.3)
Funding to support social care and benefit health	(4.3)	0.2	4.1
Non-committed growth	3.1	3.5	3.8
Draft budget	327.8	312.5	310.8
Contribution (from) and to balances	(2.6)	(2.0)	0.8

57. There are a number of assumptions in table 1 above, described in paragraphs 58 to 67 below.
58. Formula grant is based on the provisional settlement for 2011/12 and 2012/13. No details for the grant settlement have been published by government for 2013/14. The figures in table 1 above assume the same level of formula grant is received in 2013/14 as in 2012/13.
59. Even though officers have assumed that the formula grant will be the same in 2013/14 as in 2012/13 none of this is known with any level of certainty. Should the level of grant reduction between for 2012/13 (7.4%) be repeated for 2013/14 this could reduce the overall formula grant to Southwark by a further £18m (assuming that the current grant floor remains in place). This level of grant reduction would require the council to deliver a higher level of savings across council services whilst continuing to contain any demand pressures. Given this level of uncertainty and risk, the draft budget proposals contain a provision for contingency which is important in mitigating such risks and assisting the council in planning effectively for the future.

60. Council Tax is assumed at a nil increase in 2011/12 and 2.5% in 2012/13 and 2.5% in 2013/14. This is within CPI rates of inflation and is subject to agreement by Cabinet and subsequently Council Assembly.
61. The government have announced a grant to all councils who freeze their council tax in 2011/12. The grant has been confirmed in the provisional settlement for two years only, therefore no grant is assumed in 2013/14.
62. The government announced there would be additional resources to support cost pressures in adult social care in two ways. Firstly £1bn through social care grants and secondly a further £1bn through the allocation of funds from the NHS to support social care and benefit health. In Southwark, the reduction of formula grant and operation of the minimum funding guarantee (i.e. floor) means that it is not possible to identify if, and at what level, the Council has received this additional resource.
63. The new grant coming through the NHS is assumed to be 'unringfenced'. Although the grant has been confirmed in the provisional settlement there remains a great deal of uncertainty attached to the grant and further details are awaited from government. The grant has been confirmed for two years at £4.3m in 2011/12 and reduces by £0.2m to £4.1m in 2012/13. In 2013/14 it is assumed that the grant falls out removing £4.1m of resources (as shown in table 1). This grant is also subject to further discussion and agreement with the health sector. There is also the complexity of governance arrangements to consider in relation to this grant with particular regards to the abolition of local PCTs as part of the proposed health bill.
64. The proposed New Homes Bonus is intended to reward local authorities and communities where growth takes place. The proposed formula for allocation is to match the level of council tax paid on each new home for 6 years with an additional £350 for each affordable unit. As an 'unringfenced' grant, there would be no restriction on its use. However, there remains uncertainty as to how this grant will be distributed and so caution must be applied when considering this grant as part of the council's overall budget for 2011-14.
65. General inflation covers things like salaries, running costs and so on and for the draft revenue budget (as set out in table 1) is assumed at 0% for 2011/12 and 2012/13. This means general inflation is "cash limited" for 2011/12 and 2012/13. By cash-limiting inflation this in effect is introducing a further level of saving to the council's budget. This is because latest economic data (for December 2010) shows that inflation is running at 3.7% (for CPI). This level of inflation would create an additional pressure of £6.5m on the budget requirement for 2011/12 and a similar level in 2012/13. Further, RPIX is currently running at 4.7%, which would add some £8.4m to the budget requirement for 2011/12 and again a similar requirement for 2012/13. For 2013/14 general inflation is assumed at 2% in the draft revenue budget set out in table 1.
66. There is also alternative inflation which covers things like long term contracts tied to industry specific rates of inflation (e.g. utilities, waste etc.). Alternative inflation does not have a single rate but accounts for all of the inflation pressures in 2011/12 and again in 2012/13 (set out in table 1).
67. Draft budget proposals are in line with local policy priorities as set out in the fairer future for all vision. Table 2 below summarises the draft budgets for each council department for 2011/12 to 2013/14. These are known as "departmental control totals".

Table 2. Draft budgets for 2011/12 to 2013/14 by department

	2011/12 draft budget £m	2012/13 indicative budget £m	2013/14 indicative budget £m
Children's Services	89.3	85.4	83.0
Communities, Law & Governance	10.7	9.5	9.4
Deputy Chief Executive's including Regeneration & Neighbourhoods	64.7	62.2	61.1
Environment, Community Safety & Culture services	67.4	65.1	64.9
Finance & Resources	31.6	28.8	26.3
Health and Community Services	114.1	106.0	102.7
Other council-wide budgets	(52.6)	(46.5)	(35.8)
Total draft budget requirement	325.2	310.5	311.6

68. Paragraphs 69 to 125 below summarise the proposals across each of the council's departments for 2011/12 to 2013/14. Draft high level descriptions of budget proposals are set out in Appendices A to E.

Childrens Services

69. Children's Services currently represents around 28% of the council's net revenue expenditure. The services are made up of: services for 0-5 year olds and community services; services for 5-11 year olds and inclusion; services for 11-19 years olds and youth services; leadership, innovation and learning services; strategy, commissioning and business improvement; and children's social care services and safeguarding. Southwark is ranked in the bottom 10 of the children in need rank of average scores, according to the Local Index of Child Well-Being 2009.

70. Southwark's children and young people's plan (CYPP) states that every child, young person and family in Southwark should lead an independent, healthy life, feeling safe and secure, and achieving their full potential. Children's Services, and with partners, have high expectations for our communities and will work together to make a measurable difference in ways that help overcome inequality and disadvantage, and strengthen families' ability to raise their children successfully. In order to realise the vision for Children's Services, the transformation of provision will be based around the principles of:

- strong universal services 0-19
- targeted early intervention to improve agreed key outcomes and reduce the call on costly specialist interventions
- smaller, high-quality specialist services that can meet the needs of our most vulnerable children, young people and families

71. The draft budget for Children's Services in 2011/12 is £89.3m. The draft indicative budgets for 2012/13 are £85.4m and for 2013/14 is £83.0m
72. The budget proposals for Children's Services include a commitment of £785k over the two years from 2011/12 which is to cover the cost of lost funding for the youth offending services and to support young adults who are in receipt of special guardianship order. A significant concern is the lack of clarity on the Youth Justice Board funding which supports statutory work with youth offenders – a commitment of £500k in 2011/12, which forms part of the total £785k commitment, is therefore proposed.
73. Some £4.145m is proposed to fund the provision of free healthy school meals for primary aged pupils in maintained schools in Southwark. This will be undertaken as a phased implementation over academic years 2011-14.
74. Meeting the 25% savings from core funding presents a significant challenge to Children's Services as over half this budget resources children's social care services to provide statutory social care support to the most vulnerable and at-risk children and young people. Southwark is among the ten local authorities nationally with the highest percentage of children in need, and yet has suffered one of the highest reductions in core government funding. Services targeted at the most vulnerable and those that meet statutory duties have therefore been protected as far as possible. The level of funding cuts required, however, has resulted in some difficult recommendations to reduce discretionary services. In the majority of instances where service levels are reduced, this has been phased over time to enable officers to seek out alternatives such as working in partnership with the voluntary, community and private sectors to deliver services in a different way.
75. The proposals identify opportunities to transform how we deliver services alongside releasing significant efficiency savings in order to achieve the required reductions. Service transformation will be based on the principles of strong universal services, targeted early intervention, and smaller, high-quality specialist services that meet the needs of our most vulnerable children, young people and families. In addition we will work with the community and voluntary sector to develop capacity in both families and the community to help themselves.
76. In addition to the requirement to meet 25% core budget savings, Children's Services is heavily reliant on grant funding from government to deliver core services. Many of these funding streams have reduced or simply ceased as part of the most recent grant settlement. Children's Services experienced an in-year budget cut of £2.2m ABG, which is continuing into 2011/12. The Early Intervention Grant (EIG) allocation for 2011/12 is 13% less than current composite grants, representing a cut of £2.9m in addition to the £2.2m referred to above. Some of the current ABG grants have ceased completely, representing a further £1.9m reduction; and other ABG grants have been merged into the reduced formula grant. All these grant cuts will have to be met in 2011/12 which will be a considerable challenge to Children's Services in addition to the savings proposed.
77. Core budget savings of some £5.8m in 2011/12 will need to be achieved, with further indicative savings of £6.1m in 2012/13 and £6.1m in 2013/14, making a total of £18m over 2011-14.
78. It is proposed to save some £2.1m within the services provided for 0-5 year olds and community services over the three years from 2011/12. Central to decision making around efficiencies is strong universal early years settings, with an enhanced early years offer that is targeted at and meets the needs of our most vulnerable children. Proposed reductions broadly encompass ending subsidy arrangements that do not help to support the aim to target

resources more closely at needs, commissioning support packages for families based around their actual needs, and building resilience in families to raise their children themselves and so maximising the impact for more vulnerable children. Measures include reducing subsidy to community nurseries, play centres and early years centres, and may result in some closures.

79. It is proposed to save some £2.7m within services for 5-11 years olds and inclusion services. Generally, proposed savings have been generated by reducing core funding for non-statutory provision such as play and after-school clubs, improving value for money of high-cost services through improved governance arrangements such as sharing with other boroughs, increased use of other providers and retendering of contracts. There are proposed reductions in School Improvement Services through expanding current trading arrangements with schools, with the local authority acting as a broker.
80. It is proposed to save some £1.9m within services for 11-19 years olds and youth services. Central to reductions in this area is improving the quality, suitability and range of activities for children and young people. Reconfigurations have already been proposed through ABG cuts to Connexions, and further savings aim to secure better-quality youth provision and more provision delivered through schools and the voluntary sector. Proposed reductions relate to reducing school improvement functions and identifying new ways of delivering services. This may include cross-borough arrangements or through schools themselves.
81. It is proposed to save some £620k across leadership, innovation and learning services. A key driver of proposed savings in this area has been to review services to ensure that provision is targeted and helps achieve local priorities such as raising attainment of those groups falling behind and schools aspiring to excellence.
82. It is proposed to save some £1.2m across strategy, commissioning and business improvement functions. A restructure is currently underway that will seek to achieve efficiencies through strengthening the commissioning, placement and contract performance functions while streamlining back office functions.
83. It is proposed to save some £5.7m within children's social care and safeguarding. Savings in this area will be found through identifying more efficient ways of delivering provision such as placements, tightening eligibility criteria such as for short breaks and identifying new ways of delivering non-statutory work such as early intervention around offending. In order to reduce staffing levels to achieve the required reduced funding levels, provision will need to be reconfigured in ways that ensure safe services, while looking at new ways of working. Central to this will be a realignment of provision both within specialist and wider services that aims to ensure fewer children enter into the care system. For example, through reconfiguring parenting provision and moves to work more holistically with families with complex needs.
84. In addition, it is proposed to save some £3.7m across a range of other cross-divisional services. These include reconfiguring service delivery across all divisions and reviewing management structures and staffing to achieve overall savings.

Communities, Law and Governance

85. Communities, Law and Governance (CLG) makes up a group of 'corporate' departments including Finance and Resources and Deputy Chief Executive's (DCE) that together currently account for about 8% of the council's net revenue expenditure. Communities, Law and Governance includes the council's statutory monitoring officer function and is also responsible for legal services, electoral services, and scrutiny and community engagement functions.

86. The overall vision for Communities, Law and Governance is to ensure that the council's services are accessible, accountable and efficient, delivered lawfully and engage and empower local people. We will contribute to the fairer future for all by reducing our own costs while continuing to support members in their leadership role and our partners in the voluntary and community sector (VCS).
87. The draft budget for Communities, Law and Governance in 2011/12 is £10.7m. The draft indicative budget for 2012/13 is £9.5m and for 2013/14 is £9.4m.
88. The budget proposals for Communities, Law and Governance include a commitment in 2011/12 of £200k to support continuing activities within Community Action Southwark (CAS) and their work to ensure effective working with the voluntary sector in Southwark.
89. It is proposed to deliver savings within Communities, Law and Governance of some £2.5m over the three years from 2011/12 through rationalising back office and support costs and service reconfiguration. This includes resizing and reviewing team structures across legal services, and community engagement. There will also be some reductions in non statutory committees. There will be savings from community councils delivered as part of the Democracy Commission process. It is also proposed to refocus the voluntary sector grants programme including monies previously passed to London Councils.

Deputy Chief Executive's including Regeneration and Neighbourhoods

90. The DCE block of services is made up of human resources, communications and strategy support and customer services. These services are part of a group of 'corporate' functions including Finance and Resources department and Communities, Law and Governance department that together currently account for about 8% of the council's net revenue expenditure. DCE services will deliver on the fairer future vision by having a relentless focus on rationalising support services so more money is protected at the frontline and working alongside others to provide the organisation with the tools to innovate and transform service delivery.
91. The services that make up the regeneration and neighbourhood functions include a wide variety of activities that affect the physical environment and the economy of the borough. This includes planning and transport services (including building control and development management and policy), economic development, housing strategy and regeneration, property and the major regeneration schemes. Together regeneration and neighbourhood functions make up about 8% of the council's net revenue expenditure.
92. Over the next three years regeneration services will be focused on delivering functions that help achieve local policy priorities. This will mean working to ensure the benefits of regeneration can spread across the borough including in strategic areas such as Elephant and Castle and the Aylesbury but also within Peckham, Nunhead and Camberwell. There will be opportunities to streamline structures through rationalisation of internal organisational arrangements. There will be an imperative to maximise opportunities from very limited external funding streams. Resources will be focused on the most vulnerable through partnership arrangements with developers to help create jobs and through optimising council land and property to achieve policy objectives. Seeking alternative ways to deliver services will also be a priority.
93. The draft budget for deputy chief executive's including regeneration and neighbourhoods in 2011/12 is £64.7m. The draft indicative budget for 2012/13 is £62.2m and for 2013/14 is £61.1m.

94. It is proposed to deliver savings of some £12.7m over the three years from 2011/12 through service re-configuration, review and management restructuring. This will be achieved by rationalising back office and support costs and merging functions as a result of bringing two departments together. It will also include reviewing how services are provided, such as across community housing functions and housing renewal, so they are retargeted to deliver a more effective service for those most in need. Savings will be also achieved through further contract efficiencies within customer and client services. There will be further savings generated from the recovery of council tax court costs and Housing Benefit overpayments. More broadly, and in line with the medium term resources strategy (MTRS), the council aims to continually improve council tax and national non-domestic rate collection rates (as measured by inner London quartiles).
95. There are proposals to generate additional income of some £225k over the three years from 2011/12 through raised fees and charges from registrars, rent review and lease renewals alongside the restructuring of the planning pre-application process. This is in line with local policy 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) as set out in the MTRS.

Environment, community safety and culture services

96. Services provided under this block of provision currently make up just over a fifth of the council's net revenue expenditure and they can be broadly grouped into:
- Environment covering: the public realm such as parks and open spaces, parking highways, cleaner greener safer initiatives, cemeteries and crematorium; sustainable services, such as waste management and refuse collection, street cleaning and recycling, carbon reduction and energy projects.
 - Community safety covering: Safer Southwark Partnership, drug and alcohol teams, emergency planning, environmental health, the community wardens, anti-social behaviour unit, environmental enforcement, noise teams and CCTV.
 - Culture, Libraries, Leisure and Learning covering: arts, events, museums, leisure centres, sports outreach, libraries and adult learning.
97. The overall vision for these services is to make Southwark's neighbourhoods great places to live, that are clean, safe and vibrant and where activities and opportunities are accessible to all. The department's approach to achieving the savings has been to focus on a core provision of quality services, efficiency savings, smarter procurement and tougher contract management; reducing optional services and using data and intelligence to target services to places or people where they will be more effective.
98. The draft budget for environment, community safety and culture services in 2011/12 is £67.4m. The draft indicative budgets for 2012/13 are £65.1m and for 2013/14 is £64.9m.
99. The budget proposals for environment, community safety and culture services includes commitments of £435k over the three years from 2011/12 which are to cover the loss of income within parking services and match funding with the Metropolitan Police Authority to set up night time economy team as part of the delivery of the violent crime strategy.

100. Some £108k of non-committed growth is required in 2011/12 to cover necessary management changes across the department that will facilitate the delivery of efficiency savings.
101. The approach to meeting savings targets within environment, community safety and culture services has been to protect frontline provision as much as possible. The focus will be to maintain quality core services which will require some service changes. As a result draft savings of £6.8m in 2011/12 will be achieved, with further indicative savings of £3.0m in 2012/13 and £2.2m in 2013/14.
102. It is proposed to review service provision across the public realm group of services saving some £3.0m over the three years from 2011/12. Savings will be made through two major procurements in parking and highways, the reactive street maintenance budget will be reduced and the environment grants programme will be reassessed and retargeted, including seeking alternative arrangements where possible. Management costs in parks will be reviewed alongside management arrangements for South Dock Marina.
103. In sustainable services, management structures are to be rationalised and it is proposed to revise the specification across a range of services including street cleansing and refuse collection. These proposals will deliver savings of £3.4m over the three years from 2011/12. Savings in the delivery of services will be met by a combination of reduced frequencies, such as alternate day litter picking in parts of the borough and more efficient use of available resources, such as better utilisation of mechanical sweeping.
104. It is proposed to save a total of £2.9m across the community safety and enforcement division over the three years from 2011/12. This will be achieved through management restructuring and service review and reconfiguration. Resources will be focused to key places at key times, and at key people and businesses, in line with statutory and policy objectives, such as the National Drugs Strategy, Police and Social responsibility Bill, Policing and Crime Act and the Southwark violent crime strategy. The loss of grants and reduction in funding will result in the service cutting a number of its current functions and a closer more collaborative approach with our partner agencies to maximise the resources at their disposal. The proposals include the re-organisation of the division, merging activity across the drugs and alcohol teams, establishing a dedicated noise service with a reduced service offer. The proposals also include re-organisation of the community wardens service around our key town centres, supported by a response service for the whole borough.
105. It is proposed to restructure and re-organise management and staffing across the services within culture, libraries, leisure and learning. It is also proposed to review funding arrangements across the arts grant programme and rationalise events. Sports participation for young people will be transferred to Children's Services to ensure the best use of remaining funding for the Olympics and young people. A review of the library provisions will be initiated in light of the opening of the new Canada Water Library. The library service will be refocused towards core and new libraries to provide a more effective level of service. Management arrangements will also be streamlined. This will deliver some £2.8m of savings over three years from 2011/12.
106. There are proposals to generate additional income of some £735k over the three years from 2011/12 through increasing charges across a range of services including parking, cemeteries and licensing Houses in Multiple Occupations. This is in line with local policy 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) as set out in the MTRS.

Finance and Resources

107. Finance and Resources makes up a group of 'corporate' departments including DCE and Communities, Law and Governance that together currently account for about 8% of the council's net revenue expenditure. Finance and Resources is made up of a number of functions, some in direct support of the council's section 151 statutory function and others in support of the overall council's capacity to deliver through information technology and facilities management.
108. The overall vision is to achieve excellent financial and resource management to help the council achieve key policy objectives in delivering a fairer future for all. Resources will need to be managed well with sound and robust audit and governance underpinning delivery of policy objectives. There will be a continual, rigorous focus on effective resource management, financial monitoring and control so that value for money outcomes are achieved across all council services.
109. The draft budget for Finance and Resources in 2011/12 is £31.6m. The draft indicative budget for 2012/13 is £28.8m and for 2013/14 is £26.3m.
110. It is proposed to deliver savings within Finance and Resources of some £8.6m over the three years from 2011/12 through management restructuring and rationalised back office support. This includes further review of finance functions across the council, building on the recent shared services review. This will also include a review of audit, fraud and risk services to refocus priorities and reduce running costs. Savings will also be achieved through smarter procurement and contract management.

Health and Community Services – adult social care

111. Health and community services currently represent around a third of the council's net revenue expenditure. This is predominantly spent on adult social care to clients who are eligible for support under the Fair Access to Care (FACS) criteria. The adult social care services provided include residential and nursing placements, supporting people services, homecare, day care, intermediate care, advocacy and support, equipment to help people live at home, transport and meals on wheels. People who are eligible for social care increasingly have personal budgets, including direct payments, where they self-direct the support they need to meet agreed outcomes.
112. The overall aim for health and community services in relation to adult social care is to deliver a fairer future for older and disabled people by creating a sustainable system that continues to support the most vulnerable and deliver value for money. This will require a change in the way the council works across the whole system of adult social care. It will mean different relationships between the council and the community, where families and older and disabled people will be expected to do more for themselves, with less reliance on the Council. It means moving to a model where older and disabled people can contribute and exercise greater control over their own lives, improving their health and well being. This will also mean containing growth in demand, focussing Council support to the most vulnerable, providing services differently but always with an aim to maintain and improve quality.
113. The draft budget for health and community services in 2011/12 is £114.1m. The draft indicative budget for 2012/13 is £106.0m and for 2013/14 is £102.7m.

114. The budget proposals for health and community services in 2011/12 includes a non-committed growth proposal of £1.85m which will support approximately 45 young people with learning disability care needs in transition to adult social care. For 2012/13 and 2013/14 this pressure is expected to increase by a further £1.96m and £2.17m respectively, and therefore close monitoring and stringent financial control on costs will be required to contain such significant budget pressure.
115. Some £128k of non-committed growth is required to fund the reduction in cost of meals on wheels over 2011-14. This initiative is to be phased over a four year period from 2011/12.
116. Meeting the 25% savings target for adult social care presents a significant challenge as the vast majority of the budget goes to meet the needs of people who are at critical or substantial risk under FACS. The approach proposes a whole systems change in delivery planned for adult social care focused on transformation, improvement and modernisation. This includes service redesign and reconfiguration. Through this programme, draft savings of some £7.7m in 2011/12 will be achieved, with further indicative savings of £10.7m in 2012/13 and £8.5m in 2013/14.
117. It is proposed to reconfigure 'open access' services, which are discretionary activities within adult social care. It is proposed that £1.3m will be saved by re-shaping open access luncheon clubs and day care in 2011/12 and re-specifying advice, information and support in 2012/13. Further savings beyond this may need to be identified in this area, if the level of statutory provision does not reduce. Southwark Circle offers a personalised model where similar services could be provided in ways that are both financially self-sustaining and that enables people to contribute their time and skills to improve their own well-being.
118. It is proposed to redesign mental health services, including improving back office processes and reshaping where and how the service is provided across the borough. A programme of work across South London and Maudsley (SLaM) Mental Health Trust, and the four local boroughs covered (Southwark, Lambeth, Lewisham and Croydon) will aim to review and redesign services within the resources likely to be available. This will deliver some £5.15m in savings over three years from 2011/12.
119. It is proposed to drive down costs through smarter procurement across a range of adult social care services including homecare and residential care, resulting in some £1.05m savings over the three years from 2011/12.
120. It is proposed to reconfigure day care provision across all care groups in the borough. This will result in the closure of Holmhurst older people's day centre and the re-provision of services through Fred Francis older people's day centre. It will include a fundamental review of mental health day services as part of the re-shaping of mental health provision and a review of day centres for people with learning disabilities. The review will consider options from re-design to ceasing provision of these discretionary services. In total some £5.2m savings is planned to be generated over the three years from 2011/12.
121. It is proposed to save £1.6m over the three years from 2011/12 as a result of the review and redesign of functions to deliver a new customer approach for personalised services across adult social care.
122. It is proposed to deliver a phased transfer over three years from high dependency on residential care into more community based services, which will save some £2.7m.

123. The Supporting People programme funds housing-related support to enable vulnerable people to live as independently as possible. It is proposed to reduce Supporting People budgets by up to £8.4m over the three years from 2011/12. Efficiencies will be made through consolidating service providers and utilising the new framework agreement. Further savings will be achieved through the cessation of low level support with remaining resources targeted towards the most vulnerable.

124. There is a proposal to generate additional income of some £260k in 2011/12 through increasing charges for community based services in line with government guidance. This is also in line with local policy through the MTRS.

Other council-wide budgets

125. When setting the council budget there are a number of budgets proposals that impact across the entire council and are of cross-organisational significance. These include things such as: the cost of pension provision; changes in employer national insurance costs (specifically as a result of the emergency budget); and contingency provision to mitigate against future, as yet unknown, budget pressures. In 2011/12 the council propose to set aside some £8.9m to cover such costs, with a draft indicative allocation in 2012/13 and 2013/14 of £4.7m and £4.8m respectively. Table 2 captures the totality of the draft budgets (which for other council-wide budgets are a credit figure because they reflect accounting and financing transactions that are necessary across the entire council).

Concessionary fares

126. There are a significant funding pressures attached to concessionary fares and how the charges are distributed to councils which the Leader has highlighted within his response to the consultation on the provisional grant settlement. The provisional settlement confirmed the 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 have to date been handled directly through London Councils.

127. From 2011/12 this grant will be paid directly to Southwark through the formula grant. In moving into formula grant it is now subject to the overall reduction in the total level of formula grant, the criteria used to determine the formula and the resulting distribution to local councils. The transfer value for Southwark into the revised 2010/11 grant is £2.567m but this has been lost in the formula and grant reduction.

128. Concessionary fares form part of the other council wide budgets set out in paragraph 125 above. For 2011/12 Southwark's contribution towards concessionary fares will be £10.654m, an increase of £3.306m (45%). Southwark's requires some £3.105m to meet this charge. This adds significant pressure to the council's resources for 2011/12, particularly taking account of frontloading of overall grant reductions and the lack of transition grant within the provisional settlement, and the Leader has invited CLG to reassess the impact of this pressure.

Housing Revenue Account

129. The HRA reflects the statutory requirement under Section 74 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It is a ring-fenced account, containing solely the costs arising from the provision and

management of the Council's housing stock, offset by tenants' rents and service charges, housing subsidy, leaseholder service charges and other income.

130. For 2011/12, the Government's Draft Subsidy Determination was issued on the 5 November 2010. Cabinet received an Indicative HRA Rent Setting & Budget Report on 14 December, setting out the detail in relation to rents and allowances and identifying a revenue budget gap of £7.8m for 2011/12 at that point.

131. A report on HRA rent-setting for 2011/12 is elsewhere on this agenda. The Final Subsidy Determination was issued on 10 January 2011 and contained upward revisions to allowances totalling £1m over those published in the draft, (£0.8m revenue and £0.2m MRA capital), thereby reducing the revenue budget gap to £7m. Management and Maintenance (M&M) and Major Repairs Allowances (MRA) have been uplifted by 2.5% for inflation, plus or minus area cost weighting adjustments, resulting in net uplifts of 1.3%, 4.7% and 4.6% respectively. Conversely, rent claw back increases by 6.8%. Government effectively operates control over rent policy through the rent restructuring regime withdrawing resources in line with the national guideline rent increase (known as rent clawback). Cumulatively, including movements in stock numbers, debt charges and debt charge subsidy, the net position in revenue cash terms is a reduction of £6.7m in subsidy support year on year, whereas MRA capital resources increase by £1.2m.

132. The HRA continues to be under severe financial pressure to meet the continuing demands of maintaining and improving the housing stock and cope with the demands arising from major regeneration programmes and extraordinary events. Inflation, commitments and budget pressures total £12.7m in addition to the subsidy withdrawal. This has been mitigated to an extent through the proposed increase in rents (7.08%) and garage charges (50%). Tenant service charges have been rebased for 2011/12. Charges have been re-aligned to reflect costs resulting in differential increases to existing charge levels for estate cleaning, grounds maintenance and communal lighting, but a reduction for door entry. Overall, tenants in receipt of all services will see an increase of 4 pence per week, equivalent to 0.6%. District heating and hot water charges are being held for the second year running at their existing rate.

133. In meeting the budget gap, efficiency savings are assumed in line with corporate guidance on the General Fund over a three year planning horizon and will be delivered through revised and more efficient working across housing services, together with contract and supply chain improvements and re-profiling of resources to protect those areas of highest priority and need.

134. Formal consultation commenced at Tenant Council on 10 January 2011 followed by individual Area Housing Forums and Home Owners Council on 19 January. Consolidated recommendations from Tenant Council, together with any recommendations from Home Owners Council will be reported to Cabinet on 25 January 2011. A further report to Cabinet will follow in February setting out the composition of the efficiency savings required to meet the revenue budget gap following the consultation exercises that the council is undertaking throughout January 2011.

Human Resources

135. The proposals appended require a significant reduction in posts in 2011/12 (some 400 FTE) arising from the general fund savings programme. In implementing these savings management will look first at vacancies (a selective recruitment freeze has been in place for 2 years), and agency / temporary staff cover, as well as natural wastage. The Council has tried

and tested procedures to manage workforce change and is preparing to provide greater emphasis on the redeployment process, supporting staff and in mitigating redundancies.

136. There are some underlying principles that the Council will aim to maintain through this period of significant change whilst trying to ease the financial pressures over the medium term, which form part of the draft medium term resources strategy:

- To maximise opportunities for redeployment utilising the existing workforce positively to meet future needs.
- To promote innovation and voluntary schemes which contribute to the reduction of the overall paybill for example through flexible working, flexible retirement; and to facilitate fast track approval.
- 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 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 continue to make progress in key areas of sickness management and agency controls.

A strong and stable resource base

137. In setting out the draft budget proposals for 2011/12, and draft indicative allocations for 2012/13 and 2013/14 the Finance Director as the statutory section 151 officer is assured that the range of spending commitments and proposed savings are being set within the resources available that meet local priorities. The draft budget proposed for 2011/12 is therefore robust.

138. In addition to ensuring that sufficient funds are available to finance the ongoing management of Council services, the Finance Director needs to be assured that there is an appropriate level of reserves and balances available. The Local Government Act 2003 requires the chief finance officer to report on the adequacy of reserves held, and requires members to

have regard to that report in setting the budget. The Act also gives powers to the Secretary of State to specify a minimum of reserves to be held, but those powers have not yet been applied.

139. Reserves are funds set aside from underspends or planned budget contributions, to meet contractual commitments or future expenditure plans, including meeting risks or liabilities that may arise at a later date. For example, the council has a number of pressures which fluctuate over time and are unpredictable in nature such as winter maintenance for highways or meeting the upkeep of older, operational buildings across the borough. Reserves are the most effective way in which to mitigate these pressures, subject to appropriate criteria.

140. The council has a number of reserves. The most significant of which are:

- Modernisation, service and operational improvement reserve. This is for one-off expenditure and multi-year projects that are designed to modernise and improve service levels and operational efficiency of Southwark's activities. Schemes will include accommodation pressures, shared services, customer service improvements and information services. The use of the reserve is subject to protocols (in accordance with the council's MTRS).
- Regeneration and development reserve. This reserve is to fund one-off expenditure and multi-year projects to facilitate the significant regeneration and development taking place in the borough. Projects include the Elephant & Castle, Canada Water, Southwark Schools for the Future, and land acquisitions associated with these projects.
- Financial risk reserve. This reserve is set aside against future financial risks that may arise. For example, taxation risk, legislative changes including actions involving the Greater London Authority, major projects, risks as a result of unavoidable changes in accounting practice.

141. Due to the size, scale and complexity of projects and services across the borough the council is required to maintain a general level of balances to meet future unpredictable expenditure demands. Securing outcomes around key priorities of regeneration, recognising key operational risks attached to the unique size of our housing stock and more generally the levels of deprivation across the borough and associated factors, means that it is essential the council maintains a robust approach to both reserves and balances. Maintaining an adequate level of reserves and balances are therefore key factors in the Finance Director's assessment of the robustness of the budget.

142. The council's General Fund reserves and balances at the end of 2009/10 totalled £86.8m, made up of £68.6m earmarked reserves and £18.2m General Fund Balance. In total this represents some 9.15% of the General Fund spend in 2009/10.

143. The 2009/10 earmarked reserves, by their nature, are reserves set aside and earmarked for spending plans in 2010/11 and future years. Many of those spending plans were already in progress as at the end of 2009/10, especially around the council's modernisation agenda and major capital projects. The reserves also include balances that the council cannot freely reallocate, for example Dedicated Schools Grant unspent or PFI credits received in advance to meet future years' costs on the waste PFI scheme; or are balances that the council would not wish to redirect, for example the council's self insurance reserve.

144. General fund balances are intended to act as a contingency in the event of any extraordinary unbudgeted expenditure having to be incurred. The target level of working

balances have been set at £20m over the medium term, in line with similar organisations in London. Although the Council has made progress to achieving this level of balances, there have been insufficient surplus resources over the years to be able to achieve this target. Current General Fund balances stand at £18.2m. This is 1.92% of 2009/10 General Fund spend, which is below the cross London average of balances held (1.95%) and lower than the inner London average of 2.36%. Outer London boroughs tend to have smaller contingency balances, with an average of 1.67%, but that includes 6 boroughs that proportionately hold balances greater than Southwark. The Finance Director will continue to review the level of balances and reserves and report to the Cabinet through the normal monitoring process.

145. In setting the budget the council needs to be mindful of the continued uncertainty with regards future funding particularly beyond 2012/13. This strengthens the importance of maintaining a robust MTRS within which to plan council business and sustain delivery of essential frontline services. A draft MTRS was presented to Cabinet on 21 December. A final version will be presented alongside the report on the balanced budget for 2011/12 on 8 February 2011.

Consultation

146. The cabinet has undertaken a number of budget consultation events with residents and community groups who were asked to participate in the Southwark Spending Challenge. Participants were asked how they would suggest making a net saving of £20m next year from the council's general fund budget.

147. This challenge involved seeking views from each Community Council and through meetings with key community groups. The purpose of the consultation was to explain to residents how the council's budget is made up and how it spends its money. The objective was also to give some understanding of the complexities and choices that are part of the budget setting process and to seek people's views.

148. The consultation process began in September 2010 with Cabinet Members agreeing a set of budget principles and then visiting community councils, and other groups. The Leader and Individual Cabinet members attended each Community Council meeting in November 2010, and met many other community groups and organisations, such as the Youth Council and Pensioners' Forum as part of the overall process.

149. Over six hundred people had the opportunity to participate in the Southwark Spending Challenge at the Community Councils and the other events. These events took place before details of Southwark's provisional grant settlement were known. The challenge was to identify savings worth £20m from the council's annual budget. Some of the key findings of the consultation are:

- Participants seem to have found making decisions about where to cut very tough - 28% of the overall results were returned as "don't knows".
- There is no clear consistency over what should be cut, with differences between community council areas
- There is a sense of participants wanting to protect those services which are precious to them
- There is an emphasis on protecting services to the most vulnerable, such as the young and old
- There is an emphasis on reducing back office costs as first preference

150. Alongside the Spending Challenge, residents, staff and local groups have been encouraged to submit ideas to the council. Many of these ideas have been taken forward in the budget savings proposals, including:

- Looking in to sharing services with other boroughs
- Proposals for working more efficiently, reducing the use of consultants and reducing administrative costs
- Reducing the amount spent on council communications, including the council's magazine Southwark Life

151. The Cabinet intends to continue discussions on the overall budget with Community Councils. This is part of achieving an open and transparent budget setting process in line with the Cabinet's budget principles.

Equalities

152. In September 2010, Cabinet agreed seven principles that would guide its decision making on the budget. These budget principles are consistent with the Council's Equalities and Human Rights Scheme 2008-11. One of these principles was 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 (EqIA) of budget proposals."

153. To this end, as part of the fairer future for all budget consultation, the Council has considered impacts on the equalities strands as part of the budget setting process and in accordance with the Council's Equalities and Human Rights scheme.

154. Under equality legislation, 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. The Council also has legal obligations under the Human Rights Act so therefore has to consider the potential impact its decisions could have on human rights.

155. The council works in accordance with the general equalities duties which are set out in section 71 of the Race Relations Act 1976, section 49A(i) of the Disability discrimination Act 1995 and section 76A of the Sex Discrimination Act 1975 and the Human Rights Act. The legislation requires that this duty to pay 'due regard' be demonstrated in the decision making process. Assessing the potential equality impact of proposed changes to policies, procedures and practices is one of the key ways in which public authorities can show 'due regard'.

156. The Equality Act 2010 introduces a new public sector duty that comes into force from April 2011. This extends coverage to age, sexual orientation, pregnancy and maternity, and religion or belief. The Equality Act 2010 protects people from discrimination on the basis of 'protected characteristics'. The relevant characteristics for services and public functions are disability, gender reassignment, pregnancy and maternity, race, religion or belief sex, and sexual orientation.

157. Guidance on the implications of the Equality Act 2010 and the duties it places on the Council has been issued to service departments and members. In preparation for these new duties coming into force, the Equalities and Human Rights Commission recommends that public

authorities start to assess the impact their financial decisions might have on the new protected groups where relevant and proportionate.

158. The Council's Equalities and Human Rights Scheme 2008-11 provides the strategic framework for the Council to meet its specific race equality duties, disability equality duties and gender equality duties. Anti-discrimination duties in respect of age, faith or belief, and sexual orientation are also included as strands in the scheme which means that the Council already largely meet the new requirements of the Equality Act 2010 public sector equality duty, with the exception of gender reassignment and pregnancy and maternity.

159. EqlAs need to contain sufficient information, including the demonstration that they are evidence based, to enable the Council to show that it has paid 'due regard' to equality groups in its decision making and identify methods for mitigating or avoiding any adverse impacts.

160. The Council has ensured that the consideration of equality issues has been embedded in the budget setting process. In preparing draft budget proposals, the Council has paid due regard to the equalities implications, including service changes or reconfigurations. Some of the specific activities undertaken to demonstrate this include:

- Training of staff and members, including face to face sessions and written guidance to remind them of the requirements of legislation (including Equality Act 2010), and of the Council's Equality and Human Rights scheme 2008-2011.
- Explicit Cabinet commitment to equalities made through its vision statement, "Fairer Future for All" and its "budget principles".
- Extensive consultation with residents and staff via a range of forums, with findings from these consultations fed into decision making processes for senior officers and members.
- Equality impact assessments of departmental budget proposals prepared and developed.

161. Equality impact assessments will continue to be undertaken as part of on-going considerations around the implementation of the Council's budget decision. These will be prepared by departments in compliance with current and ongoing policies and procedures. Equality impact assessment will continue to be embedded in the process moving forward.

Conclusions and next steps

162. By way of conclusion the headlines of the report are set out below:

- 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).
- Southwark loses the most cash of any London authority in the provisional settlement.
- The draft revenue budget requirement for Southwark in 2011/12 is estimated to be £325.2m. Draft indicative allocations for 2012/13 are £310.5m and for 2013/14 are £311.6m.
- There are some £9.9m commitments estimated in 2011/12 with a further £4.9m in 2012/13 and £5.0m in 2013/14.
- No costs have been included for 2011/12 and 2012/13 for inflation on salaries or running costs.

- The loss of resources following the deletion of any grants has been contained within draft budgets proposed.
- Proposed efficiencies and improved use of resources total £48m in 2011/14, representing 15% of the 2010/11 base budget.
- Of the total efficiencies and improved use of resources some £1.9m will be delivered as a result of proposals to share services with other authorities. Whilst bringing opportunities for greater efficiencies and improved ways of working, the sharing of services is a complex process and officers will continue to manage and monitor risk moving forward. Officers will also continue to consider what additional options are available for the sharing of service provision across borough boundaries into future years.
- Within the total efficiencies and improved use of resources there are proposals to re-align and rationalise management structures across the council. This is a key part of the council's aim to protect services at the frontline by seeking out savings from review of management arrangements.
- Other savings in 2011-14 total some £36.3m, which is 11.3% of the 2010/11 base budget.
- It is estimated at this time that some 400 full time equivalent posts may be removed as part of draft budget for 2011/12.

163. This report has explained that there will be no WNF in 2011/12 and the government has moved a number of specific and 'unringfenced' grants as part of the provisional settlement. The removal or reduction of these specific grants has the most significant impact on the voluntary sector because much of this was used to commission voluntary and community sector (VCS) organisations to provide services. Whilst the Leader of the council has made representations to government as part of the consultation process on the provisional grant settlement, ultimately the council has no choice or control over decisions made as part of the grant settlement and in particular the impact that this has on the VCS in Southwark.

164. In the current financial climate continuing to support the delivery of excellent public services to our residents is a priority and a significant challenge. The council will work together with the VCS and draw upon the expertise and experience that exists across all our partners. The VCS has an essential role to play in Southwark. In the coming years the role of VCS organisations will be increasingly important to ensure that our most vulnerable residents are not left behind. To do this the council will have to change and modernise the way it works but the voluntary sector will also have to change the way it works.

165. The approach we will take is one that strengthens the resilience of the VCS whilst recognising the financial reality of reduced public sector funding, and finds new ways of supporting our local VCS that include:

- reconfiguring and redesigning services which creates opportunities for increased engagement and involvement of the third sector in public service delivery;
- making our commissioning processes more efficient to help reduce the burdens and costs on the council and the sector;
- working with Community Action Southwark (CAS) and the sector to support a programme of VCS modernisation which will continue to strengthen the independence of the sector so it can effectively face the challenges of the future and consider how best to deliver local services; and
- establishing a transition fund of £1.5m over the next two years that will provide interim support in helping VCS organisations make the changes necessary to meet the challenges from reduced public sector funding and work with the council to develop a more sustainable sector.

166. The draft budget for 2011/12 and the draft indicative budgets for 2012/13 and 2013/14 propose an unprecedented level of savings. This is due to the size and scale of grant reductions which have been set out in the provisional settlement. Over the next three years the council will need to deliver in the region of £85m of savings. This will be double the level of savings that have been delivered in the last three years (including 2010/11).
167. Grant reductions have been 'frontloaded' by the government which means that a higher level of savings is needed to be delivered by the council in 2011/12. In 2011/12 alone the council propose to deliver some £34m worth of savings. This is three times the level of savings that are being achieved in 2010/11.
168. Savings on this scale present a significant and considerable challenge to the council, not only in identifying proposals for spending reduction but also in implementing such proposals. This is particularly so in the forthcoming year given that a higher level of savings is required. There will be a need to close monitoring in how savings are being delivered and the continued impact of such savings across the council.
169. Further, a level of savings on this scale means that although the council continue to protect, wherever possible, 'frontline' services it is difficult to avoid proposals that would lead to the council no longer delivering some services. At the same time this presents a specific opportunity and challenge to the wider community to become responsible for the provision and delivery of services which otherwise may end.
170. The extent of the funding reductions from government fundamentally alters the principles for the delivery of non-statutory and non-essential services which while valued highly by residents and visitors are no longer affordable. The council has a history of promoting greater engagement by the community and in some cases has been able to provide funding to schemes such as Southwark Circle. The community must now be encouraged to seek opportunities for widening this engagement and meeting the challenge that sits alongside the loss of financial resources.
171. The savings proposed within this draft budget leave numerous opportunities for communities to rise to this challenge across a range of services such as library provision, play provision, youth activities, initiatives to tackle and prevent anti-social behaviour and cross-agency activities (e.g. health). Rising to this challenge is consistent with proposals that form part of the Localism Bill and the government's approach to the 'Big Society'.
172. This report has set out draft revenue budget proposals for 2011/12, with draft indicative proposals for 2012/13 and 2013/14. All of the information contained in this report is based on the provisional grant settlement and remains subject to further change and consideration by cabinet and overview and scrutiny prior to being presented to council assembly on 22 February 2011. Subject to agreement of the budget, a new council business plan will be prepared.

GLA precept

173. The GLA is to set its budget and precept on 23 February 2010. The GLA draft budget has indicated a nil increase in precept in 2011/12.

Community impact statement

174. This report sets out draft budget proposals for 2011/12, with draft indicative proposals for 2012/13 and 2013/14. 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 any draft proposals being agreed 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

175. This report sets out draft budget proposals for 2011/12, with draft indicative proposals for 2012/13 and 2013/14. There will now be a period of consultation on these budget proposals before Cabinet considers the budget on 8 February.

176. The Constitution determines that cabinet consider 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

177. This report is urgent owing to the Council's obligation to set a lawful budget by statutory deadlines and the need to ensure all the necessary preparatory administrative and financial arrangements are in place prior to the next financial year. All local authorities are required to set their council tax by 11 March 2011; this Council is due to set the Southwark Council Tax on 22 February 2011. Any delay to this date would mean the council would have to move its instalment date beyond 1 April 2011 resulting in loss of income to the council.

REASONS FOR LATENESS

178. It was not possible to prepare this report until further details of the provisional settlement were made public. At the time of writing officers continue to await the final grant settlement details.

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
Statement of Accounts 2009/10	Finance and Resources 160 Tooley Street http://www.southwark.gov.uk/info/10016/key_documents/568/statement_of_accounts	Dennis Callaghan 020 7525 4375
Departmental Equality Impact Assessment papers; Summary of key activities undertaken with regards equalities impact	Corporate Strategy 160 Tooley Street	Claire Webb 020 7525 7136

APPENDICES

No.	Title
Appendix A - E	Draft high level descriptions of budget proposals
Appendix F	Consultation response on provisional grant settlement

AUDIT TRAIL

Cabinet member	Cllr Richard Livingstone, Finance and Resources	
Lead officer	Duncan Whitfield - Finance Director	
Report author	Duncan Whitfield – Finance Director	
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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
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