

Item No.	Classification: Open	Date: October 20 2009	Meeting Name: Executive
Report title:		Policy and Resources Strategy 2010/11 to 2012/13 – Scene Setting	
Ward(s) or groups affected:		All wards	
From:		Finance Director	

RECOMMENDATIONS

1. The Executive:
 - i. Note the context for the business and budget planning round.
 - ii. Instruct the Finance Director to report back to the Executive at its meeting on 15 December 2009 on the Local Government Settlement for 2010/11.
 - iii. Note the continued uncertainty of local government financing arrangements for 2011/12 and beyond not least with regard to the economic climate looking forward.
 - iv. Agree initial changes to a refreshed medium term resources strategy (MTRS).

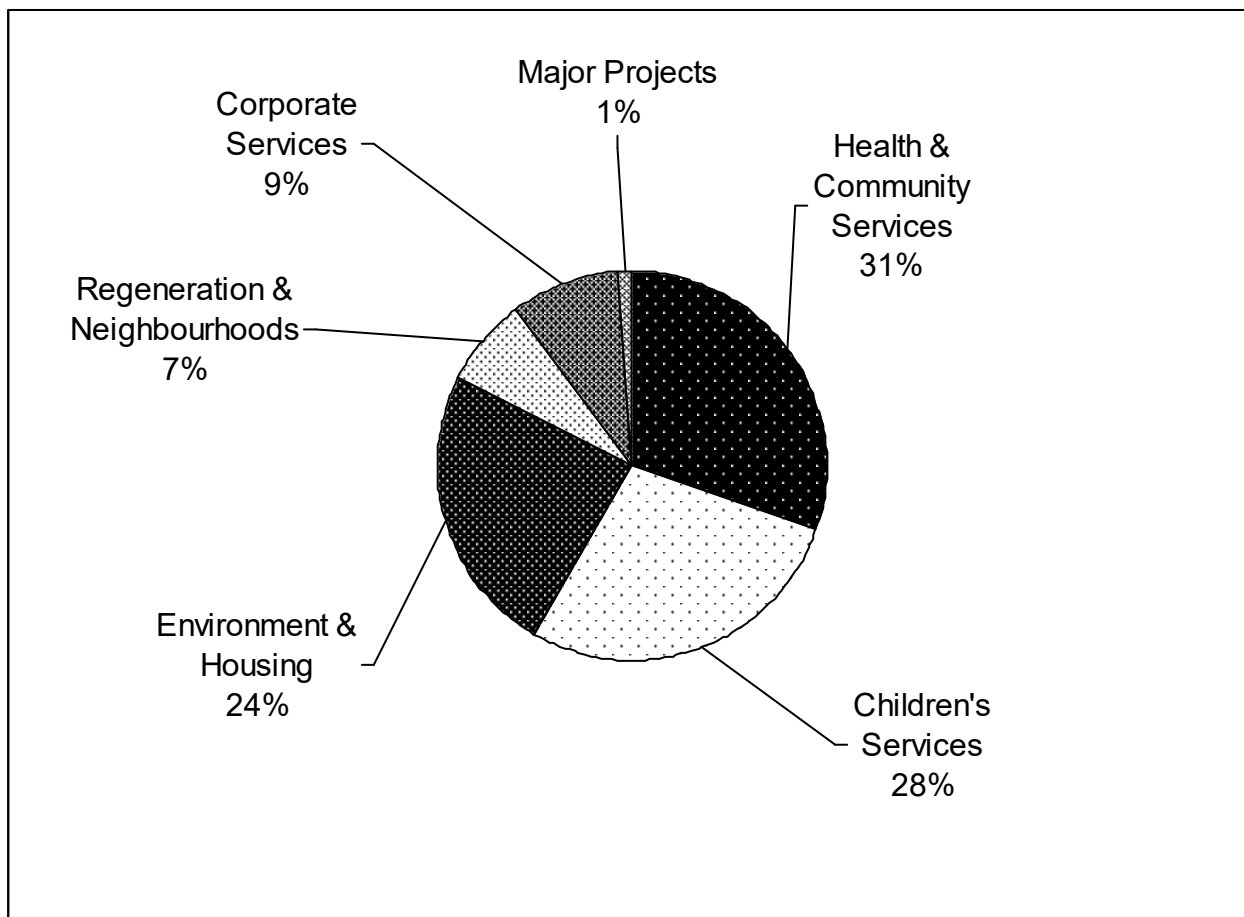
BACKGROUND

2. Alongside meeting local priorities as set out in *Southwark 2016*, the sustainable community strategy, over the last seven years the council has funded growth and commitments totalling an additional £71m. Resources have been directed across services in accordance with policy priorities and upward budget pressures within environment, housing, health and community services, regeneration and modernisation. Over the same period, total savings of £69m have been generated, the majority of which have been efficiencies. At all times the council priority has been to protect frontline services as far as this has been possible.
3. In line with the council's commitment to keeping council tax increases within inflation levels, Southwark's council tax has increased by 14.1% in the last six years compared to the average London increase over the same period of 16.9%. A 1% increase in council tax generates an additional £837k of resources. It is assumed that if inflation rates (RPI currently -1.3%) remain negative during the course of this budget planning round, then council tax will be tracked in the same way.
4. In February 2008 the council established a balanced three year budget, adjusted in 2009/10 in February 2009 in response to the economic recession and shifting service demands. 2010/11 represents the final year of that three year budget and will again need revision. While the council remains committed to re-establishing a three year budget, the deferral of the comprehensive spending review (CSR) from autumn 2009 to 2010 combined with continued impact of recession makes this objective very challenging at this time. While the council cannot avoid planning actions for future years as part of the annual policy and resources strategy, circumstances combined mean that it will be extremely ambitious to provide a balanced budget over that period.
5. Within this context this paper sets out the 2009/10 budget agreement and outlines some of the core policy and resource issues facing the council over the current business and budget planning round. This position provides the basis for taking forward the process of renewing the council's medium term resources strategy (MTRS) and agreeing the budget for 2010/11 and beyond.

2009/10 budget agreement

6. In December 2007, the government outlined the settlement for grant funding for local government for the period 2008/09 to 2010/11. The settlement was set within the context of the CSR 2007. In December 2008 the government re-affirmed the three year settlement and Southwark received the minimum increase in grant of 1.75% for 2009/10. This level of grant increase was set against a backdrop of continued upward demand pressures on key services across the council whilst continuing to meet local priorities.
7. Immediately following the announcement of the settlement for 2009/10, in December 2008 the Executive agreed a new MTRS that combined the financial priorities of the Council with those for asset management, information technology and workforce. The MTRS provided the Council with a sound basis and financial framework upon which to mitigate potential risks whilst continuing to support local needs and policy priorities.
8. In February 2009 Council Assembly agreed a budget for 2009/10 of £315.2m based on a nil increase in council tax (Southwark element) in line with policy priorities. In setting the budget resources have been aligned to priorities. Members have set out a number of policy and service improvement priorities in respect of regeneration, waste, housing, leisure/culture, children's and youth provision, and social care and health.
9. This approach includes continued commitment to long term schemes and projects as part of an ambitious regeneration programme across the borough, alongside directing resources to support projects that tackle worklessness and supporting local businesses through the recession. Agreeing the budget also required taking difficult decisions with regards to social care, which represents one of the most significant pressures impacting on local resources. Commitments of some £14.8m were agreed which arose principally from increased demand pressures and the additional strain being placed on services as a result of the economic downturn such as loss of interest earnings. Some commitments such as the additional operating cost of the new administrative centre were directly offset by efficiency savings as a consequence of moving to this centre.
10. The 2009/10 budget agreement included savings and efficiencies of some £17.3million. A significant proportion will be achieved through better use of resources. The scale of the Council's ambition and continued pressures on service will require close monitoring of savings and efficiencies to continue to ensure delivery and to provide early warning of any shortfalls. The impact of any difficulties in achieving these targets will be managed appropriately to avoid the risk of impacting on front line services.
11. Most importantly and underpinning the 2009/10 budget was the planned consolidation of office accommodation to a single site at Tooley street. This programme is on target to achieve business case objectives and will be a key platform for achieving further levels of efficiency across the council. This will be achieved through effective rationalisation and improvement of back-office delivery including the extension of shared support services, revised management structures and improved asset management.
12. Following agreement of the budget in April 2009 the Council agreed a new corporate plan thereby setting a clear policy and resource framework for the delivery of policy priorities.
13. The graph below shows the allocation of revenue resources across the Council's core functions for 2009/10 as agreed at council on 23rd February 2009.

Net Revenue Expenditure 2009/10



Impact of recession

14. After the council set the budget for 2009/10 the Audit Commission published a nationwide report entitled "*When it comes to the crunch*". This report highlighted the impact of the global recession as it is felt across public services and in particular indicated that there would be a 'second wave' with increased pressure on council services. As a result the report recommends that councils and the government build on the early work in responding to the recession to prepare for the future and expected recovery.
15. The Audit Commission report outlined a number of core risks and issues attached to the recession. One of the most visible signs of recession at the national level has been the increased unemployment rates. Average forecasts highlight that there will be some 750,000 more people registered unemployed by mid 2010 with unemployment not expected to fall markedly until 2012.
16. The Audit Commission have identified issues regarding debt for individuals and there is evidence that house repossessions are increasing at the national level. The Audit Commission are concerned that there are likely to be broader social issues as a consequence and these are yet to be fully felt. The Audit Commission also expect an increase in demand for school places, services for older people and homelessness. The council will need to closely monitor changes in the number of people who require additional support and the financial impact of providing this in order to direct and plan resources over the medium term.
17. The Audit Commission also found that the recession has generally strengthened partnership working at the local level. However, the variable impact on individuals, businesses and communities has meant there is a need to better improve how support is targeted. At the same time the Audit Commission outlined that the number of government schemes aimed at mitigating the recession and the delay between headline announcements and implementation

details have made it challenging for local partners to effectively track and plan how best to target support. Government should aim to clarify its strategy at the national level and ensure schemes are simple and quickly allow for local partners to fund, support and target intervention at local need.

18. The Audit Commission have also recognised councils' efforts to step up their efficiency programmes. The continued ambition of government efficiency targets for the sector to achieve 3% per annum moving forward will require these programmes to be sustained and developed still further to meet the challenges. Close monitoring will be required to ensure that delivery of these programmes is realistic while maintaining services at acceptable levels to meet statutory needs and performance targets. Programmes will increasingly need investment to generate any anticipated savings as projects become more complex. Opportunities from public and private sector relationships will need to be exploited wherever possible with an emphasis on achieving lower unit costs rather than expanding service provision.
19. More broadly, the report by the Audit Commission provides limited reference to the impact of the recession on regeneration and development schemes. These remain important issues for this council's longer term priorities and ambition. Market uncertainty is creating a slowdown in the development market and limited investment opportunities in the short term.
20. The council has already responded proactively to this developing and changing environment. For 2009/10 it has frozen council tax at 2008/09 levels in line with the retail price index (RPI) which continues to fall below the consumer price index (CPI). The council has continued to direct funding for tackling worklessness into specific projects. The council remains committed to support employment initiatives such as through the young apprenticeships scheme. Furthermore, in May 2009 the Executive agreed a number of initiatives to support business through various measures such as improved payment performance to assist the cashflow of small businesses.
21. The Council, like the majority of London boroughs, expects the recession to have a negative impact on council finances and financial planning. Inflation has fallen to a record low level although it remains uncertain as to the stability moving forward. Low inflation may reduce running costs associated with service delivery particularly where contracts do not track other price indices, but this also reduces the potential income receivable by the authority through fees and charges, and other contributions.
22. Inflation also impacts on the costs of staffing that remains the Council's most important resource. While as for general inflation this can help reduce council costs where salary tracks RPI, any pay awards in excess of RPI can create additional pressures on resources available. National pay negotiations have recently confirmed a 1% increase (1.25% for lower paid staff) for 2009/10 compared to a current RPI rate of -1.3% (this equates to a £4m variance on resources required).
23. Separately, the unprecedented recent low interest rates have had a significant impact on the value of return to the council from short term investments. A specific impact from the low rate of return on investment is the council's ability to meet its future commitments in relation to the costs of pensions. This will need to be quantified from the next actuarial review anticipated to take place during 2010/11.
24. The recession has had a direct impact on the Council's housing revenue account and rent setting process. On 27th January 2009, the Executive agreed an average rent increase of 5.86% for 2009/10 (below the national average increase of 6.2%), in accordance with the maximum rent guidance set by government. Subsequently, on 6th March 2009, the Minister for Housing announced a cut in the national guideline rent increase from 6.2% to 3.1% in response to the economic climate. CLG issued interim guidance to local housing authorities on 11th March, with a view to publishing definitive guidance in May. The late revision was after the council (and the majority of other authorities) had informed tenants of their original rent increases. The council will press for increased certainty at an earlier stage for next years' rent increase.

25. The Council implemented the lower rent increase of 2.73% (again under the national average increase of 3.1%) on the original due date of 6th April 2009. Tenant council endorsed the Council's approach to pass on the benefits of the lower rent increase as soon as practicable to do so.

KEY ISSUES FOR CONSIDERATION

2010/11 to 2012/13 general fund budget

26. 2010/11 represents the final year of the current CSR period for local government. Southwark's indicative increase in revenue grant for 2010/11 is at the minimum floor level of 1.5%. There is a risk that the government may revise the CSR as a result of the current economic conditions, and this could change the indicative settlement and, in particular, reduce the minimum funding guarantee. Such a change would have a significant impact on council resources as for every 1% percent reduction in grant increase the council could lose up to £2m of resources. No indication of changes to the 2010/11 settlement has yet been made by government.
27. For 2010/11 the council will receive grant funding at the "floor" (otherwise referred to as the minimum funding guarantee). As Southwark requires significant additional funding on top of that allocated directly by the formula to bring it up to the minimum funding guarantee if this is either reduced or, worse still removed, it could result in a significant shortfall in resources over the medium term. In fact, based on the 2008/9 three year settlement the council would have received some £65m less in government grant in the period to 2010/11 if there was no minimum funding guarantee. The main reason Southwark is in this position is as a result of the full implementation of formula changes for children and younger adults in social care introduced initially in 2006/7.
28. Officers, through relevant representative bodies, are continuing to lobby for changes to be made to the government's grant formula and to seek assurance on the determination of the "grant floor." In particular, the council continues to pursue the fair funding for Southwark campaign. This concentrates not only on issues arising from changes in the grant formula but also to discrepancies in population estimates and impacts of migration. Early indications suggest there are likely to be few changes or assurances made in the immediate future.
29. In looking forward to the three year planning round to 2012/13 the council is faced with a number of significant challenges – not least continuing to balance the budget, to meet rising demand pressures on services, sustaining the regeneration programmes and especially the Aylesbury project and delivering value for money outcomes. These challenges will need to be tackled in the context of uncertainty as a result of the economic climate and clear indications from government that funding resources to local authorities are likely to be reduced.
30. Many of the demand pressures facing the council are unavoidable including the critical areas of adult social care and child protection. The green paper *Shaping the future of care together* sets out a vision for the reform of adult care services in England. However, it offers no assurance of additional resources being made available in the short to medium term for local authorities to support an adult population of increasing complexity. Further, the recent Laming report places significant responsibilities for safeguarding children again without any indication of how additional funding may be sourced.
31. The recession creates a changed environment for the development and renewal market and this will have a significant impact of the council's major regeneration scheme priorities. A report was presented to the Executive on 21 July 2009 setting out the next phase in the Elephant and Castle scheme. The council continues discussion with the preferred development partner with a view to agreeing heads of terms. While the principles of the agreement entered into at best and final offer in July 2007 remain key to delivery, discussions are currently taking place in a different economic climate. Therefore plans will need to be re-shaped in order to better respond to the changed context and ensure delivery of priorities.

32. With regard the Aylesbury regeneration programme, milestones are currently being progressed for the first phase of the scheme and in light of the challenging economic climate will be monitored closely to ensure progression in line with priority outcomes and affordability. Furthermore the council has been invited to submit an outline business case by 2010 to receive PFI funding for future phases of the project. In taking this forward consideration of procurement and remaining project costs will need to be factored into the council's business and budget planning process.
33. The council has now entered into an agreement with Partnership for Schools and Transform to deliver the local building schools for the future programme. Currently plans have been set out for two schools with consideration still required for a further eleven schools across the borough. The ongoing revenue implications of such plans will need to be taken into account through the forward planning process. A report is due to be presented to Executive in November 2009 outlining a financial update on Phase 1 of the scheme. Further reports to Executive are expected in March 2010 for the award of the Phase 2 design and build contracts; and in June 2010 for the award of the combined Phases 2 and 3 PFI contracts.

Area Based Grant

34. The council currently receives £25.2m in area based grant for 2009/10. With the integration of supporting people grant of £18.7m, the rebased 2009/10 is £43.9m. In 2010/11 the expected allocation is £43.7m. Taking account of the integration of supporting people overall the level of area based grant has fallen by £0.2m from 2009/10 to 2010/11. It is unclear at this stage as to what the level and status of area based grant will be from 2011/12. This is likely to be addressed through the comprehensive spending review in autumn 2010. A concern relates to the potential for area based grant to be subsumed within general grant allocation and the possible impact on overall resources to Southwark.

Specific and unringfenced grants

35. The council will be receiving some £240m in specific and unringfenced revenue grant (£168m relates to DSG) from the government in 2009/10. However after 2010/11 (the third year of the current CSR) there is no certainty as to the level of these grants or whether some will continue in the future. This adds to the challenges of planning over the medium term.

Population

36. The Council continue to be concerned that there is a significant shortfall between Southwark's population and the population calculated by the ONS that is used for grant allocation.
37. The latest 2008 mid-year estimate supplied by the ONS gives Southwark's population as 278.0k, an increase of 3.6k on the previous year's estimate. However, this is not the figure that will be used for the 2009/10 grant settlement. Instead, CLG will use the Mid-year 2004 estimate as the base and project this forwards using past data. In using this 2004 depressed base position, CLG arrives at a population estimate for the 2009/10 settlement of 267.7k, some 12.7k below the 2006 based 2009 projection of 280.4k. Failure to use the most up-to-date information available means the councils resource needs are understated by some £6m.
38. The 2006 based projections were not published in time to inform the 2008/09 local government finance settlement, however the government's decision not to use the 2006 based projections in the 2009/10 and 2010/11 settlements will result in an approximate funding loss, before the operation of cost floors of over £16m, this taken with £6m lost in 2008/09 using the 2004 based projections, gives a total pre-damped grant loss over the life of the current three year settlement of over £22m. In addition to this lost £22m, it is estimated that at least a further

£18m had been lost in preceding years, giving a total of over £40m in pre-damped grant lost since 2002/03.

39. Southwark council is working closely with the ONS to bring forward improvements to the measurement of migration which includes for the first time a recognition of 'short term' migration in the borough (between 1-12 months). The council will continue to lobby for this hidden population to be recognised in the funding settlement and for the most updated population estimates to be used.

Social care funding

40. In April 2006 the government introduced a new approach to funding children and younger adults social care provision which resulted in a major redistribution of funding from London and the south-east to other parts of the country.

41. The introduction of the new formula in 2005 and removal of damping from the younger adults' relative needs formula in 2006 is estimated by London Councils to reduce London's funding by in the region of £890million over a three year period. This is a reduction in essential funding at a time when there is an obvious increasing demand for social care services in the Capital.

42. The council believes that there are fundamental flaws in the data used in and creation of the formula. Expenditure and activity on the ground in Southwark shows strongly that the younger adults' and children's social care formulae significantly understates real need in Southwark and similar kinds of authority. This means the council could have a shortfall of funding in the region of some £13 to £22m impacting across adult social care provision.

43. The council is joining other concerned authorities in a joint lobby of government to recognise the deficiencies in the relative needs formula and for either the reinstatement of damping to protect social care provision in the Capital or the use of more updated cost driver data in the formula.

Schools Budget and Dedicated Schools Grant (DSG)

44. The schools budget can be defined as planned expenditure to be made directly by schools together with amounts to be spent centrally on education. The amount spent directly by schools is determined through a local formula to produce what is known as the individual schools budget. The main block of funding for schools budget expenditure is received in the form of a specific dedicated schools grant. This grant is based on the number of pupils and a per pupil funding allocation. The 2008/09 – 2010/11 comprehensive spending review set the per pupil allocations for Southwark as follows:

2008/09	2009/10	2010/11
£5,755.83	£5,961.29	£6,200.27

This means a per pupil increase in funding of 4% in 2010/11

45. This increase provides for an increase in delegated school budgets of a minimum of 2.1% under the terms of the minimum funding guarantee (MFG). In coming to this guarantee, the Department for Children, Schools and Families (DCSF) has provided funding for an increase in schools' costs in 2010-11 of 3.1%, abated by 1% as schools' contribution to the delivery of the department's overall efficiency savings target. DCSF will provide a further increase in the funding per pupil of 0.8% as headroom to enable authorities to implement the MFG. The remainder of the increase in DSG funding receivable (i.e. equivalent to a further 1.1% increase in resources per pupil) is provided to assist authorities and their schools to support the universal roll out of a personalised offer to all pupils – including those with special educational needs.
46. The advice from DCSF is that in taking decisions on the allocation of these resources, local authorities and their schools forums should consider the Government's priorities: ensuring all children are making good progress; early intervention to prevent children from falling behind; targeted support for specific groups – certain ethnic minorities, white working class children, children in care and those with special educational needs; and ensuring that the school workforce has the skills and confidence to address the needs of children within these groups.
47. Other expenditure within the schools budget is funded through additional specific grants that include standards fund grant and school development grant. An important aspect of planning the schools budget is the consultation the authority is required to have with the schools forum. In the main the authority is seeking agreement on the formulae used to produce the individual schools budgets delegated to schools at the start of the year together with the basis of either devolving the remaining funds to schools during the year or being spent directly by the authority.
48. In particular, for 2010/11 there is a requirement on all authorities to consult their schools forum on the development of a common and transparent single funding formula for nursery education that applies across maintained and private, voluntary and independent (PVI) settings (from April 2010). Initial discussions have already been had at Southwark's schools forum and an FEEE (free early education entitlement) steering group has been established tasked with developing proposals and reporting both to schools forum and the early years strategic partnership. It includes nominees from the schools forum, representatives from the private and voluntary sectors, parents, childminders and council officers. The steering group has now met four times and developed interim proposals for the direction. These will be used as the basis to develop more detailed costed options for formal consultation with the schools forum and other interested parties during the Autumn Term 2009. These proposal will then need to be formally agreed by the authority in late 2009 early 2010
49. On the 31st January 2008 the government launched the review of the formula for distributing dedicated schools grant (DSG). The aim is to develop a single, transparent formula that will be available for use in distributing the DSG to local authorities from 2011 to 2012. The development phase of the review started in February 2008 and will continue until late 2009, with consultation on specific proposals in early 2010. It is expected that broad decisions from the review will be announced in summer 2010
50. In previous years schools budget funding for 16-18 year olds has previously been allocated through the Learning and Skills Council (LSC). However proposals within the Apprenticeships, Skills, Children & Learning Bill currently moving through parliament mean that from 2010/11 the LSC will cease to exist and local authorities will take on responsibility for securing education and training for all 16 to 19 year olds, giving them the responsibility and duty to deliver for all children and young people from 0 to 19. This change in function will involve the transfer of a number of staff from the former LSC to Southwark. The detail of how Southwark will be compensated for the additional costs of this transfer of function is still to be announced.

51. Schools balances remain a concern for the government at this time with balances nationally continuing to rise. While the government decided to put on hold new legislation that would have forced local authorities to recover and redistribute excessive balances, there is a risk that the government may take action to reduce balances under the next spending review particularly if it appears that local authorities continue to indicate that they are not taking action themselves to manage balances effectively. Work is currently being undertaken with schools in Southwark to identify how much of current schools balances can be deemed as being committed/uncommitted.
52. Officers presented a report to the schools forum on 1st October on those schools holding 'excess' balances as at 31st March 2009 as defined by DCSF (i.e. balances of over 5% of budget share for secondary schools and of over 8% for primary schools). The forum fully supported the authority's proposals for scrutiny of the balances held by these schools and has agreed to receive a further report at its meeting in December. The Forum has indicated its support for any proposal that the authority might make for the reallocation of excess balances where these cannot be justified.

Capital

53. At a current total budget of some £811m (general fund £451m and the housing investment programme £360m), with annual expenditure of well over £100m per annum, the capital programme represents a major element of the Council's financial activities. It has a significant and very visible impact on the borough, and hence on the lives of those who live, learn, visit or do business here.
54. The global recession is inevitably having an effect on the Council's capital programme on a number of fronts. Land and property values have generally fallen over the last 2 years. The radically reduced interest rates on investments available to the Council have had an adverse effect on the authority's investment income. The current uncertainty of property values will affect planned capital receipts and therefore resources available to fund the programme. This in turn may reduce the level of resources needed to address the emerging pressures so represents a key financial risk in resourcing the capital programme moving forward.
55. In addition to the adverse effects of the economic climate which is impacting on the timing of disposals to generate funding resources and their value, there are a range of new and emerging pressures on the capital programme that need to be addressed. These include
- Leisure centre refurbishment costs
 - The construction of the waste PFI resource park in the Old Kent Road
 - New primary school build and increased primary places (with possible grant support)
 - ICT infrastructure and service improvements
 - Localities project opportunities
 - Community based development (e.g. Burgess Park; Camberwell Baths, Nunhead).
56. In September 2009 the Executive noted the new and emerging pressures on the capital programme arising from issues of service demands, the recession, and the impact on the pace of regeneration schemes, and requested the Finance Director to submit a refreshed 10 year capital programme for approval to a future Executive meeting.

Housing Revenue Account

57. The Housing Revenue Account (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.

58. The 2009/10 HRA rent setting and budget report was approved by the Executive on 27th January 2009, following consultation with Tenant Council and Area Housing Forums. The effects of the housing subsidy settlement, combined with inflationary pressures and unavoidable commitments totalled £23.6m. This was balanced by a range of measures, including increases in all rents and service charges, improved collection and voids management and a re-balancing of resources between revenue and the Investment programme. Annual efficiency savings in line with corporate guidance on the general fund at 5% were delivered through revised and more efficient working across housing services, together with contract and supply chain improvements. Re-profiling and re-direction of resources also allowed increased spending in high priority areas, such as repairs and maintenance.
59. For 2010/11 and beyond, the existing financing framework offers little prospect of increased central government resources. The HRA will continue to be under financial pressure to meet the needs of maintaining and improving the housing stock as resources are constrained at or below existing levels. Government effectively operates control over rent policy through the rent restructuring regime and claws back rent resources by more than is generated by the annual increase applied to tenant's rents. To ensure a balanced HRA budget requires a progressive programme of efficiency savings, cost reductions and income maximisation across all income streams.
60. The government's recent proposals, to dismantle the housing subsidy system, represents a radical change to council housing finance. The introduction of 'self-financing' means national subsidy redistribution ceases and local authorities fund their management and maintenance needs through their retained rent receipts, but with a 'debt' adjustment (based on notional affordability). The key element in determining whether it is financially viable for individual authorities will be the amount of the national housing debt assumed for redistribution purposes and the methodology employed to redistribute that debt. CLG have put forward a number of options as part of the consultation, but no authority specific figures are available at present. The council has made representations about these proposals and sought clarification about how this would impact on Southwark.
61. On a positive note, the government's own research recognises the need to increase spending nationally on the housing stock, with proposed uplifts in management and maintenance of 5% and major repairs of 24%. Whilst this is to be welcomed, there are as yet no details on how the increased spending assumptions would breakdown between authorities and using the proposed 'net present value' only ensures affordability on average over 30 years, not necessarily in year one, therefore the prospects in the short-term remain uncertain.
62. Other important proposals include the retention and strengthening of the HRA ring-fence and the introduction of a "who benefits, pays" ethos for both tenants and council taxpayers, which could potentially impact on the allocation of costs between the HRA and general fund. It is also proposed to abolish the current RTB capital receipts pooling arrangements with authorities able in future to retain all RTB receipts for housing investment purposes.
63. The timescale for changes is 2012/13 or possibly a year earlier if widespread consensus can be reached amongst authorities, avoiding the need for primary legislation.
64. The HRA rent setting and budget report will be considered by the Executive in January 2010, following consultation with the Tenant Council.

Use of Resources

65. On 1 April 2009 the Audit Commission introduced the new Comprehensive Area Assessment (CAA), which replaces the Comprehensive Performance Assessment. The CAA focuses on the delivery of partnership priorities across an area, how such priorities address local needs and the prospects for future improvement (as expressed through *Southwark 2016*).
66. The CAA is made up of an area assessment focused on partnership activity and an organisation assessment that focuses on how on council delivery of outcomes. The organisational assessment includes an assessment on the use of resources and managing performance. The area assessment is not scored, but the organisation assessment will result in a score out of 4.
67. The assessment process for use of resources has changed substantially with the introduction of the CAA this April. The use of resources is made up of judgements on managing finances (including cost efficiencies and value for money), managing the business (including governance, commissioning and procurement, information management and quality and internal control) and managing resources (including sustainability, assets and for introduction in 2009/10, workforce planning). This makes any comparison with previous scores for use of resources misleading.
68. The council is still awaiting final confirmation of outcomes from this year's use of resources assessment. However, the Audit Commission have widely signalled their intention to apply an "even harder test" standard to this year's assessment. Therefore there will be a significant challenge for many authorities in "maintaining" scores and, similarly, an assessment at level 3 will need to show "sustained and consistent achievement in outcomes". In moving forward beyond the assessment the council will need to demonstrate and evidence continued improvement in the use of resources. This will particularly include strengthening the MTRS to demonstrate how priorities are being delivered through the effective management of total resources.

Medium Term Resources Strategy

69. In December 2008 the council agreed for the first time a medium term resources strategy (MTRS) that combined the financial priorities as set out in the medium term financial strategy with plans for asset management, information technology and workforce. In delivering the MTRS the council aims to ensure best use of limited resources for maximum gain both in performance and in achieving value for money and local priority outcomes. The MTRS supports the broader partnership ambition of the local area agreement and *Southwark 2016*.
70. There are a number of important factors that necessitate the refreshing of the MTRS at this time, the majority of which are highlighted in the report above. In particular the continued uncertainty of future funding from government alongside the sustained impact of recession on council services and income streams requires the council to place a heightened emphasis on achieving value for money outcomes despite the challenges created by the current economic climate.
71. To this end an amended MTRS is attached to this report (appendix a) to begin the refresh process. The updated MTRS represents work in progress, not least because of the issues highlighted in this report. The council will need to continue to update the MTRS to ensure that they continue to respond to the impact of the recession on council services and delivery.

Community Impact Statement

72. This report sets the context for the business and budget planning round for 2010/11 and beyond. No decisions have yet been taken as a result of the issues arising from this report therefore there is no direct community impact at this stage. It is, however, recognised that in drawing up proposals for the budget the impact on the community of any potential change in service design, outcomes or access will need to be addressed and identified.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

73. The council has obligations under Section 32 of the Local Government and Finance Act 1992 to calculate and agree an annual budget. The matters contained in this report will assist in the future discharge of that obligation.

BACKGROUND INFORMATION

Background Papers	Held At	Contact
Policy and resources strategy and budget working papers	Town Hall	Cathy Doran, extension 54396 Stephen Gaskell, Extension 57293

APPENDICES

No	Title
A	Medium term resources strategy

Audit Trail

Lead Officer	Duncan Whitfield, Finance Director	
Report Author	Cathy Doran, FMS Stephen Gaskell, Corporate Strategy	
Version	Final	
Dated	8 th October 2009	
Key Decision?		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	Comments Sought	Comments included
Strategic director of communities law & governance	yes	yes
Finance director	yes	yes
List other Officers here	-	-
Executive Member(s)	yes	yes
Date final report sent to Constitutional Support Services	October 12 2009	

MEDIUM TERM RESOURCES STRATEGY

2010/11 TO 2012/13

Appendix A

MEDIUM TERM RESOURCES STRATEGY (MTRS): 2010/11 -2012/13

Contents

Section 1

Introduction and aim of the MTRS

The Medium Term Resources Strategy

Section 2 - Supporting plans and strategies within the MTRS

Medium term financial strategy

Asset management plan

Information services strategy

Workforce strategy

Appendix A

The aim of the MTRS

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

- *ensure best use of limited resources for maximum gain both in performance and in achieving value for money to deliver local priority outcomes.*

Context

Southwark 2016, the sustainable community strategy sets out the long term vision with partners for improving outcomes for people, places and delivering quality services. Effective partnership arrangements underpin the delivery of the vision for the borough. Southwark's Local Area Agreement acts as the key action plan for delivery of Southwark 2016. The corporate plan highlights the council's key objectives over the medium term for supporting delivery of Southwark 2016 and achieving value for money outcomes.

The council has set clear priorities for the future in supporting Southwark 2016, to make the borough one of the best in the country, a place that people are proud to live in. The effective and efficient management of resources through the MTRS is central to delivering that ambition.

The MTRS sits alongside the corporate plan and sets out the key council objectives for delivery.

The MTRS aligns financial priorities of the council with key strategies for asset management, human resources and information technology to deliver local priorities. The MTRS facilitates the maximisation of resource opportunities in order to achieve long-term policy outcomes. The MTRS will therefore further embed the achievement and improvement of value for money outcomes.

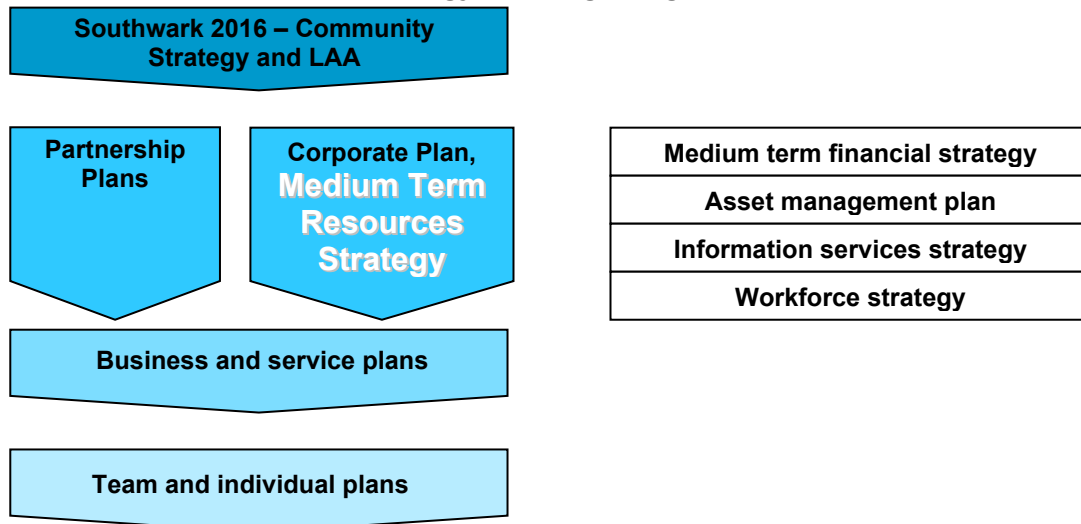
Key priorities

The key priorities of the medium term resources strategy are:

- To achieve excellent and robust resource management across the council
- To sustain a value for money culture and secure continued delivery of outcomes through effective business and budget planning, monitoring and challenge
- To ensure equalities and sustainable outcomes are achieved through effective resource and performance management
- To deliver, through excellent financial management, the effective and efficient use of resources and maximisation of resource opportunities in order to achieve long-term policy outcomes
- To align the capital programme with the council's asset management plans
- To target investment in information technology to achieve medium term efficiency through modernisation and modern ways of working
- To deliver sound governance and accountability in respect of all council resources and assets
- To make investment and disposal decisions that are based on option appraisal and whole life costing
- To manage resources to effectively recruit, retain and develop the right staff to deliver efficient and high quality services to our community

Appendix A

How the medium term resources strategy is brought together



The MTRS comprises of:

- The medium term financial strategy or MTFs.

The MTFs sets out the financial priorities of the council. The MTFs sets out the financial remit within which the council business plans are developed and agreed.

- Asset management plan or AMP.

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

- Information services strategy.

The information services strategy sets out the strategic approach to the development of information and communications technology within the council, based on delivery of value for money outcomes against three core priorities of Keeping Services Operational (KSO), Enabling Organisational Modernisation and Underpinning Future Success. It has been updated for the 2009-12 period to reflect the rapid changes taking place across the council, as well as the possibilities being offered by changes in information and communication technology. While many of the KSO activities are underpinning and not immediately visible, Southwark became this year the first council in London to achieve accreditation for Government Connects, allowing secure electronic data exchange with central government. The council is committed to a major programme of modernisation and improvement, known as Modernise, much of which is enabled by the application of information technology in the workplace. Significant elements of Modernise have been completed successfully with the move of 2,200 staff into purpose-built offices in Tooley Street, supported by IT that enables hot-desking, near-paperless-working, mobile working, and occasional home working. As the four-year IT Strategy rolls out, further, IT-enabled improvements in council operations will be seen.

- Workforce strategy.

The workforce strategy sets out how the council will recruit, retain and develop the right staff to deliver efficient and high quality services to our community. It is based on five key themes of: recruitment & retention, pay & reward, skills development, leadership and organisational development. The workforce strategy supports the delivery of the modernisation and improvement programme to ensure the council continues to have a fit for purpose workforce with the right balance of skills to achieve continuous service improvement and value for money outcomes in delivery.

Appendix A

Use of Resources

On 1 April 2009 the Audit Commission introduced the new Comprehensive Area Assessment (CAA), which replaces the Comprehensive Performance Assessment. The assessment process for use of resources has changed substantially with the introduction of the CAA this April. The use of resources is made up of judgements on managing finances (including cost efficiencies and value for money), managing the business (including governance, commissioning and procurement, information management and quality and internal control) and managing resources (including sustainability, assets and for introduction in 2009/10, workforce planning).

In moving forward beyond the assessment the council will need to demonstrate and evidence continued improvement in the use of resources. This will particularly include strengthening the MTRS to demonstrate how priorities are being delivered through the effective management of total resources. This process has begun with this initial refresh of the MTRS and will continue with the progression of the business and budget planning process.

The MTRS will be kept under annual review to ensure continued fitness for purpose in meeting the overall aim of ensuring **best use of limited resources for maximum gain both in performance and in achieving value for money to deliver local priority outcomes**. Monitoring of the priorities within the strategy will be achieved through the regular business, and revenue and capital reports that are presented to Executive.

Appendix A

Section 2 – supporting plans and strategies

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

Key priorities

Financial Management

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

Value for money and the management of performance

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

Reserves, balances and central contingency

- To present balanced budgets year on year without recourse to reserves and balances except for specific earmarked projects
- To maintain a central contingency at a sufficient level to cover demand pressures that are volatile, difficult to predict or unforeseen at the time the budget is set
- To maintain reserves and balances at a level sufficient to manage the potential risks and opportunities of the organisation.
- To target an increase in general fund balances to £20m over the course of medium term, in line with similar organisations in London
- To maintain appropriate earmarked reserves to mitigate risk and smooth cost pressures arising from major council projects and priorities, not least regeneration and development and modernisation and service improvement. To facilitate this any money received from relevant short-term funding streams (e.g. Local Authority Business Growth Incentive) be allocated to reserves to meet the implementation costs of major projects

Appendix A

Savings and efficiencies

- To produce a prioritised range of efficiency and other savings options for each year totalling up to 5% of the council's net budget requirement for approval
- To deliver an annual programme of efficiency savings of at least 3% of net service budgets, in line with Government targets and within the overall 5% target
- To invest to save on the basis of sound and robust business cases
- To return all windfall benefits not planned within base budgets to central resources for corporate allocation in line with strategic priorities
- To continually review the extent and costs of discretionary services being provided in the context of service priorities and resources available, to set out options for the cessation or reduction of expenditure on these services which are not of a high priority

Income and investments

- To maintain council tax increases within inflation levels over a medium term planning horizon
- To protect and enhance the level of formula grant and specific grant entitlements from year-to-year
- To maximise external funding opportunities whilst ensuring the continuance of and further investment in key priorities
- To maximise the council's income generation by seeking income streams in line with council policies and priorities
- To increase discretionary fees and charges to a level, at a minimum, that is equal to the most appropriate London average (e.g. inner London, family, groupings etc) except where this conflicts with council policy, would lead to adverse revenue implications or would impact adversely on vulnerable clients
- To increase all fees and charges capped by statute to the maximum level the cap allows
- To increase housing rents by the government guideline and progress towards the formula rent target by 2011/12
- To secure increased funding levels of the pensions fund over time to achieve 100% funding within period recommended by actuaries

Capital Programming and strategic projects

- To align the major strategic projects into mainstream capital programme
- To exploit opportunities afforded through the regeneration programme, including setting a target for capital receipts from regeneration projects to support the council's future capital programme
- To build and sustain appropriate capacity and expertise to plan and implement major capital projects
- To profile capital schemes realistically over their lifetime and apply full whole life costing principles to all major capital projects including investment and disposal decisions
- To establish over the medium term sufficient lifecycle maintenance provision for the council's fixed assets where the assets are essential for service delivery and it is cost effective to maintain them in line with the council's asset management plans
- To review uncommitted budgets within existing approved programme annually and reprioritise as necessary
- To identify, review and select the procurement strategies and partnerships arrangements (where appropriate) for all major capital projects
- To maximise and accelerate programme of capital receipts ensuring best consideration and due regard to service provision, in line with the asset management strategy and to obtain best value from the disposal
- To maximise potential from planning gains and associated benefits in accordance with agreements and strategic priorities while at the same time evaluating the opportunity costs of taking these gains and benefits
- To use capital receipts as the preferred source of funding for the capital programme

Appendix A

- To pool corporately all capital receipts without any specific earmarking unless so directed by the Executive
- To use prudential borrowing where the business case is agreed
- To use the Cleaner, Greener, Safer budgets through the Community Councils to fund service investment needs where appropriate
- To maintain a capital contingency reserve (£5m) to fund urgent and unavoidable works, including health and safety and DDA works – release of these funds to be subject to the prior approval of the Finance Director in consultation with the Executive Member for Resources
- To maintain a base capital provision for annual recurring expenditure on highways and street lighting infrastructure of £5m and Cleaner Greener Safer schemes of £3.25m – schemes of works to be submitted to the Finance Director for prior approval on an annual basis

- **Governance and partnerships**
To regularly review the financial regulations and contract standing orders to ensure their robustness and continued suitability in order to safeguard the council's assets, maximise its resources and ensure value for money
- To achieve a resources strategy that will in partnership with key stakeholders maximise the benefit to the wider community
- To ensure effective governance arrangements for all partnership agreements relating to the shared use of resources are in place
- To maintain a risk register for joint risks of these partnerships
- To optimise the opportunities for efficiencies afforded by improved partnership working and shared services
- To ensure, in consultation with our partners, that the decisions on the allocation of area based grant continue to meet the policy objectives of the council over the medium term

Appendix A

ASSET MANAGEMENT PLAN

Context

Southwark Council is a major inner-city landowner. It holds these assets in order to make a positive contribution to service delivery performance, and through this ownership it has a significant impact on the quality of domestic and working life across the borough. As the landlord of 40,000+ dwellings, 10,000+ residential leaseholds and more than 5,000 other interests including commercial, industrial, and operational property the council owns in the region of half of all the freehold land situated within its boundaries.

The aggregate value of these interests is £3.5billion. Approximately 96% of this value is concentrated in operational assets (primarily housing stock). The remainder is invested in shops, business premises and other non-operational properties to produce an annual rental income of £10.3 million. A number of properties that are no longer appropriate to the council's portfolio will be released into an ongoing disposal programme to assist in the funding of the council's capital investment programmes.

The council's property portfolio is key in driving forward efficiency savings, improving services, and in raising our organisation's capacity to respond fully to the challenges of the present, and in the future. The size and diversity of the council's portfolio, coupled with the transformation of local property markets over the past decade, today provides Southwark with real opportunities to deploy its asset base to secure sustainable benefits for its whole community by participating as a key player both locally, and at regional level.

Understanding the dynamics and strategic potential of our asset base is a key part of understanding how Southwark Council can realise its corporate ambitions of improving life chances and achieving value for money outcomes for its whole community. This is a challenging proposition that must respond fully to the borough's complexity and its diversity of people and place, in order to determine how the property estate should be aligned in support of the services that are geared to delivering the change for the better to which the council and partners aspires.

Key priorities

- A corporate portfolio that is appropriate, fit for purpose and affordable;
- Successfully managing operational demand for corporate accommodation arising from restructuring across the organisation and the ongoing drive to modernisation;
- Driving forward the consolidation of property management arrangements at strategic and operational levels, including accommodation budgets;
- Maintaining a sustainable corporate estate and preserving its inherent investment and utility value through comprehensive facilities management arrangements;
- Delivering challenging capital receipt targets whilst maintaining best consideration principles and balancing revenue requirements;
- Finalising and implementing a comprehensive and sustainable strategy for community premises, underwritten by sound asset management practices;
- Preparing a new administrative building for occupation in 2009, and managing a corresponding exit and reallocation strategy around the buildings to be released;
- Responding to changing demand for property services from all parts of the organisation; balancing those demands against resources available;
- Evolving our strategic approach for investment assets and for Voluntary and Community Sector

Appendix A

premises;

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

Appendix A

INFORMATION SERVICES STRATEGY

Context

A strategic approach to the development of information and communications technology, now more often referred to simply as 'information services', is essential if the council is to deliver its corporate aims as set out in the corporate plan and Southwark 2016. At the same time, the council needs to achieve the best possible value for money from its information services expenditure. The council needs to ensure information services support the improvement of the management of information in line with the key principles underpinning better data quality.

The council has committed itself to a major programme of modernisation, much of which is enabled by the application of information technology in the workplace. The future success of our organisation as a whole will be underpinned by the effective exploitation of information and communication technology, wherever it will enable us to provide excellent services that achieve value for money to the residents of the borough.

The council's prior ICT strategy was created in 2006 to cover the period up to the end 2009, but it was a mark of both the pace of change of technology and of the organisation's rapidly evolving business requirements that this strategy had to be updated ahead of time. The new strategy, approved by members in Jan 2009, covers the period to the end of 2012. It focuses on maximising efficiency in the delivery of essential services, and on supporting the council's modernisation and improvement programme, including the move to Tooley Street, adoption of modern ways of working, and the wider adoption of technology-enabled flexible working practices. Judicious investments in ICT are seen as vital in enabling the council to meet the financial challenges it is facing, by unlocking efficiencies, value for money and quality in service delivery. The strategy will be kept under regular review, to ensure that it keeps pace with evolving organisational needs and improvements in technology.

Key priorities

There are three key priorities underpinning the development of the information services strategy are:

- **The Successful Delivery of Operational Services**

The all-pervasive use of computer and communications technology in the organisation means that a reliable, effective information service is essential to both front-line service delivery and the supporting administrative functions. This capability has to be maintained and updated if it is to function properly, and requires both expert support and continuing investment.

- **The Achievement of Organisational Modernisation**

The council's modernisation strategy is essential to achieving efficiency improvements, and has many facets which depend on the successful introduction of new technology. For instance, the introduction of 'modern ways of working' from 2009 will bring together currently dispersed back-office staff onto a single site, and will involve:

- hot-desking - so that staff can be accommodated using less office space than in the past
- near-paperless working, based on information being captured, stored and shared over the network, and managed throughout its life in electronic form
- occasional home-working - which cuts down on unnecessary travel, enhances productivity, and contributes positively to work-life balance
- mobile working - which lets staff complete operational tasks without returning to the office

Appendix A

Throughout the modernisation agenda, the effective use of technology – along with change management, process redesign and training - is fundamental to achieving improvement.

- **The Underpinning of Future Success**

Technology continues to develop rapidly, and will make an increasing contribution to organisational efficiency and effectiveness in the future. Southwark is committed to exploiting technology to the advantage of its citizens, wherever the resulting business benefits are justified by the investments required, and wherever the organisation's needs to deliver service excellence dictate. The potential that technology offers to achieve efficiency savings (while always being matched with the 'people' and 'process' elements) is considerable, and is of the highest importance to the organisation's future. The technological developments that will enable future success are outlined within this strategy.

For further information and the detailed action planning refer to **Southwark's information Services Strategy**.

Appendix A

WORKFORCE STRATEGY

Context

Southwark's workforce plan was comprehensively reviewed in 2008 leading to the production of Southwark's workforce strategy. This explains how we will recruit, retain and develop the right staff to deliver efficient and high quality services to our community. Linked to the corporate plan and aware of external drivers, the strategy looks at 5 key themes; recruitment & retention, pay & reward, skills development, leadership and organisational development. The strategy will be reviewed annually. Whilst ambitious in our aims, Southwark has firm foundations in people management. The council invests heavily in learning and development and has achieved re-accreditation of our iIP status across its workforce in 2009, achieving bronze status. The current performance management scheme has been in place since 1999/2000. The council has comprehensive and robust HR policies and procedures.

The organisation has recognised the importance placed on changing the shape and make up of its workforce. Using initiatives such as "modernise" and efficiency reviews has created significant challenge, in the medium term, to both the type and numbers of staff employed and the structures and processes they operate under. The drive for efficiency will have a major impact on Southwark council employment. All business activities will be reviewed, including the need for agency staff, and management structures streamlined. We will look at what is done, how and where this will be achieved, who is employed and the skills and knowledge required to deliver the council's business. The council's accommodation strategy supports this programme, with the major relocation to modern accommodation at 160 Tooley Street in summer 2009 being a key driver.

Engaging managers and staff in this process will be vital and the council will make use of existing consultation processes, (e.g. the trade unions and special staff groups for disabled employees, BME employees etc), and new communication routes; on line surveys, IT developments for collaborative working and engagement. Specific resources have been put in place within the modernisation programme for a broad and comprehensive internal communications strategy and for a special training programme to assist in the successful delivery of this complex change. Staff survey results indicate this process is proving successful in reaching staff and obtaining employee engagement.

To achieve the council's objectives, as set out in the corporate plan, recognising the national context and local influences, Southwark must ensure that there are sufficient numbers of staff delivering services. These employees must have the right skills, knowledge and commitment to meet the changing needs and expectations of the community. The workforce will be efficient, well supported and led, reflect the population they serve, enjoying appropriate conditions of employment in a modern working environment.

Key priorities

Our workforce strategy is grouped under five key priority themes:

- **Recruitment & Retention**

Ensure the organisation attracts, develops, motivates and retains staff of sufficient numbers and talent to deliver ambitious aims

- **Pay & Rewards**

Deliver a total reward package which is fair, modern, affordable and what people want

- **Skills Development**

Appendix A

In a multi-agency environment, develop people's skills and knowledge so that they enjoy productive careers and deliver innovative, high performing services

- **Identifying & Developing Leadership Capacity**

Employ and build leaders who can demonstrate the courage, energy and capability to deliver organisational goals and work in partnership with others

- **Organisational Development**

Manage change to establish a modern learning organisation that welcomes innovation and embraces new ways of working

The workforce strategy will be supported by a HR infrastructure that encourages modernisation and supports ambitious people management objectives, delivered through action planning.

For further information and the detailed action planning refer to **Southwark's workforce strategy**.