

<b>Item No.</b>	Classification: Open	Date: 13th November 2007	MEETING NAME EXECUTIVE
<b>Report title:</b>		<i>Policy and Resources Strategy 2008/09 to 2011/12 – Refreshed Medium Term Financial Strategy 2008/09 to 2011/12</i>	
<b>Ward(s) or groups affected:</b>		N/A	
<b>From:</b>		Finance Director	

## RECOMMENDATIONS

1. The Executive:
  - i. Approve the refresh of the four year Medium Term Financial Strategy (MTFS) (Appendix A).
  - ii. Note the headlines from the Comprehensive Spending Review 2007 (CSR07).
  - iii. Instruct the Finance Director to report back to the Executive at its meeting on 11 December 2007 on the Local Government Settlement for 2008/9.
  - iv. Instruct the Finance Director to continue the lobbying campaign on the underestimated population and lost resources.

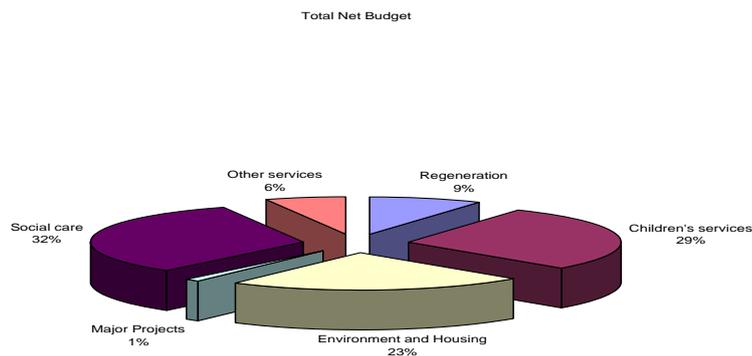
## BACKGROUND

2. In September 2006 the Executive approved the Medium Term Financial Strategy for the period 2008/09 to 2011/12. This strategy set out the clear financial remit within which the business plans were developed and agreed.
3. This report is seeking Executive approval to an updated (refreshed) four year MTFS in context of information best available at this time. The updated strategy specifically attempts to align the financial priorities of the Council with those set out in Southwark 2016, our Local Area Agreement and the Corporate Plan. Delivery of these priorities is assessed externally through CPA, including the Use of Resources.
4. In particular the strategy addresses all of the key financial issues in respect of reserves and balances, revenue and capital expenditure and funding, income and debt management, asset management, performance management and governance and efficiency. It also takes into account external influences not least government grant funding and capping arrangements.

## REVENUE

5. On 21st February 2007 Council Assembly set a balanced general fund revenue budget of £292m for 2007/08 with a 3.9% increase in the level of council tax for Southwark's element only. Government grant increased by 2.7% and funds almost 72% of the council's net revenue budget, the remaining 28% coming from council tax. The table below shows the allocation of resources across the council's core functions for 2007-08.

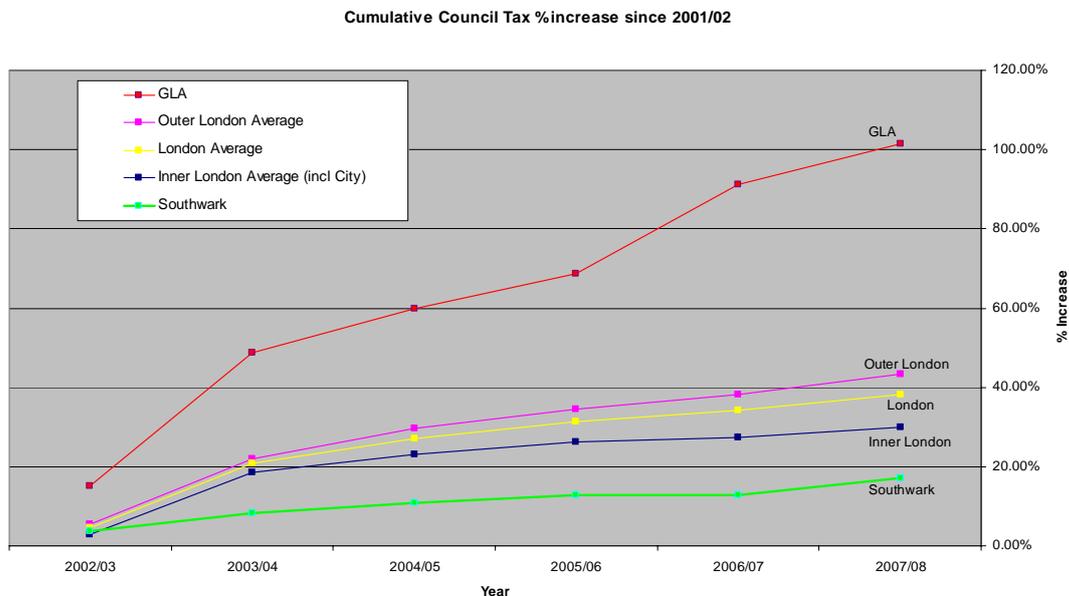
## Net Expenditure 2007/08



6. The above excludes expenditure through specific grants. In particular it excludes all expenditure on Schools (circa £167m), which is now funded through a specific grant (the Dedicated Schools Grant).
7. The figures above included inflationary and unavoidable demand pressures of £15.3m. The unavoidable demand pressures are within health and social care & waste management. Inflation pressures in local government are running at an average of 3.3%.
8. Growth amounting to £800,000 was also agreed across a range of council priorities. This included £360,000 for planning, £116,000 for licensing enforcement, £70,000 to replenish book stock in our libraries, £109,000 to tackle domestic violence and hate crime and £145,000 on parks and leisure.
9. Savings total £10.4m in 2007/8, again representing ambitious targets. £5.7m of this figure are general efficiency gains across the range of Council services including £0.8m across children's services; £1.1m within adult social care; £1.3m across environment services, £0.3m within the regeneration department; and £2.2m across strategic and corporate functions.
10. Increasingly these targets are being stretched and are further extensions to savings and efficiencies that have been incorporated in previous years' budgets (£38m since 2003/04). While officers remain committed to meeting these targets, they become increasingly challenging and therefore the associated risks increase. Close monitoring will continue to ensure their delivery and to provide early warning of any shortfalls. However, the impact of any difficulties in achieving these targets will need to be managed appropriately to avoid the risk of impacting on front line services.
11. In 2007/08 Southwark was awarded a 7% per pupil increase in dedicated schools grant which equates to a cash increase of £7.9m.

## Council Tax

12. Council Tax setting needs to be viewed in the context of the unavoidable demands, priority pressures and inflationary increases faced by the council. The Government limits the amount that can be raised in Council Tax through the capping regime. Currently it is estimated that the capping limit will be at a maximum of a 5% increase, though the Government have intimated they expect increases to be significantly below this. The council will therefore have a choice over the level of the council tax increase up to the 5% capping limit. A 1% increase in Council Tax generates an additional £760,000 of resources.
13. The council has a history of low council tax increases in recent years and has committed to low increases within inflation levels for the foreseeable future. For financial planning purposes, it is assumed that Council Tax increases over the medium term will be at general inflation levels (RPI).
14. Southwark's Council Tax has only increased by 13% in the last five years. This is significantly lower than the average London increase over the same period of 32.3%. The graph below shows how Southwark's increases since 2001-02 compare with the rest of London.



### How did we get there – 2003/04 to 2007/08

15. Nationally and locally, expectations on service quality have risen in recent years. The Council have prioritised cleaner, greener, safer as key policy themes. At the same time there has been upward demand pressures on key services such as health and social care, which are particularly prevalent in an inner London Borough such as Southwark. Over the last five years the Council has funded growth and commitments totalling an additional £60m, including £7m in 2007/08 alone. Resource growth has been directed across services in accordance with policy priorities and upward budget pressures within environment & housing, health and social care, regeneration and modernisation.
16. An additional £31m has been “passported” to Education up to 2005/06 and this was further supplemented by an additional £18.2m growth through the DSG in 2006/07 and 2007/08. Schools balances have accumulated to £11m.



25. At least £5bn of former specific grants and LAA ring-fenced grants will be given in the form of general grants, giving councils additional flexibility. This will become clearer after funding details are announced in December. This is not new money but a re-designation of existing resources. LAA grant will be replaced by Area Based Grant (ABG). However, a note of caution must be expressed at this time as no detail has been given on how the individual authority allocation of this new amalgamated grant will be made.

### **CSR07 – National Effect on Services**

#### 26. Children, Schools and Families

- Education spending to increase by almost 20% over next 3 years
- £400m per annum by 2010/11 for teacher-led one-on-one support for children falling behind in Maths and English
- £217m per annum by 2010/11 to support access to two hours a week of free extended services for pupils in care or eligible for free school meals, plus two weeks of free part-time holiday provision.
- £200m to accelerate capital programme for primary schools
- 3,500 sure start children's centres by 2010
- Free childcare entitlement extended from 12.5 hours to 15 hours per week.
- £35m to improve access to childcare and £280m to help pay for short breaks for severely disabled children.
- Cashable efficiency savings of £4.5bn are required across the full range of DCSF spending by 2010/11.

#### 27. Health

- NHS to receive 4% real term growth, funding for local government only 1% increase in real terms.
- Direct funding of adult social care will increase by £190m to £1.5bn by 2010/11.

#### 28. Transport

- £16bn funding settlement for Crossrail, made up of ;
  - £5.3bn from government
  - £5.3bn from Crossrail fare payers
  - £5.3bn from London businesses, including SBR levy
- £212m for national extension of freedom pass schemes
- More authorities considering congestion charging.

#### 29. Waste and Environment

- Additional PFI funding for sustainable waste management options, rising from £280m in 2008/09 to £700m in 2010/11.
- £370m Environmental Transformation fund announced.
- An additional £150m in landfill tax will be collected by government in 2008/09, the government has stated that this will be returned to local government, but unclear from CSR how this will be done.

## Population

30. The Council is concerned that there is a significant shortfall between Southwark's actual population and the population calculated by the ONS that is used for grant allocation. Southwark, in partnership with Lambeth and Lewisham, have commissioned consultants to review this position and the results confirm that Southwark's population, as estimated by the ONS, is understated by at least 10,200 and as a consequence some £18m in pre-damped grant may have been lost to Southwark.
31. The latest 2006 Mid-year estimate supplied by the ONS gives Southwark's population as 269.2k an increase of 5.2k on the previous year's estimate. However, this is not the figure that will be used for the 2008/09 grant settlement. Instead, CLG will use the Mid-year 2004 estimate as the base and project this forwards 5 years. In using this 2004 depressed base position, CLG arrives at a population estimate for the 2008/09 settlement of 266.4k, some 2.8k below the ONS current estimate. This under estimate compared to the latest ONS population estimate produces a loss of grant of £3m.
32. Southwark, in conjunction with other boroughs, has been lobbying the ONS and CLG on this underestimation of the population over the last two years. A further lobbying letter, based on the findings of the review, will be sent to John Healy MP, signed by the leaders of the three boroughs, requesting rectification of this situation and appropriate resources through specific grant. The lobbying campaign will also include a number of Parliamentary Questions being put to the Chancellor of the Exchequer in the House of Commons.

## Medium Term Financial Strategy (MTFS)

33. In September 2006 the Executive approved the Medium Term Financial Strategy for the period 2007/08 to 2010/11. This strategy set out the clear financial remit within which the business plans were developed and agreed. It addresses the key financial issues in respect of the following key themes;
  - financial management,
  - performance management
  - asset management
  - reserves, balances and central contingency,
  - savings and efficiency,
  - income and investments,
  - capital programming and strategic projects,
  - governance and partnerships.
34. The MTFS is regularly reviewed and refreshed to ensure we have the right priorities to deliver sound financial management so we continue to effectively shape Southwark together with our partners into the future.
35. With the backdrop of limited and increasingly squeezed resources as confirmed in the CSR07, this report sets out a refreshed MTFS (appendix A). This refreshed strategy specifically attempts to align the financial priorities of the Council with Southwark 2016, the LAA, and Corporate Plan. Delivery of which is assessed externally, including the CPA Use of Resources. The MTFS is aligned to the Corporate Plan thus providing the financial framework within which the Council's policy objectives can be delivered
36. The overall vision of the MTFS is "the effective and efficient use of resources and maximisation of resource opportunities in order to achieve long-term policy outcomes".

37. To deliver the vision the MTFs must achieve its overall aim “to ensure best use of limited resources for maximum gain both in performance and in achieving strategic priorities”.

**Community Impact Statement**

38. The level of government grant will have a clear impact on the level and quality of services the council is able to provide to its residents. The Local Government Settlement is expected to be announced in early December 2007 and will be reported to the Executive at its next meeting on 11 December 2007.

**Comments of Strategic Director for Legal and Democratic Services**

39. The Strategic Director for Legal and Democratic Services confirms that the four-year medium term financial strategy for 2008/09-2011/12 is lawful. It satisfies the council’s duty under the Local Government Act 1999 which requires it to make arrangement to secure continuous improvement in the way its functions are exercised, by having regards to the combination of economy, efficiency and effectiveness.

40. It is in accordance with the duty under the Local Government Act 2000 to prepare a community strategy for promoting or improving economic, social, and environmental well being of the council for the achievement of sustainable development.

**BACKGROUND INFORMATION**

Background Papers	Held At	Contact
Policy and Resources Strategy and budget working papers	Town Hall	Cathy Doran, extension 54396  Matthew Wallbridge, Extension 57379

**APPENDICES**

No.	Title
Appendix A	Refreshed Medium Term Financial Strategy 2008/09 – 2011/12

Audit Trail

Lead Officer	Duncan Whitfield, Finance Director	
Report Author	Simon Hughes, Assistant Finance Director Cathy Doran, FMS Matthew Wallbridge, Corporate Planning and Performance	
Version	Final	
Dated	2 November 2007	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	Comments Sought	Comments included
Director of Legal and Democratic Services	Yes	Yes
Finance Director	Yes	Yes
List other Officers here	-	-
Executive Member(s)	Yes	
Date final report sent to Constitutional Support Services	2 November 2007	

# Appendix A

## **Shaping Southwark Together MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

**2008/09 -2011/12**

### **Shaping Southwark with Sound Finance**

Sound financial management is key to delivering Southwark's ambition. We are clear about the priorities for the future to make the borough one of the best in the country, a place that people are proud to live in.

Our plans for regeneration are among the largest in the country and this, alongside investment in schools, the environment, housing and neighbourhoods, leisure and ongoing infrastructure improvements, outline the scale of our ambition. At the same time through robust revenue and capital financial planning we want to continue to deliver continuous improvement across the services we provide, building on our current achievements - 65% of our performance indicators in the national BVPI set improved or maintained performance and 76% of residents are satisfied with the area as a place to live which is above the national average.

Southwark 2016, the Community Strategy sets out our long term vision with partners for improving outcomes for people, places and delivering quality services. Effective partnership arrangements underpin the delivery of our vision for the borough principally through the Southwark Alliance and a sophisticated network of partnerships across children's services, health, community safety, the environment and wider community development. Southwark's Local Area Agreement will act as the key action plan for delivery of Southwark 2016 and the medium term financial strategy has been developed in line with wider partnership plans and priorities. Looking ahead, it is therefore key to ensure the financial plans of our major partnerships continue to be effectively aligned.

The Corporate Plan, agreed in March 2007, highlights the Council's key objectives over the medium term for supporting delivery of Southwark 2016. The Council's policy and resources strategy (the local business planning framework) integrates the Corporate Plan with the medium term financial strategy (MTFS). Furthermore by aligning the MTFS to the Council's accommodation strategy alongside plans for ICT and modernisation, we are creating one of the most modern, flexible authorities where high quality staff are recruited and retained.

### **The MTFS**

The MTFS sets out a four year financial planning horizon. It addresses the key financial issues in respect of the following key themes:

- financial management,
- performance management
- asset management
- reserves, balances and central contingency,
- savings and efficiency,
- income and investment,
- capital programming and strategic projects,
- governance and partnerships.

Moving forward the MTFS will continue to be regularly reviewed and refreshed to ensure we have the right priorities to deliver sound financial management so we continue to effectively shape Southwark together with our partners into the future.

# Appendix A

## MEDIUM TERM FINANCIAL STRATEGY (MTFS)

2008/09 -2011/12

### Financial Management

- To promote 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
- **Containing unavoidable commitments to the absolute minimum**
- To carry out a rigorous review of all proposed commitments to ensure that all possible avenues for delivery and funding have been explored and that the costs have been kept to the minimum required to meet statutory and contractual requirements
- To undertake a fundamental review, including risk planning, of policy supporting requirements above this level in order to control the impact across all Council services and to present real options for consideration and approval by the Executive
- Subject to the availability of alternative funding (including grant and Council Tax) to fund additional commitments through additional savings and efficiencies
- **To keep track of developments across all services, including those delivered through strategic partnerships, and fund new service growth from further additional departmental savings**
- **Subject to the discretion of the Finance Director, 100% of departmental outturn overspends and 50% of underspends to be carried forward into the new financial year**
- 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 four year period**
- To integrate capital and revenue planning with the councils strategic priorities
- **To enhance organisational capacity through the alignment of the MTFS to wider resource management strategies including performance, IT, human resources and equalities.**

### Performance Management

- **To monitor and benchmark service costs against a relevant family of other councils to ensure the council delivers value for money and directs resources to strategic priorities**
- **To monitor the performance of the Council's assets to ensure that they continue to meet the Council's priorities and objectives**
- 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 Councils overall cashflow position
- To continually improve Council Tax and NNDR collection rates as measured by Inner London quartiles
- To maximise returns on cash investments while maintaining capital preservation and liquidity
- To target sustained upper quartile performance for Pension Fund investments

### Asset Management

- **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 ensure that investment and disposal decisions are based on option appraisal and whole life costing**
- **To ensure the alignment of the Capital Programme with the Council's Asset Management Plans**

# Appendix A

## 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 the current administration, 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

## 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. This will ensure the continued support to key priorities and address service pressures whilst maintaining performance levels
- To commit to 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 commit to the modernisation, improvement and efficient performance of council services that will assist in the generation of savings to meet ambitious and stretching efficiency targets
- 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, and to bring forward 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
- To make appropriate representations to the government and local authority associations in order 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 generally increase discretionary fees and charges by 2% above inflation except where this conflicts with Council policy or would lead to adverse revenue implications.
- All fees and charges capped by statute to be increased 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

# Appendix A

## Capital Programming and Strategic Projects

- To ensure the alignment of the major strategic projects into the 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
- 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
- To pool corporately all capital receipts without any specific earmarking unless so directed by the Executive
- To consider the use of prudential borrowing where the business case is agreed, and it is advantageous for the efficient delivery of projects or enables the bridging of any funding gaps within the projected income and costs of an approved project
- To recommend for the agreement of Community Councils the use of the Cleaner, Greener, Safer budgets 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 continue to promote sound governance and accountability in respect of all Council resources and assets
- 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 establish full governance arrangements for all partnership agreements relating to the shared use of resources
- To continue to integrate the MTFs of the council with the financial strategies of the council's strategic partners and 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