

<b>Item No.</b> 19.	<b>Classification:</b> Open	<b>Date:</b> 20 July 2010	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Impact of 2010/11 cross government savings on Southwark Council	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member</b>		Cabinet Member for Finance & Resources	

### **FOREWORD – COUNCILLOR RICHARD LIVINGSTONE – CABINET MEMBER FOR FINANCE & RESOURCES**

1. As I stated in my Cabinet member announcement to Council Assembly last week, government's in-year spending cuts announced in May and June's emergency budget are both grim news for Southwark. This report sets out the detail of these cuts, as far as is known at this stage, and puts forward recommendations for Cabinet to consider on how the authority should respond.
2. The report sets out recommendations for Cabinet to agree to complete the process of managing the in-year budget reductions for 2010/11.
3. The report also sets out recommendations for Cabinet in seeking savings for the period 2011/12 to 2013/14 based on our best assessment of budget reductions arising from the June Emergency Budget. The Comprehensive Spending Review in the autumn will enable us to refine this assessment but it is vital for the council to set out parameters now so that the process can be well managed.

### **RECOMMENDATIONS**

4. That Cabinet instructs Strategic Directors to work with Cabinet Members to manage and mitigate the impact of in-year grant reductions announced as part of the national emergency budget package.
5. That Cabinet note the clawback of the pay award inflation budget to corporate contingency, given the proposed 2010/11 pay freeze for public sector employees.
6. That Cabinet instruct the Finance Director to ask Strategic Directors to identify savings of 25% over the three years 2011/12 – 2013/14.

### **BACKGROUND INFORMATION**

7. On 20 May 2010 the national coalition government set out their programme for government ("The Coalition: our programme for government"). Within the programme there was a commitment to set out a plan for deficit reduction in an emergency budget. An independent Office for Budget Responsibility (OBR) was established in advance of the emergency budget to set forecasts for future growth and borrowing.
8. On 10 June 2010 the government published details of the £1.166bn Local Government contribution to the £6.2bn cross government savings in 2010/11. The impact on Southwark's equated to a £3.3m reduction in Area Based Grant (ABG) for 2010/11.
9. On 22 June 2010 the government announced its national emergency budget which

contained a number of measures to reduce the overall government deficit. The Chancellor of the Exchequer announced that the deficit reduction was being tackled on the basis of 77% in spending reductions and 23% from tax increases by 2015/16.

10. The Chancellor announced savings of £30 billion per year by 2014/15 from spending reductions. This is on top of the £44 billion set out by the previous government, of which £17 billion is to come from departmental budgets and the rest from reductions in the welfare bill and other areas.
11. There have been further announcements, which are detailed in this report, about specific areas which affect both 2010/11 and future years.
12. Headline measures which are likely to impact on Southwark Council and other Local Authorities include:
  - The government will work with local authorities in England to freeze council tax in 2011/12, although specific details of how this will work are not set out.
  - There will be a two year freeze in public sector pay from 2011/12, except for those earning less than £21,000 a year (pro-rata).
  - The standard rate of value added tax (VAT) will increase from 17.5% to 20.0% from 4 January 2011.
  - An independent commission will undertake a fundamental, structural review of public service pension provision in time for the Budget 2011/12 and consider the case for short term savings in the forthcoming CSR period, by September 2010.
  - The planned increase in employer National Insurance Contributions will be reversed by raising the threshold by £21 a week above indexation in April 2011.
  - The government will consider the most appropriate framework of incentives for local authorities to support growth, including exploring options for business rate and council tax incentives, which would allow local authorities to reinvest the benefits of growth into local communities.
  - The government will introduce a package of reforms to housing benefit from April 2011 onwards. From April 2011, maximum limits on housing benefits will be introduced, from £280 a week for a one-bedroom property to £400 a week for a four-bedroom property.
  - Housing benefit reforms will also include capping the maximum local housing allowance payable for each property size, time-limiting the receipt of full Housing Benefit for claimants who can be expected to look for work, and restricting housing benefit for working age claimants in the social rented sector who are occupying a larger property than their household size warrants.
  - Disability living allowance (DLA) will be reformed to introduce the use of objective medical assessments for all DLA claimants from 2013/14.
13. The savings across the public sector amount to a real terms reduction of around 25% on average over the next four financial years in government spending. Funding for the NHS and international aid will be protected. The impact on revenue and capital for the council cannot be fully modelled at this time, but is likely to be significant and to have implications in the short, medium and long term on front line services.

## KEY ISSUES FOR CONSIDERATION

### 2010/11 'in-year' Budget Reductions

14. On 10 June 2011, the Department for Communities and Local Government notified all authorities of the impact of cross-government savings on their previously confirmed grant allocations for 2010/11. Southwark's contribution to the cross government savings target equates to a £3.3m reduction in Area Based Grant (ABG) to be achieved in year for 2010/11.
15. For Southwark, the biggest reduction in ABG is for Children's Services with an overall in-year reduction of £2.2m. A further £732k will be reduced from Working Neighbourhood Fund (WNF), amounting to approximately 10% of the council's 2010/11 allocation of £7.4m. This funding has been allocated principally to supporting economic development initiatives. There has also been a £246k reduction in the Supporting People Administration grant. The remaining reduction of £125k is for 'Prevent' (Preventing Violent Extremism) and Home Office ABG supported activity.
16. For Southwark, WNF and ABG funding, as with other specific grants, has historically been passported to the relevant strategic directors for decision making in line with specific targets set by government departments. As a consequence, the funding has not impacted directly on General Fund activity and on the budget framework. Since the earlier non ring fencing of the WNF and ABG grant funding, the Council has sought savings of £1m per annum in line with the Policy and Resourcing Strategy as approved by Council Assembly in February 2008.
17. Subsequent to the announcement of the £3.3m reduction in grant for the Council on 17 June 2010, the Department for Culture, Media and Sport announced further grant reductions. The impact for Southwark was in relation to the Free Swimming Grant and amounted to a reduction of £131k for 2010/11.
18. For Children's Services, further announcements have also been made from the Department for Education (DfE) of reductions which take the reduction in grants to Children's Services to around £2.45m, including the following;
  - Buddying Surestart Grant programme (75% grant reduction)
  - Abolition of Contact Point (75% grant reduction)
  - Reduction in Training and Development Agency for schools (to be confirmed, estimate at 25%)
19. In addition to the £3.3m reduction of confirmed ABG grant reductions, the government also announced the abolition of those grants "where allocations were not yet confirmed". For Southwark this means the cessation of the Local Authority Business Growth Incentive scheme (LABGI) and Housing and Planning Delivery Grant (HPDG).
20. The provisional assessment of LABGI for 2010/11 was £451k. This funding was to be allocated to earmarked reserves for regeneration and development as in previous years. At the start of this financial year there had not been an announcement of the HPDG allocation for 2010/11, as this was always announced during the year of allocation. However in 2009/10 this amounted to some £1.2m. Due to its late notification and volatility no budget was set for HPDG income in 2010/11.
21. In total, Southwark will see grant income reduced by some £5.1m in 2010/11, of which £3.4m directly impacts on departmental projects and priorities set in place to match the funding previously assumed.

22. Officers are working on a number of proposals to mitigate the impact of these grant reductions in 2010/11. A summary of impacts for departments is shown below.

#### **Children's Services: Revenue**

23. Of the £2.45m total reduction in Children's Services revenue grants, the most significant is the £2.20m (equating to 20%) reduction in the Area Based Grant. This grant is used to fund key Children's Services activities. Where possible, Children's Services have sought to re-direct other grants and hold vacancies to reduce the impact on front line services. However, some reductions are unavoidable. For example, two key areas that have previously received funding are the expansion of extended services developed through clans of schools within Southwark, and the delivery model for connexions services. In addition, a further work stream includes working in partnership with the voluntary and community sector parties to rationalise funding streams and reduce bureaucracy

#### **Children's Services: Capital**

Schools will be affected by the 50% reduction in Harnessing Technology Grant because in accordance with the guidance, the majority of this grant is allocated directly to schools. The integrated children's system grant reduction represents a budget pressure that Children's Services will have to manage in year. A further recently published potential threat is that the DfE have indicated that Surestart capital grant in 2010/11 is at risk where a project is not contractually committed. This position will need continual review in the coming months.

#### **Regeneration and neighbourhoods**

24. There is a reduction in Working Neighbourhoods Fund (WNF) Economic Development grant funding of £632k in employment and enterprise contracting. About half of this can be achieved without impacting on existing contracts. This will affect some contracts not yet committed and may impact on some schemes already in place not least with the voluntary sector. A proportionate reduction in achievable worklessness targets will ensue although the Council to seek to ensure that this is minimised. WNF funding is due to cease at the end of March 2011.
25. The main impact of the removal of the Housing Planning Delivery Grant will be to reduce the capacity of the borough to produce the evidence base to support local development documents, update the housing strategy and to carry out other actions in support of maintaining the level of housing delivery, not least affordable housing, in the future.

#### **Health and Community Services**

26. The entire in-year supporting people administration grant of £246k has been removed. This grant is used to fund staff within Heath & Community Services supporting the scheme. It is not possible to achieve a staff reduction in 2010/11 to make the saving however all options will be explored in future years. The in-year reduction will be met through reducing current contract prices across all supporting people services in order to minimise the impact. The 2010/11 saving of £0.25m will therefore be spread across contracts with a total spend of £16.4m.

#### **Environment & Housing**

27. There are a number of activities across the Environment and Housing portfolio which are grant funded. This includes free swimming and initiatives such as the Community Support Fund which delivers community education and raising awareness programmes. The council will seek to mitigate the impact of any reductions.

#### **Salaries Inflation**

28. In setting the 2010/11 budget, the Council set a salary budget for 2010/11 pay awards at 0.5%. In light of the government's statements and the National Employers' Organisation for Local Government Services response to unions that they are unable to offer any

increase in pay for 2010/11, it is proposed to claw back the allocation of 0.5% salary increases (some £940k) from 2010/11 budgets. This will be added to the corporate contingency for 2010/11 with a view to offsetting any serious emerging financial risks across Council services.

## **2011/12 – 2013/14 POLICY AND RESOURCING STRATEGY**

### **Government reductions in 2011/12 and onwards**

29. The Arts Council England has been asked to model reductions of 25-30% over four years to their funding programme. They are asking regularly funded organisations including local authorities to model prudently for a minimum of a 10% reduction in funding for 2011/12.
30. The government has also announced a review of the 'Preventing Violent Extremism' programme, which raises the possibility that the £182k grant funding (already reduced from £257k) could be removed entirely from 2011/12.

### **Medium Term Resourcing Strategy**

31. On 15 June 2010, Cabinet noted the mission and commitments of the new administration in the paper "A Fairer Future for all in Southwark". In this context, the ability of the Council to deliver on any new commitment will need to be subject to affordability.
32. As part of the current medium term resources strategy (MTRS) for 2010-2013, agreed by the then Executive in February 2010, the council is committed to achieving a minimum of 5% savings per annum. Following this, Strategic Directors were also requested to prepare additional options for a further 5% savings for each of the next three years in the context of the new Government's stated position on managing the economy.
33. In the light of the emergency budget commitment to reduce government departmental spend by an average of 25% over the next four years and the depth of in year reductions in ABG, officers are now reviewing their proposals and considering other options.
34. The council will need to consider innovative options, including sharing services with other boroughs, in order to limit the impact of spending reductions on frontline service provision.
35. The Finance Director is now asking all Strategic Directors to prepare savings plans for each department of 25% with a view to implementation at the earliest opportunity. Notionally it is expected that early decisions will seek to generate financial minimum savings over the next three years of 7½%, 7½%, and 10% respectively for those financial years, 2011/12 – 2013/14.
36. In respect of previous modernisation work, savings options in 2011/12 will seek to include :
  - A further £3m of shared services savings – representing £9m in total over the period 2009/10 to 2011/12. For this the third round, savings will be targeted to be achieved from a combination of additional administration/ finance/ HR, policy, procurement, contract monitoring and contract management. Departments have been asked to highlight any proposed departmental savings in any of these areas (excluding HR and Finance which are corporately controlled) to ensure there is no duplication or double counting.
  - A further £1m of management structure savings – again departments need to highlight savings in this area to ensure there is no duplication with corporate targets.

37. In addition, further efficiency targets will be expected as part of future savings options. Topics to be considered will include :
- Right First Time (including avoidable customer contact): whereby better customer service leads to efficiencies in staff and processes.
  - Use of Consultants: the Finance Director has been instructed by the Cabinet member for Finance & Resources to identify enhanced controls and procedures for prior authorisation of the use of contractors. These will include enhanced sign off procedures in advance of engaging new consultancy arrangements and departmental targets for savings in 2011/12 and beyond.
  - Use of Agency Staff: continuing the robust authorisation process for agency workers to ensure that numbers continue to fall, with specific information on project plans, funding and duration where the assignment relates to a limited term project. Recruitment plans will be fully identified where the provision of agency staff is essential for critical front-line service delivery.
38. All proposed savings and any new commitments will be considered within the context of value for money indicators and measures, particularly where services are nationally or regionally benchmarked as higher cost.
39. The Finance Director will continue to liaise with the Cabinet Member for Finance & Resources on the emerging position throughout the coming months. The expected announcement of the CSR is 20 October 2010. After that time, further reports will be submitted to the Cabinet in advance of approval of the Council's General Fund Budget and Council Tax setting at Council Assembly in February 2011.

## **COMMUNITY IMPACT STATEMENT**

40. The purpose of this report is to describe the highlights from the national emergency budget as set out by the Chancellor of the Exchequer on 20 June 2010. The cabinet is asked to approve a number of management actions to mitigate the impact of in-year reductions in ABG and other grant funding. Future decisions made on the basis of the issues raised in this report will require detailed consideration of the impact on local people and communities as appropriate.
41. When making decisions the council will need to ensure that these are made in such a way as to minimise unfairness and do not have a disproportionate impact on people from any particular group including different ethnic groups, disabled people and men and women. This will mean carrying out robust equality impact assessments and consulting with and involving relevant stakeholders as part of the decision making process.
42. The timing of the cuts is challenging in terms of allowing adequate time to consult the voluntary and community sector and other stakeholders on the level of savings and how the council can work with the sector to mitigate impacts and give adequate notice of proposed reductions. If decisions are taken to reduce funding to particular organisations then this will need transparent and fair criteria that demonstrate clearly why reductions in resources affecting certain organisations have been taken. Decisions should also be taken and implemented in accordance with the principles set out in the Council's compact with the voluntary sector in Southwark.

## SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

### Strategic Director of Communities, Law & Governance

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

### REASONS FOR URGENCY

44. The report is urgent because of the significant level of reductions in in-year grant funding and the need to commence action to manage and mitigate this.

### REASON FOR LATENESS

45. It was not possible to prepare this report until details of the reductions in grant funding were known. The impact of this for departments had to be assessed.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
The Coalition: our programme for government	Corporate Strategy, 160 Tooley Street	Stephen Gaskell 020 7525 7293
Budget 2010, HM Treasury	Corporate Strategy, 160 Tooley Street	Stephen Gaskell, 020 7525 7293

## AUDIT TRAIL

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Strategic Director of Communities, Law & Governance	Yes	Yes
Finance Director	Yes	Yes
List other Officers here – all Chief Officers	Yes	Yes
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