

Finance Scrutiny Sub-Committee

27 January 2011

Scrutiny of the draft revenue and capital budgets 2011/12 – 2013/14

All Wards

Report authorised by: Executive Director of Finance & Resources: Mike Suarez

Executive summary

This report sets out the context under which the 2011/12 to 2013/14 budget proposals have been formulated, taking into account the following factors:-

- The Local Government Financial Settlement is the toughest in living memory
- Reductions in both formula grant and specific grants averaging 11.3% in cash terms for 2011/12 and 7.4% for 2012/13. This is greater than the national averages of 9.9% and 7.3%
- Sharp reductions in undamped formula grant of 19.3% and 18.4% over the two years, leaving the Council increasingly dependent on the floor damping mechanism
- The Settlement makes no allowance for high-need low-tax base floor authorities such as Lambeth, leaving the Council to fund increasing unavoidable demand
- Difficulty in planning due to Inconsistent messages from Government with the Settlement varying from indicative reduction levels published in the Comprehensive Spending Review
- Reductions have been applied to specific grants such as the new Early Intervention Grant (which is a composite of previously received grants) significantly in excess of the average
- Budget consultation results suggest that at least 1 in 3 residents are not aware of the Council's financial situation.

The report includes:-

- A financial overview of the General Fund in the context of Medium Term Financial Planning
- The proposed Capital Programme for 2011/12 to 2013/14
- The findings of budget consultation with stakeholders
- Departmental/Service context
- Detailed revenue proposals as an appendix.

Summary of financial implications

There are no direct financial implications of this report, since scrutiny is not making binding decisions about budgetary proposals. The purpose of this report is to provide an overview of the 2011/12 budget setting process and set out the financial implications for the Council. The revenue growth and savings proposals and Capital Programme included in this report form part of the Council's overall budget setting process. The Cabinet will then consider the overall budget in the context of available resources.

Recommendations

(1) That the Committee forward any formal recommendations to the Cabinet.

Consultation

Name of consultee	Directorate or Organisation	Date sent to consultee	Date response received from consultee	Comments appear in report para:
Internal				
Mike Suarez	ED (F&R)	06/01/11	17/01/11	Throughout
Mike Dickens	Governance & Democracy	06/01/11	07/01/11	Section 7
Jonathan Williams	Divisional Director Corporate Finance	06/01/11	18/01/11	Throughout
Cllr Paul McGlone	Cabinet member for Finance and Resources	06/01/11	18/01/11	Throughout
Informal Cabinet		06/01/11	06/01/11	Throughout
Finance Strategy Board		07/01/11	07/01/11	Throughout
SLB		11/01/11	11/01/11	Throughout
Informal Cabinet		13/01/11	13/01/11	Throughout
SLB		18/01/11	18/01/11	Throughout

Report history

Date report drafted:	Report deadline:	Date report sent:	Report no.:
06.01.11	14.01.11	18.01.11	228/10-11
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Background documents

Emergency Budget – July

Appendices

Appendix 1: Detailed departmental proposals 2011/12 – 2013/14

Appendix 2: Draft Capital Investment Programme (Summary)

Scrutiny of the draft revenue and capital budgets 2011/12 – 2013/14

1. Financial Overview - Revenue

- 1.1 Cabinet considered the financial outlook in July 2010 by way of the Emergency Budget. That report informed Members of the macro-economic circumstances that will affect local government in the near to medium-term future, which, in summary, are going to be extremely challenging. It sought endorsement of the savings' target of £62m over three years, with acknowledgement of the immense scale of the task ahead facing the Council which would be facilitated through a rigorous Service and Finance Planning cycle.
- 1.2 In previous years the Council has been able to plan with some certainty as there was a 3 year settlement which covered the financial years 2008/09 through to 2010/11. The Service and Financial Planning timetable reflected this and officers were able to produce budget update reports in December and January, with the latter meeting considering Scrutiny Committee recommendations.
- 1.3 Due to the timing of the Comprehensive Spending Review (20th October) and the Settlement (13th December) it has not been possible to adhere to previous years' governance arrangements. This has resulted in information being presented to Scrutiny Committees at a later stage this year.
- 1.4 The £62m three year planning savings target was based on the emergency budget presented to Parliament on 22 June 2010 which announced there would be average real-terms cuts of 25% to Departmental Expenditure Limits other than the NHS and international aid. It also suggested that education and defence might be favoured to some extent which meant that the pressure of cuts would be amplified on the remaining departments, including Communities and Local Government.
- 1.5 The announcements in the Comprehensive Spending Review (CSR) on 20th October painted a more austere position for Local Government than that announced previously. The key assumption in July was that Formula Grant would fall by 6% in cash terms, or approximately 8.5% real terms each year, which equates to about 35% real terms over 4 years. The headline percentage reduction in the CSR was 7.1% per annum. However, this was misleading and, on close examination of the CSR and after discussion with CLG officials, a reassessment of the position was made. After unbundling specific grants rolled in, and excluding police and fire authority figures, the estimated impact on the Council's three year financial model were reductions of 16.7%, 11.0% and 1.2% respectively. When these percentages are applied to Lambeth's baseline 2010/11 allocation of Formula Grant the overall quantum of savings required, over three years increased from £62m to 79m.
- 1.6 The Local Government finance settlement was announced on the 13th December. Active lobbying, by the Council and also nationally, clearly had an impact on the extent of the front-loading for 2011/12. The announcement covered 2011/12 and 2012/13 – the review period for the CSR covered four

years and it is anticipated (but not known) that reductions not made in the earlier years will have to be addressed in 2013/14 and 2014/15. For this reason, the Council is maintaining the overall savings requirement at £78.8m for three years. These figures will be kept under review in response to future Government announcements.

- 1.7 The savings targets above refer to base budget. Departments have also had to plan for reductions in the specific grants they receive. The Executive Summary refers to average reductions in all grant of 11.3%. However, services covered by the new Early Intervention Grant which covers a number of areas previously funded by a mix of Area Based Grant and specific grant have been impacted by a 16% (£3.7m) reduction. The Council, and departments in particular, have found it very difficult to plan given there has been an inconsistent approach to how cuts have been allocated.
- 1.8 There are still a considerable number of grants where the Council has yet to receive confirmation of ongoing funding – over 30 received in 2010/11 with a value of over £18m. This compounds the problem of planning service delivery in the short term, and makes strategic planning extremely demanding.
- 1.9 The impact of diminishing grant funding has a disproportionate impact on the vulnerable residents in Lambeth as support for the third sector is adversely affected due to the lower overall resource base available for service provision, whether provided by the Council or other bodies.
- 1.10 The Service and Financial Planning process has been an iterative one whereby proposals have been considered by Strategic Leadership Board and then submitted to Informal Cabinet for further consideration. The proposed savings identified to date have been assessed against a revised target arising from the settlement and the target for 2011/12 has now been achieved, as set out in the table 1.

	2011/12	2012/13	2013/14	Total
Table 1	£m	£m	£m	£m
Lambeth revised savings target (updated) *	37,161	29,152	12,513	78,826
Savings achieved **	-37,161	-9,590	-3,915	-50,666
Shortfall	0	19,562	8,598	28,160

* 2012/13 left as original target; 2013/14 increased to reflect anticipated back-loading of savings requirement.

- 1.11 Identifying savings as part of Service and Financial Planning has been a painstaking process. Guided by a set of underlying principles to form a framework service reductions have been delivered in a fair and transparent way:-

- Protect the most vulnerable
- Protect front line services
- Value for Money overriding imperative
- Savings from '6 strategic levers' to increase efficiency
- Progress on delivery of the administration's manifesto
- Progress the 'cooperative council'
- Accelerate "shared services" & transformation agendas

1.12 The Council makes use of an 'Invest to Save' fund which facilitates investment in initiatives which will result in a permanent reduction in the base budget but requires pump priming in the short term. The Invest to Save fund is replenished by savings achieved, normally over a three year timescale, after which the base budget may be reduced by the sum saved annually. This is an effective way to protect services and promote value for money considerations.

1.13 Acknowledging that there are benefits to be derived from investing sums to reshape service delivery, the Council also operates a Cooperative Council Transformation fund. There is no requirement to replenish the fund; resources are invested for the development of business cases and feasibility studies for potential Invest to Save activities. A good example of this is the £90,000 invested in the Lambeth pathfinder project (Lambeth Resource Centre) whereby a transformational project is underway to enable the Resource Centre to take the next step on their journey towards greater freedom and flexibility in the way that they deliver services, and to seek the opportunity to become a Social Enterprise, very much keeping with the Co-operative Council ethos.

1.14 It is important that the Service and Financial Planning process is embedded in the culture of the organisation such that it effectively is part of business as usual. Medium term financial planning requires Lambeth to constantly challenge, lobby, innovate, horizon scan and deliver within a reducing resource base. The base budget must reflect the ongoing net cost of day-to-day activities; it is not prudent to call on General Fund balances to provide a short term solution, particularly when there is inherent risk in striving to achieve an ongoing balanced budget position. By reducing balances, the Council would be undermining its financial position to an extent that would put its financial viability at risk.

1.15 It is the preserve of the Section 151 Officer under statutory requirements to arrange for the proper administration of the Authority's financial affairs. As part of this role, The S151 officer is professionally responsible for advising members on the level of reserves and balances the Council maintains. The Budget report to Cabinet and Council in February 2010 emphasised the Executive Director's position in this regard:-

'I have consistently advised members that in my professional opinion the minimum level of balances that the council needs to maintain to ensure financial stability, and so provide a strong environment within which services

can be continuously improved, is £15m and that the council should plan to hold £30m in balances, which is approximately 10% of net revenue expenditure. I reiterate this previous advice, and add to it that in light of current economic circumstances, of which members have been advised in detail....the arguments for holding balances to the upper end of this level are strengthened.'

- 1.16 General Fund balances as at the 31 March 2010 of approximately £28m, fall below the maximum but within the recommended range.
- 1.17 As stated above the level of reserves is determined in accordance with the S151 Officer's professional judgement. These balances should not be viewed as a general resource but are in fact earmarked for specific purposes (e.g. 2011 Census preparation, election expenses reserve, etc.). The balance is broadly at the same level as the previous financial year and has been subject to scrutiny at Corporate Committee and then as part of the external audit of the financial statements by Deloitte.
- 1.18 Schools balances are outside the control of the authority. Whilst the Housing Revenue Account balance is at break even only. As a minimum the balance should be £5m, with a target of £10m. The Collection Fund relates to Council Tax billed and collected. The Council plans to maintain this balance at a broadly break even position to ensure the level of Council Tax levied is appropriate.
- 1.19 It is a common misconception that provisions are usable balances. The Council has no discretion over how these monies are used as they are set aside to meet known liabilities.
- 1.20 The Council is moving into a period of uncertainty, effectively only being able to plan over the two year settlement period. In the context of having to deliver significant savings it is entirely appropriate and prudent to ensure there are sufficient resources available to manage its services through this period of organisational change. The Council's External Auditor has suggested 'headroom' in financial planning of 20% to reflect the difficulty of delivering services across an extensive cost reduction programme. The level of balances currently held is sufficient to accommodate this suggestion.
- 1.21 The departmental perspective on the Service and financial Planning proposals to be considered by Cabinet and council is discussed in Section 5 of this report and Appendix 1 provides details of those proposals.

2. Challenges Ahead

- 2.1 The estimated savings requirements for 2012/13 and 2013/14 present a significant challenge to the Council. Assuming the overall requirement remains the same the medium to long term view of the Council's financial position remains very difficult from both an operational and strategic perspective.
- 2.2 These cuts are unprecedented in scale. While the reductions in funding for Lambeth appears broadly proportionate with those borne by other authorities, it should be noted that London has suffered considerably in previous settlements, receiving the smallest average increase in grants compared to all other regions

over the past two settlements periods (covering 2006-07 to 2010-11). As such, these cuts are being applied to an historic base that has built in funding levels that disadvantage service provision in London relative to the rest of England.

- 2.3 Front-loading remains a major challenge. This was signalled in the CSR, in which it was announced that 40% of cash cuts to local councils would occur in the first year (of a four year CSR period). The front-loading of cuts means that authorities must reduce expenditure further and faster than anticipated. The lack of time to sensibly re-design and re-engineer services, including practical steps to streamline management structures and share services where this makes business sense, jeopardises continued delivery to the most vulnerable groups: something that Lambeth is eager to maintain. The following paragraphs focus on particularly difficult issues for Lambeth: -
- 2.4 Restructuring – The council will incur significant one-off costs to pay for reshaping the organisation. This will have the immediate effect of reducing available balances which places greater pressure on delivering savings over the next three years; the ‘headroom’ recommended by the External Auditor (paragraph 1.19) will diminish. The Government made £200m available nationwide to capitalise such costs. It should be noted that this constitutes permission to capitalise redundancy costs – there is no cash-backed support. Notwithstanding the shortfall in funding the Council’s Capital Programme, the Government’s £200m is a very small sum which, once allocated nationally, would not be sufficient. Furthermore, it is expected that balances be utilised to meet redundancy costs; Council’s with a reasonable level of balances were not granted authority to capitalise spend. Lambeth did not submit a capitalisation bid because of the foregoing considerations.
- 2.5 Area Cost Adjustment - The Government has introduced changes to the Area Cost Adjustment (ACA), which is applied to grants to reflect variations in the labour costs facing councils in different parts of England. CLG’s new figures suggest a fall in the share of wage and salary costs in councils’ total spending – this reduces the size of the adjustment, penalising councils in high-wage labour markets such as London. Exemplifications suggest that this would result in a loss to London of £100m in Formula Grant (undamped), though the actual figure is likely to be higher given the use of the ACA in other grants. Research by London Council’s has shown that labour costs have been underestimated and the Government is being asked to reconsider the changes in the final Settlement.
- 2.6 Pupil Premium - The Pupil Premium (worth £625m) will be introduced from 2011-12. Contrary to earlier suggestions, the Government will not be applying an Area Cost Adjustment to this grant, meaning that funding will fail to reflect variations in teaching and other staffing costs across England. To illustrate, CLG’s own figures show that £1 of education funding will purchase 26% fewer services in Inner London than it does in the North East once the salaries of teachers and other staff are taken into account. In response to the draft Settlement, the Council will urge the Government to apply the ACA to the Pupil Premium in the interests of fairness and to ensure consistency with other grants.
- 2.7 Funding for School Places – The methodology for allocation has been made more transparent but the quantity of funding remains a concern. London faces significantly greater pressure on school places than other areas in England –

over one third of the increase in pupil numbers in England between 2009/10 and 2014/15 will be in London. Looking at reception year alone, analysis by London Councils found that more than 28,000 extra primary places are required just to ensure that every reception pupil in London will have a permanent school place between now and 2014/15.

- 2.8 Freedom Pass - The grant previously allocated to London Councils has been reduced and now rolled into Formula Grant into the relative needs formula, which was further reduced by 11.3%. The cost of delivering the scheme has increased, leaving the LA unable to deliver the scheme without rationalisation. The Council is looking for the Government to change the legislation to facilitate greater flexibility and choice in service delivery. For the Council, the scheme cost for 2010/11 is £8.5m and will be £12.3m in 2011/12.
- 2.9 Carbon Reduction Commitment – The scheme was meant to incentivise good behaviour by introducing a carbon trading scheme. The Government has abandoned this premise and the scheme has effectively changed to being tax-based raising revenue for the Government. The difficulties in addressing this unexpected revision is expounded by the fact that over 40% of the tax will relate to schools; there is no mechanism or agreement in place as to how the Council would recharge for this.
- 2.10 Academy schools – The Council has lost just under £1m of formula grant funding on the basis that the Government has assumed a number of schools will seek Academy status. No information is available as to the rationale behind this reduction or how it was calculated. This issue will be raised in response to the draft Settlement.

3. Capital

- 3.1 The Council considered the financial outlook for capital investment in July 2010 by way of the Emergency Budget. That report identified actions that had been taken to reduce the funding gap on the Capital Investment Programme (the programme) from £36.7 million in February 2010 to £23.5 million in July.
- 3.2 The CSR made the financial environment for capital investment more challenging by reducing government funding to local authorities by 45% on average. However, Lambeth receives the majority of its capital grants from the Communities and Local Government department and the Department for Education, the capital budgets of which will be cut by 74% and 57% over the parliamentary term.
- 3.3 The clearest and most immediate example of the local effect of these reductions has been the cancellation of £150 million of funding previously allocated by government for Phase 2 of the Buildings Schools for the Future programme.
- 3.4 In response to the changing external environment, the council has modified its approach to capital budgeting to:
 - Integrate capital, revenue and asset management planning;
 - better align capital investment with council priorities;

- better align capital investment with good asset management practices;
 - make capital investment affordable; and
 - make capital investment sustainable
- 3.5 Capital investment is prioritised by considering whether it will enhance or acquire assets that increase the council's ability to:
- Protect today (with the highest priority being the maintenance of essential operational infrastructure), and
 - Prepare for the future (with the highest priority being investment in additional pupil places)
- 3.6 The evaluation and prioritisation of investment will be filtered through the capital investment hierarchy, capital investment principles and associated rules.
- 3.7 The investment hierarchy recognises that a minimum level of investment is required in order to maintain the performance and safety of assets. Without this investment the property assets that are used to deliver the services that protect today would be at risk of closure on health and safety grounds and the failure of ICT infrastructure that enables services would inhibit the operational capability of the organisation.
- 3.8 Transformational investment improves service efficiency and effectiveness by enhancing existing assets or acquiring new ones. The increase in efficiency should be financially quantifiable and so have a monetary payback.
- 3.9 Aspirational investment increases service capability and capacity by enhancing existing assets or acquiring new ones.
- 3.10 The over riding principles that inform all aspects of the strategy are that plans are affordable and expressed transparently.
- 3.11 This recognises the scarcity of capital resources and re-focuses capital investment on the highest priority assets. It also reduces expenditure on minor projects, transfer payments and the capitalisation of revenue expenditure
- 3.12 The council plans to increase the resources that are available by raising up to £100 million through disposing of surplus assets (as noted in the July Emergency Budget). Two key risks arising from the disposals strategy are that the council will not achieve value for money or will not be able to sell assets quickly. The risk that value for money will not be achieved is being managed by timing the disposal of assets based on market demand. The risk that sufficient receipts will not be generated to support capital investment plans is being managed by limiting the value of approved projects to the value of funding that is available. Projects to which the council has a policy commitment are held in a "pipeline" until sufficient funding is available.
- 3.13 Once the council has disposed of its remaining surplus assets the capacity to generate further capital receipts will be extremely limited. The reductions in capital funding announced in the CSR means that this shortage of funding will be

compounded by a decrease in external grant funding. Over the medium term the council will need to identify alternative sources of finance to enable continued investment in a fit for purpose asset base.

- 3.14 The new approaches to strategy and funding highlighted above will require new governance structures to support and control capital investment and disposals.
- 3.15 The changes in the development of the capital investment programme have re-focussed investment on the highest priority assets. This is illustrated through a programme that reflects investment in the assets that help to deliver the council's highest priority services: schools, housing and highways.
- 3.16 The draft Capital Investment Programme is summarised at Appendix 2.

4. Consultation

4.1 The budget consultation started in July 2010 and has included:

- Questions in the resident survey to a representative sample of 750 people
- Focus groups with older people and parents
- A 3 hour workshop with a representative sample of the borough's population
- An online budget simulator that allows residents to choose areas for reduction in order to balance the budget

4.2 Throughout both the qualitative and quantitative research there are a number of consistent messages:

- Residents most want to protect social services for children, the disabled, the elderly and those most disadvantaged
- Crime is a high priority but residents are confused about what the council does and how this complements police work
- Residents are more open to change in the way waste and recycling is delivered than ever and there is support for charging for bulky waste and reduced street cleaning. However weekly waste collections are a high priority to protect
- Areas that receive the greatest support for reduction are arts and cultural services, garden waste collection, customer centres and call centres, parking and business support
- Co-operative working should be encouraged and incentivised but should complement the existing work and not replace it entirely (i.e volunteers should work alongside staff, not replace them)

- Libraries polarise opinion. For some they are a cultural and educational necessity, for others a luxury service on borrowed time.
- Residents support more active penalties for littering, dog fouling and graffiti. There is some support for increasing parking fees and fines.
- Users of all services see clear opportunities for improvement, most evident in resolving service requests for housing
- Corporate sponsorship should be explored more widely to reduce cuts. For example, residents would prefer a fee paid or sponsored Lambeth Country Show than it being stopped.

4.3 Last year’s budget consultation established that over one third of residents felt the council would have more money in the following year. Only one in ten thought the council would have less. There has been a gradual shift in the last 12 months and the nearly one in two respondents are aware the council has less money. However, one third of residents still do not know about the financial challenge facing the council.

4.4 Residents are most positive about the “level of council tax, relative to other councils” and the “value for money for the council tax that residents pay” than other measures. Roughly the same amount of people agree and disagree with these statements.

4.5 Significantly more people are likely to disagree than agree that Lambeth Council “provides enough information to residents about its financial performance and management” and “value for money compared to a year ago”.

4.6 In the residents survey respondents were given the option to choose up to four services that:

- it would be acceptable to see a reduction in the level of service
- are most important to maintain quality
- the council could introduce (or increase) fees or fines to ensure it maintained quality

4.7 The findings indicate the top services where resident would **prioritise a reduction are:**

Table 2 Service	% of respondents
Arts and cultural activities (e.g. concerts and community events)	26%
Garden waste collection	18%
Customer service centres, you can visit in person	18%

Parking	18%
Telephone call centre	14%
Business support service	14%
Evening classes/adult education	13%

(N.B all figures are given as percentages of the total that answered the question (446 people), excluding “none of these” and “don’t know”.)

4.8 Areas that received the highest support for **maintaining quality** were:

Table 3	
Service	% of respondents
Social services for children	29%
Services for people with physical or learning disabilities	28%
Weekly waste collection	26%
Children’s centres	26%
Social services for adults and older people	26%
Youth clubs/centres, and summer activities	24%
Council housing	22%

(N.B all figures are given as percentages of the total that answered the question (654 people), excluding “none of these” and “don’t know”.)

4.9 Areas that received the strongest support for increasing or **introducing fees/fines to maintain** a level of service were:

Table 4	
Service	% of respondents
Fly tipping, graffiti removal	29%
Arts and cultural activities (e.g. concerts and community events)	25%
Evening classes/adult education	24%
Leisure and sports facilities, including swimming pools	22%
Bulky waste collection	19%
Parking	19%

(N.B all figures are given as percentages of the total that answered the question (528 people), excluding “none of these” and “don’t know”.)

5. Departmental/Service Context

- 5.1 The council has been able to make significant savings based on the underlying principles outlined in section 1.11 of this report and these can in turn be set against the findings from resident consultations outlined in section 4.
- 5.2 In using the 6 strategic levers the Council has been able to deliver strong efficiency outcomes ahead of stopping and reducing services in order to protect front line services and the most vulnerable users. Table 5 describes the savings identified from these ‘Levers’ from across the council.

Table 5	2011/12	2012/13	2013/14	Total
New savings by ‘Strategic Lever’	£’m	£’m	£’m	£’m
Assets	-	-0.200	-	-0.200
Contracts	-5.115	-1.334	-1.568	-8.017
Debt	-2.000	-	2.000	-
Establishment	-14.344	-2.865	-1.266	-18.475
Income	-2,243	-1,810	-516	-4,569
Shared Services	-50	-25	-500	-575
TOTAL	-23,752	-6,234	-1,850	-31,836

- 5.3 These proposals are in line with consultations with residents who have identified savings in the back office, increased debt collection and additional charging for specific services as priorities whilst protecting social services for children, the disabled, the elderly and those most disadvantaged.
- 5.4 £8m of contract savings have been identified. Generally suppliers have understood the financial constraints the council has been placed under and service divisions are undertaking a robust challenge of existing contracts to ensure that the maximum value for money outcomes (optimum balance between quality and price) is being achieved across all areas of the council.
- 5.5 Another key priority for both the council and residents was making efficiencies in the back office ahead of savings on the front line. £18m worth of savings have been achieved by reducing communications, human resources, finance and policy functions, restructuring departments and eliminating duplications and inefficiencies. Paragraph 2.4 sets out the clear financial risks associated with large scale restructurings it also important to note that support structures are being eroded to the point where capacity of the organisation will be severally stressed.
- 5.6 Any additional revenue to the organisation results in fewer overall reductions in service provision but departments have been very aware that charging for the most essential services and to those who are most financially constrained should be avoided. The council therefore identified £4.5m in additional fees and charges to be raised from areas such as cemeteries and crematoria, graffiti removal, bulky waste collection and parking

- 5.7 The council has also reviewed areas of service that may be reduced or stopped using the same framework (as at paragraph 1.11) protecting, where possible social services for children, the disabled, the elderly and those most disadvantaged. Table 6 sets out where savings have been found, across the council, against those categories.

Table 6	2011/12	2012/13	2013/14	Total
New savings by 'Reduce/Stop'	£'m	£'m	£'m	£'m
Reduce	-12,451	-2,872	-2,015	-17,338
Stop	-0.959	-0.484	-0.050	-1.493
TOTAL	-13,410	-3,356	-2,065	-18,831

- 5.8 The council has also identified significant areas where efficiencies can be made in how services are delivered to residents. £11m of efficiencies have been allocated by better aligning resources with services, introducing leaner systems, enabling greater co-operative working with residents and stakeholders and more integrated working with neighbouring boroughs.
- 5.9 As a result the council has currently identified revenue savings across all of its activities amounting to £50.7m over the 3 years to 31 March 2014. Based on its planning forecast, as described at paragraph 1.6 above this leaves a further forecast £28.1m of savings to be found through future Service and Financial Planning processes. Table 7 shows the detail:

Table 7	2011/12	2012/13	2013/14	Total
New savings total	£'m	£'m	£'m	£'m
Assets	-	-0.200	-	-0.200
Contracts	-5.115	-1.334	-1.568	-8.017
Debt	-2.000	-	2.000	-
Establishment	-14.344	-2.865	-1.266	-18.475
Income	-2,243	-1,810	-516	-4,569
Shared Services	-50	-25	-500	-575
Reduce	-12,451	-2,872	-2,015	-17,338
Stop	-0.959	-0.484	-0.050	-1.493
TOTAL	-37,161	-9,590	-3,915	-50,666

- 5.10 The council understands the importance in providing for current and future need so significant capital investment will be made in key priority areas in line with manifesto commitments. £89m will be invested to expand and modernise our primary and secondary schools in order to meet increasing demand and to make up some of the reduction in Building Schools for the Future financing as highlighted in 3.3. £35m has been earmarked for strategic hubs in Streatham Clapham and Norwood investing in leisure and healthcare facilities, retail capacity and new housing creating over 600 jobs. £2.2m will go towards helping residents with additional needs stay in their own homes mitigating the need for additional care facilities. £4.5m has been allocated to bring underused council properties back into use, a necessity highlighted in section 3.7 – 3.9 and over £9.4m will be invested in resurfacing sub-standard roads and pavements. In

2011/12 Housing will also receiving significant investment with an additional £29m to improve the quality of council owned properties to ensure we meet the decent homes standard and £4.4m is going into regenerating our housing estates.

6. Comments from Executive Director of Finance and Resources

- 6.1 The departmental proposals included in this report form part of the Council's overall budget setting process. This committee is asked to comment on these proposals and these comments will be fed back to the Cabinet in February 2011. The Cabinet will then consider the overall budget in the context of available resources.
- 6.2 The medium-term outlook for Local Government finances is one of very significantly reduced funding coming through from central Government, as expounded in the CSR covering a four year period. This therefore sets the overall context for the Council in terms of its own three year planning cycle; Savings still need to be identified for 2012/13 and 2013/14 and it is important that the Service and Financial Planning process for budget setting in 2012 begins as soon as possible.

7. Comments from Director of Legal and Democratic Services

- 7.1 The Council has a duty to maintain a balanced budget throughout the year and, accordingly, members are required to regularly monitor the Council's financial position in accordance with section 28 of the Local Government Act 2003 and must use the same figures for reserves used in the original budget save reserves used to meet deficits in previous financial years. The Council must take necessary appropriate action to deal with any deterioration in the financial position revealed by the review. In considering the Council's financial strategy, members will need to balance the proposed level of expenditure in discretionary areas of service provision against that required to ensure that the Council complies with its statutory duties.
- 7.2 By virtue of section 25, Local Government Act 2003, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Executive Director of Finance & Resources (EDFR) as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence, that the financial position continues to be closely monitored. In particular, members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered and that new expenditure is contained within the available resources. Accordingly, any proposals put forward must identify the realistic measures and mechanisms to produce those savings.
- 7.3 In reaching decisions on these matters, members are bound by the general principles of administrative law. Lawful discretions must not be abused or fettered and all relevant considerations must be taken into account. No irrelevant considerations may be taken into account, and any decision made must not be such that no reasonable authority, properly directing itself, could have reached.

Members must also balance the interests of service users against those who contribute to the Council's finances. Monies may not be expended thriftlessly and the full resources available to the Council must be deployed to their best advantage. Members must also act prudently and in a business-like manner at all times.

- 7.4 In considering the advice of officers, and the weight to be attached to that advice, members should have regard to the personal duties placed upon the EDFR as Chief Financial Officer. The Chief Financial Officer is required by Section 151 of the Local Government Act 1972 and by the Accounts and Audit Regulations 2003 to ensure that the Council's budgeting, financial management, and accounting practices meet relevant statutory and professional requirements. In the event that the Council's overall financial position worsens considerably during the remainder of 2010/11, the EDFR will need to have regard to the statutory obligations which are placed on him personally when deciding on any particular actions to be recommended to members to address his concerns.
- 7.5 Section 106 of the Local Government Finance Act 1992 applies at any time to a Member of a local authority or a Member of a committee or sub-committee of a local authority if, at that time, a sum in respect of community charge, or a sum in respect of council tax has become payable by the member and has remained unpaid for at least two months.
- 7.6 If a Member to whom Section 106 applies is present at a meeting of the authority, the Executive, or a committee or sub-committee of the authority or the Executive, at which any of the following matters is the subject of consideration:-
- Any calculation required by Chapters III, IV or IVA of the 1992 Act ie budget requirement, tax base and tax, or
 - Any recommendation, resolution or other decision which might affect the making of any such calculation, or
 - The exercise of any functions in relation to the administration, collection and enforcement of community charge or council tax –
 - The Member shall as soon as practicable after the commencement of the meeting, disclose the fact that this section applies to her/him and shall not vote on any question with respect to that matter.
- 7.7 If or to the extent that any matter listed above is the responsibility of the Executive, no member of the Executive to whom Section 106 applies shall take any action or discharge any function with respect to that matter.
- 7.8 If a Member fails to comply with the requirement to disclose the fact that Section 106 applies and accordingly not to vote then they shall be liable to prosecution by the Director of Public Prosecutions which carries a fine not exceeding level 3 on the standard scale.
- 7.9 In certain circumstances the chair of the meeting may be under an obligation to refuse to count the vote of a Member who has declared that Section 106 applies to him/her, yet still voted. However, the chair would have to be fully satisfied that

the declaration was beyond question. In relation to the non-payment of community charge or council tax the person most likely to have the best information as to whether the section applies to them is the individual concerned. If a Member declares an interest in terms of Section 106, as is their duty if the Section applies, they will disqualify themselves from voting and any attempted vote cannot be counted.

- 7.10 In the event of a Member failing to disclose such an interest, and even though the Chair may have good grounds for believing that the Member is disabled by interest, nevertheless the chair should not refuse to accept a vote by that Member. However, the Executive Director of Finance (EDF) will also be in a position to verify whether any particular Member is under a Section 106 duty and if a situation arises whereby the Member in question fails to declare an interest in terms of Section 106, the Chair is under an obligation to take account of the information provided by the EDF.
- 7.11 Prior to any meeting at which any of the matters referred above are to be considered, the EDF, or her/his representative, will contact all Members who are, in her/his opinion, in a position where Section 106 applies. The EDF will carry out a further check on the position prior to the meeting and will ensure that the Chair is informed at or before the commencement of the meeting.
- 7.12 Once the Chair is in possession of that information the Chair should indicate to the meeting that Section 106 applied to a Member or Members present, based on information provided by the EDF. It will then be for the individual Members concerned to approach officers from the Finance Division to clarify the position, if necessary. If the position as set out in the information provided by the Finance Division remains unchanged, then the Chair is under an obligation to refuse to count the vote of that Member. The fact that a Member who is disabled by interest has taken part in the consideration of the report and voted on it does not render unlawful the decision of the Committee or Council.

8. Results of consultation

- 8.1 See main body of report.

9. Organisational implications

9.1 Risk management:

- 9.1.1 The Corporate Committee, in its 'audit committee' role, receives regular reports on risk management activity, in sufficient detail to allow the Committee to monitor the effective development and operation of risk management and corporate governance in the Council.
- 9.1.2 The process for identifying, recording and managing risks is well-established within Lambeth. Risk registers are in place and maintained for all departments, with risks being recorded and managed at a divisional, departmental and corporate level where appropriate.

- 9.1.3 It is clear that settlement will have a significant impact on all services and functions across the Council and that significant reductions in costs and services will be required. In addition, the Council will be impacted by the consequences of budget reductions in partner organisations such as the PCT's (changes in GP services and public health), Police (community safety) and grant funding organisations. These reductions in revenue and capital budgets will also impact on other areas of Council activity, such as business continuity planning, emergency planning frameworks.
- 9.1.4 Risks are being considered throughout the service and financial planning process, with savings proposals being subject to scrutiny by the relevant departmental leadership team, Strategic Leadership Board, Informal Cabinet and Scrutiny committees. A budget consultation exercise has been underway since the summer. Departmental proposals have been formulated with due consideration to the messages received from our residents.
- 9.1.5 As part of the Service and Financial Planning process, all savings proposals put forward by departments are required to explicitly identify the risks associated with the proposals

9.2 Equalities impact assessment:

- 9.2.1 Given the scale of the budget reduction for 2011/12 a different and more comprehensive approach to Equality Impact Assessment (EIA) has been taken which builds on our existing equality processes (which look at each proposal individually and proposals departmentally) to look at the impact of all the proposals when taken together. Different, from previous approaches, which have solely concentrated on the traditional six equality strands, the cumulative EIA also looks at geographic impact (i.e. are some areas of the borough more affected than others), socio-economic impact, as well as impact on providers who deliver services on behalf of the council, and health and social wellbeing impacts. It is important to note that this is just the start of the impact assessment process for the council and as individual proposals are developed and taken forward they will be subject to further assessment. It also considers ways in which these possible cumulative effects might be mitigated within the 2011/12 service plans and beyond.
- 9.2.2 There is a proposed six stage challenge approach which guides the cumulative EIA process:
- **Initial screening** of service reduction proposals for relevance to equality – reviewed by Informal Cabinet 16 December 2010
 - **Cumulative impacts assessment of service reduction** proposal – review by Senior Leadership Board 18 January 2011, review by Informal Cabinet 20 January 2010, review by Corporate EIA Panel 20 January 2011. The Corporate EIA panel includes external and community representation.
 - **Cumulative impacts assessment of staff reductions** – review by Corporate EIA panel March 2011
 - **2011/2012 Service Plan overarching EIAs** – review by Corporate EIA Panel April 2011

- **Departmental EIA process** – several of the individual EIAs on proposals will be developed more closely at the departmental level (following the usual EIA process), and possibly Corporate EIA panel level (if Corporate Panel chooses to call these EIAs for further scrutiny)
- Lambeth, is one of only a handful of local authorities selected to work with **Local Government Improvement and Development (LGID)**, through their smarter EIA programme. LGID will therefore be working with the council in January and February to review and strengthen our approach to cumulative impact assessment and to share Lambeth best practice with other authorities.

9.3 **Community safety implications:**

9.3.1 The departmental proposals have made these implications clear as they apply to individual templates.

9.3.2 It is however important to note that the Finance Settlement has particular funding implications for Community Safety with a number of grants ceasing and uncertainty over the remainder. Preventing Violent Extremism ceased in 2010/11 (worth £182k) and there is currently no information on the Home Office element of the Safer & Stronger Communities Fund (worth approximately £400k in 2010/11). An announcement on this from the Home Office is expected shortly but even if funding is available it is likely to be at a reduced rate. The Home Office's Young Persons Substance Misuse Grant (£274k in 2010/11) is subject to the same uncertainty.

9.3.2 Other funding streams for Community Safety issues affecting young people are also affected. The Youth Justice Board has yet to confirm its funding for 2011/12 across a range of programmes (approx. £800k in 2010/11). Details on this are also expected shortly.

9.4 **Environmental implications:**

9.4.1 The departmental proposals have made these implications clear as they apply to individual templates and specific departmental service areas.

9.5 **Staffing and accommodation implications:**

9.5.1 These proposals include the cessation or reduction in services which would necessitate restructuring and reorganising under new service delivery models. At present it is proposed to delete approximately 600 posts from the Council's establishment of c3900 jobs – a 15% reduction.

9.5.2 The Council's policy and procedure on Reorganisation, Redundancy and Redeployment will be used by managers to ensure that the changes are made fairly and consistently to enable the delivery of savings targets. As regards the workforce, it is inevitable that the actual headcount reduction may be higher as some posts are occupied by part-time or jobshare workers.

9.5.3 With change of this magnitude, support arrangements have been but in place to assist the workforce – both managers and staff – in either transitioning into the new organisational structures or leaving Lambeth under redundancy.

9.5.4 The Council will issue formal notice to the Trades Unions under Section 188(4) of the Trade Union and Labour Relations (Consolidation) Act 1992 that the decision to reshape the Council will affect what services are delivered, how they are delivered and may result in redundancies.

9.5.5 This whole change process is being managed by the Change Team with oversight from Departmental Leadership Teams and the Strategic Leadership Board.

9.6 Any other implications:

9.6.1 It is important to note that there remains uncertainty and therefore risk across a number of previously funded grants and programmes. Indeed there remains a funding gap against the Council’s forecast planned savings figure. The Council must remain aware that changes to funding arrangements together with the potential for further in-year reductions (as was the case with the National Emergency Budget in June 2010). The Council must remain cognisant of the potential for any further future changes and continue to plan to meet the reducing resource base.

9.6.2 Otherwise there are none that are specific for this report at the point of publication.

10. Timetable for implementation

10.1 The overall timetable for budget review and approval is as follows:

Meeting	Date	Service
Health & Adult Services	25 January	Adult social care/ health care
CYPS	26 January	Children & Young People’ service
Finance	27 January	Finance & Resources and Council-wide
Overview & Scrutiny	1 February	Office of the Chief Executive and Planning, Regeneration & Enterprise
Environment & Community Safety	2 February	Public Realm and Community, Safety & Culture
Housing	3 February	Housing General Fund
Cabinet	7 February	Budget Report (Council-wide)
Cabinet	7 February	Housing Revenue Account Budget and Rent Setting Report 2011/12
Council	23 February	Budget Report (Council-wide)

	Between 23 February and 2 March	Housing rent demands issued - timeframe
	Between 10 and 17 March	Council Tax bills issued – timeframe