

**London Borough of Sutton**

**The Executive - 16 February 2009**

**Report of the Strategic Director - Resources**

**BUDGET 2009/10 AND ASSOCIATED MATTERS**

**Ward Location:** Not Applicable

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**Area Served:** Borough-Wide

**Executive Councillor:** John Drage

**Key Decision Report**

**Summary**

This report builds on previous reports on the Council's forward financial plans and sets out the proposed revenue budget and capital programme for all the Council's services for approval. It gives details of the Government's financial settlement and the Council's overall financial position. It proposes a total level of revenue and capital expenditure for the Council for 2009/10 and projects forward a three year forecast of Council spending. It also reports on the latest position on the Greater London Authority precept and recommends the level of Council Tax for 2009/10 for adoption by the Council on Monday 2 March.

**Recommendations**

I recommend the Committee to :

**Revenue Budget**

- a. Note the Council's latest estimates for 2008/09 and the projected outturn as detailed in Section 4.
- b. Agree to set up a £500k Reserve for Transforming Social Care in 2008/09 as detailed in paragraph 4.2 and a £1,500k Reserve for Treasury and Capital Programme Management as set out in paragraph 4.3.
- c. With the exceptions referred to in paragraph 4.4, agree that no revenue underspendings at 31 March 2009 be approved for carry forward to 2009/10.
- d. Approve the allocation of the Area Based Grant (para 6.5).
- e. Note the changes to the Concessionary Fares Scheme (para 6.6).
- f. Agree the arrangements for education services funded from the Dedicated Schools Grant (Section 7).
- g. Note the Government's warning on 2009/10 Council Tax levels, and their threat to use capping powers (para 10.4).
- h. Approve the growth and savings proposals set out in Section 11 and Annex REV 2 and REV 3.
- i. Authorise Strategic Directors to progress the agreed growth and savings items without the need to seek further committee approval.

- j. Note that the Council has given 12 months notice of intent to consider withdrawing from membership of the Local Government Association from 2010/11 (para 11.4).
- k. Agree a central contingency of £2.7m (Section 13).
- l. Agree the use of £3m from General Fund balances and £2m from reserves to support capital expenditure (paras 14.4 and 14.5).
- m. Approve the Council's draft revenue estimates 2009/10, including the recommended additional spending and savings options.
- n. Note the indicative precept level of the Greater London Authority (Section 19) and note that the agreed precept will be reported to Council on 2 March 2009 (unless available for this meeting).
- o. Set a Council Tax for 2009/10 based on a Sutton increase of 2.9% and the figures given in Annex REV 1, and in accordance with the draft resolution in Annex REV 4.
- p. Note the three year forecast and, recognising the economic pressures facing residents, the administration's intention to keep future Council Tax increases as low as possible.

### **Capital Programme**

- q. Approve the Capital Programme set out in Appendix A and Annex CAP1 to this report.
- r. Approve the financing of capital expenditure from borrowing of £4.356m in 2009/10 (para 9.3) and that this sum be taken account of within the Council's revenue estimates for 2009/10 and the three year revenue forecast to 2011/12.
- s. Delegate to the Chief Finance Officer, the authority to allocate capital financing resources to schemes during 2009/10 as detailed in Appendix A for confirmation by report at the end of the year.

### **Treasury Management**

- t. Approve the 2009/10 to 2011/12 Treasury Management Strategy and Annual Investment Strategy including the Policy Statement on Minimum Revenue Provision (Appendix B).
- u. Approve the prudential indicators to support the Council's capital financing borrowing requirement as set out in Annex TM1.
- v. Approve the borrowing limits and treasury management prudential indicators set out in Annex TM2.

## **1. Background**

- 1.1 The Local Government Finance Act 1992 requires the Council to calculate "the expenditure which the authority estimates it will incur in the year in performing its functions and will charge to a revenue account for the year". In making the above calculation, the Authority is required to take into account the amount of any precept or levy issued. The budget must be set by the 11<sup>th</sup> March in the preceding financial year.
- 1.2 The Council's spending plans also include capital investment. The Prudential Code for Capital Finance permits local authorities to borrow to support new capital

investment provided the Council considers it affordable, sustainable and prudent. In order to support any decision on prudential borrowing, local authorities are required to set a number of prudential indicators before the beginning of the financial year. Section 9 of this report gives further details of the Council's capital programme.

- 1.3 Section 25 of the 2003 Act requires the Chief Financial Officer (CFO) to report to the local authority when making the statutory calculations to determine the Council Tax. This report must address:
- The robustness of the estimates included in the budget and
  - The adequacy of reserves for which the budget provides

Section 26 of the 2003 Act gives the Secretary of State power to set a minimum level of reserves. This will only apply in exceptional circumstances where the authority is acting imprudently and not following the advice of its CFO

## **2. THE SUTTON PLAN**

- 2.1 The first edition of the Sutton Plan was published in April 2007 and sets out the Council's key priorities for improvement over the following three years. Each year the Plan is refreshed and the improvement targets rolled forward a year. The refreshed Sutton Plan and Equality Scheme for 2009/10 is due to be submitted to The Executive on 9 March 2009.
- 2.2 Preparation of the Council's revenue and capital spending plans is carried out in conjunction with work on the Sutton Plan. This integrated process is intended to ensure that the three plans are consistent, that the programme of change in the Sutton Plan is soundly based on available resources and that these available resources are aligned in accordance with the agreed priorities of the Council.
- 2.3 Corporate and financial plans also link to wider aspirations for the area through the Council's leadership of the Local Strategic Partnership and its constituent themed partnership bodies. Partnership working was given improved focus in 2008/09 through the updating of the Local Area Agreement to reflect the new arrangements for National Performance Indicators and Area Based Grant and will receive fresh impetus in 2009/10 as we move towards Comprehensive Area Assessments.

## **3. ESTIMATES FORMAT**

- 3.1 The estimates have been produced in the agreed corporate format to reflect the organisational structure of the Council. They also reflect the Council's key priorities for improvement as set out in the Sutton Plan. Additional information is incorporated from Service Business Plans and the three year forecast indicates the cost of current service provision adjusted for approved demographic changes.
- 3.2 The estimates book, to be submitted to the Council meeting, will incorporate details of the revenue budget, capital programme and Housing Revenue Account
- 3.3 I have reviewed the estimate information included in the budget book to reflect improved budget management. Revised Estimates are no longer prepared, and information on outturn figures for the previous year is now included in the service estimate pages. A new service group summary page is also included to provide better information on spending trends.

#### 4. FORECAST EXPENDITURE 2008/09

- 4.1 Revenue monitoring reports are submitted regularly to The Executive, and compare variances between actual and projected expenditure and latest estimates. The latest estimates comprise the original estimate (as agreed by Council) adjusted for virements, contingency allocations, allocations from reserves, e.g. Invest to Save Reserve, and the revenue implications from capital schemes. These adjustments are managed by central accountancy and reviewed monthly.

To predict the General Fund Balance at 31 March 2009, projected outturn figures have been calculated. Based on figures prepared for the revenue budget monitoring report to 31 December 2008 and reported to The Executive on 3 February 2009, the situation is summarised below including the effects of the adjustments proposed in paragraphs 4.2 and 4.3:

	Original Estimate £'000	Latest Estimate £'000	Projected Outturn £'000	Projected Variance £'000
<b><u>DIRECT COSTS</u></b>				
Adult Social Services & Housing	54,152	53,748	53,151	-597
Chief Executive's Group	5,166	5,298	5,150	-148
Children, Young People & Learning Services	29,696	30,998	31,543	545
Environment & Leisure Resources Group	33,948	35,819	36,056	237
Non Service Revenue Accounts	673	981	812	-169
Central Contingency	7,673	7,864	7,348	-516
	3,500	100	100	0
<b>TOTAL EXPENDITURE</b>	<b>134,808</b>	<b>134,808</b>	<b>134,160</b>	<b>-648</b>
Adjustment of Balances	0	0	648	648
<b>BUDGET REQUIREMENT</b>	<b>134,808</b>	<b>134,808</b>	<b>134,808</b>	<b>0</b>
<b><u>SUPPORT COSTS</u> (Fully Recharged)</b>				
Chief Executive's Group	4,101	4,455	4,565	110
Environment & Leisure Resources Group	1,659	1,672	1,673	1
	13,925	14,549	14,718	169
<b>TOTAL</b>	<b>19,685</b>	<b>20,676</b>	<b>20,956</b>	<b>280</b>

- 4.2 Adult Social Services are showing a projected underspending which includes some £500k saving from negotiating below inflation uplifts on provider contracts for residential, nursing and home care. This proactive approach by Adult Social Services has generated early savings in respect of the savings proposal included in the 2009/10 budget consultation for managing contracts with external care providers.

To comply with new government directives considerable investment will be required over the next few years to develop processes and infrastructure to support future changes to the delivery of social care. Following discussion with the Strategic Director – Adult Social Services and Housing I propose to set aside this £500k in a Reserve for Transforming Social Care which can be drawn upon without impacting on future years budgets.

4.3 Three budgets within Non Service Revenue accounts warrant specific mention due to their significant variation against original estimates

- The Council reclaimed £1.132m VAT, plus statutory interest, for the period 1973 – 1996 and in respect of overpaid VAT on library charges, bulky domestic waste and excess parking charges following a High Court case “Fleming t/a Bodycraft”.
- Higher levels of cash balances, and, during the earlier part of this financial year, higher than budgeted interest rates, have generated significantly higher interest earnings this year, with £2.0m projected for the year compared to £1.0m included in the original budget.
- Following Heritable Bank being put into administration on 7 October 2008, the £5.5m deposit the Council had with the bank is frozen together with accrued and future interest earnings. Ernst and Young, the administrators, have advised that they consider that there will be a material dividend payable in due course for unsecured creditors. They are unable to provide a realistic estimate at this time. Government regulations would permit any potential losses to be carried forward to future years until a better assessment can be made. However in view of the buoyancy of the latest estimate position in 2008/09, my judgement is it is affordable and prudent to create a reserve to provide cover against any ultimate loss, and also for support to the capital programme in the event that the housing slump continues into 2010/11 (see Appendix A). The amount proposed for this reserve for Treasury and Capital Programme Management is £1.5m. If the provision is not ultimately required for either purpose it can be returned to general fund balances.

4.4 Recent policy has been not to permit the carry forward of over and underspendings due to the Council's overall financial position. This is the situation again in 2008/09 and I propose that no carry forward of over and underspendings to 2009/10 should apply, with the following exceptions. Included within the Area Based Grant award for 2008/09 is £105k to support work to prevent violent extremism. This high profile scheme is jointly sponsored with the Metropolitan Police and the Home Office, and a programme is being prepared for implementation in 2009/10. In addition, funding for a number of education related projects has been switched from the Standards Fund to Area Based Grant. Funding for these schemes covers the academic year to 31 August 2009, and the unspent balance at 31 March will need to be carried forward to 2009/10. The Council has received a £197k allocation from the government as part of the Local Authority Business Growth Incentive (LABGI). By Minute 637/08 it was agreed that the allocation will be used to support the development of the Sutton Chamber of Commerce, subject to the preparation of a five year business plan. The grant funding will be drawn upon over this period.

4.5 2008/09 Contingency Provision

The original provision totalled £3.5m. Allocations totalling £3.4m have been incorporated in Service Group's latest estimates during the year, leaving an unallocated balance of £0.1m. This I estimate to be sufficient to cover any unforeseen and unbudgeted costs between now and the year end.

**5. BALANCES AT 31 MARCH 2009**

5.1 Original estimates for 2008/09 assumed that balances in hand at 31 March 2009 would be £10.279m. Following underspendings in the 2007/08 outturn, balances at 31 March 2008 increased to £11.140m. The 2008/09 budget assumed no drawings from balances. The projected outturn, summarised in paragraph 4.1, predicts an underspending of £648k against the original 2008/09 budget. This will be added to the unearmarked balance in hand at 1 April 2008, bringing the estimated total at 31 March 2009 to £11.788m after allowing for the proposed adjustments set out in paragraphs 4.2 to 4.3 above.

**6. 2009/10 REVENUE FORECAST - UPDATE**

6.1 I reported my budget forecast to The Executive on 4 November 2008. This forecast was prior to the detailed calculation of service groups' base budgets. Work on this has now been completed and includes adjustments for inflation, both historical and projected.

6.2 In addition there have been a number of changes to projected income budgets due to deteriorating economic conditions since the forecast was agreed. The following have been incorporated in the 2009/10 draft estimates:

	£'000
- Reduced interest earnings from lower interest rates.	350
- Land Charges – Income Shortfall and Change to a Trading Account Basis.	80
- Reduced Off-Street Car Park Income.	120
<b>TOTAL</b>	<b>550</b>

6.3 I have reviewed inflation provision for pay awards for non teaching staff. In my forecast to The Executive on 4 November I advised that I had included 2.5% for pay increases from April 2008, and a further 2.5% from April 2009. The employers' offer of 2.45% from April 2008 was not accepted and will be decided by arbitration at some point. As a consequence of the current economic conditions and projected inflation rates, I have revised the provision for next years pay award to 2% for non teaching staff, and reduced the General Fund payroll budget by £372k.

6.4 The detailed draft revenue estimates for each Service Group, with accompanying narrative, are submitted as a separate enclosure. Final versions of these pages, reflecting adjustments agreed at this meeting, will be incorporated into the published budget book.

**6.5 Area Based Grant**

The estimates include grant distribution to service groups from the new Area Based Grant. This is the second year of the grant, which brings together a number of specific grant allocations previously received by the Council to form one single non-ringfenced grant and is a mainstream resource which can be spent as the Council sees fit to support the delivery of local, regional and national priorities.

As part of the Government's three year allocation process, covering 2008/09 to 2010/11, provisional figures were announced in December 2007. In November 2008 the Department of Communities and Local Government advised mid year increases and a number of additional grants allocated by contributory departments. The current position is summarised below.

	2008/09 Original Estimate £'000	2008/09 Latest Estimate £'000	2009/10 Estimates £'000	2010/11 Estimates £'000
Allocations Advised December 2007.	7,579	7,579	8,021*	11,403*
Increases to Allocations.	0	9	2	2
New Grant Components				
- Preventing Violent Extremism.	0	105	125	131
- Preventing Violent Extremism – Toolkit.	0	12	0	0
- Young Persons Substance Misuse.	0	72	72	72
- Climate Change.	0	23	23	23
- Child Trust Fund.	0	1	1	1
<b>TOTAL</b>	<b>7,579</b>	<b>7,801</b>	<b>8,244</b>	<b>11,632</b>

\* The 2009/10 figure has been adjusted by £3,667,000 in respect of Supporting People Grant which will stay as a specific grant in 2009/10 and be incorporated into Area Based Grant from 2010/11.

In 2008/09 the committee agreed that the £7.579m be allocated to service groups as per the make-up of the grant advised by the Government. It is recommended that this arrangement continue for the £8.244m notified for 2009/10.

## 6.6 Concessionary Fares

The level of individual borough payments for the Freedom Pass scheme in 2009/10 were agreed by the London Councils Transport and Environment Committee in December 2008. The overall estimated cost of the scheme in 2009/10 is significantly lower than last year due to a number of factors, but notably due to lower than forecast costs for non London eligible resident's travel in London under the national bus concession introduced from April 2008. This has resulted in a rebate being due from both Transport for London (TfL) and other bus operators, in respect of 2008/09 and lower costs in 2009/10, both of which have been incorporated into the 2009/10 budget for freedom passes.

As reported in December, Sutton has also benefited from changes to the way costs are allocated across boroughs from 2009/10. The move from numbers of passes issued to usage is being phased in over the next three years.

The estimated costs for 2010/11 are dependant on a new five year agreement with TfL, although they are expected to be higher than those under the current five year deal.

To help smooth the budgetary provision for concessionary fares over the next two years I am recommending a contribution of £400k to a "Freedom Pass Equalisation

Reserve". This will result in a budget for 2009/10 of £4.4m compared to £5.6m in 2008/09. After allowing for inflation, the additional saving to the Council in 2009/10 is £969k over and above the £560k projected saving arising from switch to charges based on usage.

#### 6.7 Transfer of Responsibility for Clients With Learning Disabilities

The Government has decided that funding for residential care of adults with learning disabilities currently provided through the NHS should be transferred to local authorities. Primary Care Trusts (PCTs) and Councils are required to agree locally the amount of revenue funding to be transferred for 2009/10 and 2010/11. Officers from Sutton and Merton PCT, London Borough of Sutton and London Borough of Merton are working to agree final figures before the end of March. The funding transferred to the London Borough of Sutton will cover the costs of providing registered care or supported living for Sutton citizens resettled from Orchard Hill or Campus Homes as well as those covered by existing funding arrangements. Sutton and Merton PCT will also provide revenue funding for community support services in Sutton and Merton as outlined in the Orchard Hill Business case. We estimate that the final sum to be transferred to the London Borough of Sutton will be around £18.5m and we expect that this will be sufficient to meet the additional costs of the Council's responsibilities in relation to adults with learning disabilities. This will be confirmed and appropriate sums included in Adult Social Services and Housing budgets for expenditure and income when we finalise the funding transfer.

### 7. **SCHOOLS BUDGETS**

- 7.1 Details of the school funding settlement for 2008/09 to 2010/11 were included in the report to The Executive on 18 December 2007 (Minute 1132/07). Sutton's indicative Dedicated Schools Grant (DSG) for 2009/10 has been calculated by the Department for Children Schools and Families (DCSF), using pupil number projections published by the DCSF, as £125.517m. This is based on an increase of 3.7% per pupil when compared with 2008/09. In preparing the Council estimates for 2009/10, the Strategic Director - Children Young People and Learning Services calculates that the DSG will increase to £125.455m. This forecast will however need to be revised once all the relevant data has been collected, based on specific Government returns for January. The final DSG will not be advised by DCSF until early summer and I am therefore including £125.455m in this report. I will report the revised figures from the DCSF when known
- 7.2 In addition to funding delegated budgets to schools, the ring-fenced DSG also funds other areas of expenditure, including behaviour support, early years and special educational needs. As part of the budget process last year, the Schools Forum approved spending within the DSG for the period 2008/09 to 2010/11. The Forum will consider each year whether any changes need to be made in respect of spending issues.
- 7.3 One issue that has arisen concerns an increase in the number of pupils being educated in independent special schools and the consequential overspend on the special educational needs budget. This increase is despite the additional provision made in the borough in relation to pupils being diagnosed with Autistic Spectrum Disorder. Although the additional spending can be contained within the 2008/09 DSG, there is an estimated overspend of £735k in 2009/10 and a further £1.148k in 2010/11. This issue has been discussed in detail at school meetings held in

January and the Schools Forum, at their meeting held on 28 January, agreed that this forecast overspend be met by reducing the level of increase in schools budgets planned for the next two years. Schools budgets were expected to increase by approximately 4% during the next two years. The action to reduce budgets, which will be achieved by reducing the level of age weighted pupil funding, will reduce budgets by approximately 0.5% next year and a further 1% in 2010/11. We are still reviewing overall spending in the DSG and hope that the reduction will be less.

- 7.4 The settlement for schools, prior to the reduction mentioned in 7.3 above, is about 2% less than has been experienced during previous funding periods. This will cause difficulty for some schools, particularly those with a small level of balance. An important part of the settlement has been the provision made for teachers' pay. Although the headline rate of increase is 2.3% from this September, the settlement is higher for teachers in London. Consequently, the Government has allocated an additional grant to cover this difference. For Sutton, we have been allocated £478k.

## **8. CONSULTATION**

- 8.1 Sutton commenced a 12 week consultation period on its budget plans for 2009/10 in November 2008 which closed on 27 January 2009. The objectives of the consultation were both to inform about how the Council spends its resources and to seek views on the projected budget. The consultation covered options on proposals for spending and savings and asked for comments about the Council's budget plans. The consultation was aimed at the Council's partners, residents, service users, business community and other interested stakeholders who were invited to respond in writing, by email, on the telephone or by completing a feedback form. The consultation was also considered by a representative group of young people from the borough (True Voice) to gain feedback from young people, and the Equality and Diversity Forum to ensure the views of minority groups in the borough are considered. Details were published on the website, in libraries, on notice boards, via a mail out to 700 stakeholders, in a feature in Sutton Scene and in the local press.
- 8.2 The Executive considered a report summarising the feedback from the consultation on 3 February 2009, and received an address from the lead petitioner (226 signatories) opposing changes to the Animal Warden's duties in relation to stray dogs. 79 items of correspondence were received, signed by 98 people. Over 110 people attended various meetings and The Executive on 3 February considered comments from the following meetings:
- Sutton Partnership Board – 28 October 2008.
  - Scrutiny Overview Committee – 25 November 2008.
  - St Helier, The Wrythe and Wandle Valley Local Committee – 9 December 2008.
  - Equality and Diversity Forum – 10 December 2008.
  - Carshalton and Clockhouse Local Committee – 16 December 2008.
  - Cheam and Worcester Park Local Committee – 18 December 2008.
  - True Voice Meeting – 15 January 2009.
  - Council and Employees' Joint Committee – 22 January 2009.
  - Sutton Federation of Tenants and Residents – 27 January 2009.

## **9. THE CAPITAL PROGRAMME AND THE PRUDENTIAL CODE**

- 9.1 Appendix A details the background and issues considered in preparing this years capital programme which proposes capital investment in the borough over the next three years of some £141m. Annex CAP1 to Appendix A details the recommended programme.
- 9.2 Under the Prudential Code for Capital Finance, Sutton can take a local decision on the level of borrowing that it considers appropriate to support new capital investment. In taking such a decision Sutton has to determine that any such borrowing is affordable (by reference to the impact on the revenue budget), prudent and sustainable. In order to support any decision on prudential borrowing, local authorities are required to set a number of prudential indicators before the beginning of the financial year. These range from the setting of local limits on prudential borrowing to those that relate to treasury management activities
- 9.3 The assumed level of borrowing to finance the capital programme is £4.356m in 2009/10, £5.407m in 2010/11 and £3.422m in 2011/12 as detailed in Table 1 of Appendix A. This includes both government supported borrowing and Sutton approved borrowing under prudential arrangements. Allowance for the financing costs that will arise from this and previous borrowing approvals is included with the draft revenue estimates for 2009/10 and three year revenue forecast to 2011/12.
- 9.4 Appendix B to this report addresses the requirements of the prudential code. It proposes a treasury management strategy for borrowing and investment for the coming three year period. It also sets out a policy statement on the minimum revenue provision required to be set aside to repay debt. Prudential indicators relating to the financing of the Council's capital expenditure are set out in Annex TM1 to Appendix B. Treasury Management borrowing limits and prudential indicators are listed in Annex TM2.
- 9.5 The prudential indicators are not fixed. Monitoring against the Indicators will be undertaken throughout the financial year and may be revised, following due process (i.e. appropriate committee approval) at any time during the year.

## **10. THE FINANCIAL SETTLEMENT 2009/10 AND 2010/11**

- 10.1 On 26 November 2008 the Local Government Minister confirmed the second year of the three year settlement, for formal consultation, and the indicative allocations for 2010/11, with no change to the formula grant figures advised last year. This means that the grant included in the Council's budget forecast, £53.735m has been confirmed and represents a 1.75% increase over 2008/09 on a "like for like" basis.
- 10.2 Details of the Dedicated Schools Grant are reported in paras 7.1 to 7.3.
- 10.3 The Local Government Minister also explained that the Government expects local government to deliver the same 3% annual efficiency improvements as the rest of the public sector. The Government has published figures on new efficiency savings councils expect to make during 2008/09. To ensure local residents have easy information about their Council's efficiency performance and to encourage them to challenge their Council to do better, the Government requires billing authorities to set out standard efficiency figures on Council Tax bills from 2009/10.
- 10.4 The Local Government Minister advised last year that he expected average Council Tax increases in 2008/09 to be substantially below 5%. The actual average

increase nationally was 3.9%. For 2009/10 the Government again expects the average Council Tax increases in England to be substantially below 5%, and has advised that it will not hesitate to use its capping powers to protect Council Tax payers from excessive increases.

- 10.5 The Department of Communities and Local Government published details of the final settlement on 21 January with no changes to the provisional settlement announced on 26 November 2008.

## **11. SAVINGS AND GROWTH**

- 11.1 Based on a 3.4% Council Tax Increase, The Executive on 4 November 2008 agreed to consult on proposals for additional spending of £5.004m and savings proposals of £4.639m.
- 11.2 Having considered the responses to the budget consultation and reviewed the overall position, it is recommended to adopt the savings and growth options subject to the exceptions below

### Adjustments to Savings Options

- (i) The proposed saving from the introduction of payment cards (£30k) is not feasible.
- (ii) The proposed saving of £360k from the Review of SEN Transport will not be achieved in full, and is now expected to achieve £200k. Agreed by The Executive 1 December 2008 (Min 995/08).
- (iii) Following concern raised by street traders over the increase in licence fees, the proposed increases are being reviewed to lessen the impact on traders given the current difficult economic conditions. The loss of income will be small and will be contained within the overall 2009/10 budget.

### Adjustment to Growth Options

- (i) Demand-led growth for SEN transport costs is now estimated at £620k, an increase of £300k over the figure included in the budget consultation.
- 11.3 Incorporating these changes results in recommended additional spending of £5.304m and recommended savings of £4.449m. Some of the recommended savings are for a part year only, and the estimated savings in a full year are £5.561m. A schedule of the recommended options is included as Annex Rev 2 and Annex Rev 3.
- 11.4 One option to be considered as a saving proposal for 2010/11 is for the Council to withdraw from membership of the Local Government Association from April 2010. Should the Council wish to pursue this proposal, 12 months notice of intent to withdraw is required and this notice has been given to the Association to keep options open. The current subscription is £55k.

**12. LEVIES**

12.1 Three external bodies currently raise levies on the Council, although this is expected to rise to four in 2009/10. Details are included in pages NSRA 4 – 5 of the Resources Group estimates as part of the Special Provisions and Credits estimates. The estimates allow for the following amounts although formal notification of the levies has yet to be received:-

	2008/09 Levies Approved £'m	2009/10 Estimates £'m
Lee Valley Regional Park Authority	0.223	0.227
London Pensions Fund Authority (LPFA)	0.308	0.367
Environment Agency	0.147	0.150
Merton and Sutton Joint Cemetery Board	0	0.050

12.2 In addition to the existing levy the LPFA estimate includes provision for a potential new charge in 2009/10 in relation to the LPFA pensioners sub-fund. This is a mature fund with no active members which exists to pay pension benefits to former employees of the Greater London Council, Inner London Education Authority (ILEA) and London Residuary Body. The last actuarial valuation of the sub-fund projected a deficit of £210m and the LPFA is proposing that this be met by ongoing annual 'special contributions' from the London boroughs, which would be phased in from 2009/10. Inner London boroughs would pay significantly more to cover the part of the deficit attributable to the ILEA. The current proposal envisages a total 'special contribution' of £7m in 2009/10 of which Sutton's share would be £69k.

The LPFA appears to have the support of the Department for Communities and Local Government, which is consulting on the proposed arrangements but has yet to issue the necessary draft statutory instrument. This proposal has provoked significant discussion and opposition and there are a number of legal and other issues so it is not completely certain that it will be implemented for 2009/10.

12.3 The Merton and Sutton Joint Cemetery Board are considering a levy for 2009/10 to service the costs of borrowing to finance an extension to the burial area.

**13. 2009/10 CONTINGENCY PROVISION, THE ASSESSMENT AND MANAGEMENT OF RISK AND ROBUSTNESS OF THE BUDGET PROCESS**

13.1 Sutton Council maintains a corporate contingency within its overall budget as a means of managing risk. I have to determine a central contingency provision to cover unforeseen costs approved during the year having assessed the level of risk.

13.2 All revenue estimates are prepared on an outturn basis, and provision for pay and price increases to 31 March 2010 has been built into service group budget allocations. Whilst I have to make allowance for the risk that approved inflation sums may prove inadequate, the latest economic forecasts predict that inflation rates should fall next year. However, world events can have sudden impacts on prices, especially those exposed to the oil and gas market.

- 13.3 Of particular significance for the contingency next year is the impact the recession could have on a range of budgets. I have already made additional provision in 2009/10 to compensate for the income slow-down from car parks and local land searches. The economic situation could well impact on other fee generating areas such as planning, and the slow-down in the disposals programme is impacting on fee income in legal and construction and property. We are already experiencing an increase in benefits claimants and calls for advice, collection rates for Council Tax, NNDR and debtors could be impacted, affecting our cashflow, which is already seeing lower interest earnings from reduced interest rates. I have to provide for these uncertainties to ensure that the Council can offer residents and local businesses the support needed during the recession.
- 13.4 The social care budgets have been tightly drawn for 2009/10, and are based on known client numbers. Whilst there is an ongoing trend from residential to home care, both for children and older people, the budgets are volatile and care packages for complex cases can be very expensive, particularly for children and clients with learning disabilities.
- 13.5 The population of the borough, and the number of properties in the borough are both increasing. Whilst the additional income generated from the increased Council Tax base has been included in the three year forecast, no provision for increased service demand has been built into service groups' budgets. If additional cost pressures from this source can be demonstrated by service groups, a call on the central contingency would be appropriate.
- 13.6 There are also a number of initiatives and reviews which will have budget implications in 2009/10 but which have not yet been finalised. These include the final stages of implementation of single status, the financial implications from health integration arrangements, potential delays from implementing efficiency projects and budget savings, and enquiry costs associated with the recently published Core Planning Strategy document.
- 13.7 Taking all these factors into account, I propose a central contingency of £2.7m for 2009/10. I believe that the budget being presented in this report is robust and that the proposed contingency should be adequate to cover unforeseen costs arising in year.

#### **14. THE PROPOSED LEVEL OF BALANCES**

- 14.1 The agreed budget should allow for a level of balances that provides a prudent reserve against all possible eventualities and provide assurance that the future finances of the Council remain on a sound footing consistent with one of our three over arching themes in the Sutton Plan, delivering value for money. Section 26 of the Local Government Act 2003 gives the Secretary of State power to set a minimum level of reserves. This will only apply in exceptional circumstances where the authority is acting imprudently and not following the advice of its Chief Finance Officer.
- 14.2 The Council's existing policy is that balances of at least 5% of General Fund expenditure (i.e. excluding the schools budget funded from the Dedicated Schools

Grant) plus an adjustment for the Bellwin Threshold, are necessary to provide a good level of prudence. Under the Bellwin scheme the government provides financial support for qualifying emergencies, e.g. exceptional weather events. The Bellwin scheme has a financial threshold based on 0.2% of the Council's annual budget, which for Sutton is some £0.5m. My judgement is that this remains a valid benchmark which for 2009/10 would equate to some £7.4m.

- 14.3 Original estimates 2008/09 forecast balances of £10.279m at 31 March 2009. Underspendings in 2007/08 and projected underspendings in 2008/09 should result in an increased level of balances at 31 March 2009 of £11.788m (as detailed in para 5.1).
- 14.4 In the current economic climate it has been difficult to generate capital receipts to support the capital programme, and as set out in the capital programme appendix it is proposed that £3m of General Fund Revenue Account balances be used to support capital expenditure. This would leave uncommitted balances at 31 March 2009 of £8.788m which is still above the prudent level I advise of £7.4m.
- 14.5 The Council is also proposing the use of £2m to support the capital programme, from reserves earmarked for this purpose (see Appendix A para 2.6).

**15. 2009/10 ESTIMATES**

- 15.1 Since the budget forecast was agreed by The Executive on 4 November 2008, there have been a number of changes to arrive at the proposed budget, as follows:

	£'000
Reduced Income due to Deteriorating Economic Conditions (para 6.2).	550
Reduction in 2009 Pay Award for Non Teaching Staff to 2% (para 6.3).	-372
Concessionary Fares – Additional Saving (para 6.6).	-969
Savings Proposals Not Recommended (para 11.2).	190
Adjustment to Growth (para 11.2).	300
Variation in Local Levies (para 12).	120
Special Contribution to Nonsuch Park Joint Management Committee (Executive 3/12/08).	20
Contribution to Wandle Valley Regional Park – Management Costs.	7
Reduction in Central Contingency Provision.	-300
Other Adjustments (inc. Council Tax Base).	47
<b>TOTAL</b>	<b>-407</b>

Incorporating the net reduction of £407k into the 2009/10 budget will result in a budget requirement of £138.478m. This will require a Council Tax of £1,140.89, a rise of 2.9%. The overall position is summarised in Annex Rev 1.

**16. COMPREHENSIVE PERFORMANCE ASSESSMENT (CPA)**

- 16.1 The Audit Commission carried out a Corporate Assessment of the Council in June and July 2008. The Corporate Assessment is a key element in the overall

assessment that leads to the CPA score. It assesses how well we engage with and lead our communities, deliver priorities in partnership with others and ensure continuous improvement across the range of Council activities. The Council achieved the highest possible score of 4 and is the only Outer London borough to have done so.

- 16.2 Overall CPA scores for 2008 are due to be announced on 5 March 2009. The Council expects to retain its top scores achieved in 2007 of 4 stars for overall performance and 'improving strongly' for the Direction of Travel Judgement. This will be a major achievement and will retain Sutton's place in the very top band of High Performing Councils.
- 16.3 The Use of Resources (UoR) component of the 2008 CPA will also be announced on 5 March. In 2007 the Council improved its score in 6 elements of the UoR Assessment, maintained its score in the other 5 and achieved a top score of 4 for Internal Control. This gave an overall score of 3 out of a possible 4, equivalent to performing well, and just short of a 4. It is anticipated that this improvement will be maintained in the 2008 assessment and a top score of 4, equivalent to performing strongly will be achieved.
- 16.4 2008 is the last year of the CPA which will be replaced by Comprehensive Area Assessments in 2009. CAA will include a revamped Use of Resources Assessment with wider scope and will assess how well public sector bodies working in partnership engage with and achieve priority outcomes for the local communities in a particular area. I am confident that the budget proposals set out in this report are robust and provide a solid financial platform as we move forward into this new assessment environment.

## **17. IMPROVING EFFICIENCY AND EFFECTIVENESS**

- 17.1 The overarching priority in the Sutton Plan is to ensure that the Council is an efficient and effective organisation. This is recognised as the key priority as it provides the financial sustainability to deliver the other priorities.
- 17.2 In his Statement on Local Government Finance in England for 2009/10, the Local Government Minister exalted local authorities to identify more efficiency savings. He advised that the £1 billion annual savings achieved now will increase to £1.5 billion. In the next spending review, due from 2011/12, it is almost inevitable that a greater level of efficiency savings will be built into government allocations. He reported that the public has a right to expect better value for money and that at this time people expect councils to tighten their belt like everyone else. To ensure local residents have easy information about their Council's efficiency performance, he requires standard efficiency figures to be included on Council Tax bills from 2009/10.
- 17.3 The Council agreed a Value for Money Strategy in 2007 (Min 775/07) to deliver future efficiency improvements. The strategy was subsequently refined and developed and an updated VFM strategy was agreed in July 2008 (Min 625/08). The updated strategy takes a Council-wide approach to delivering the 3% efficiencies required annually under government spending plans, through Group

Efficiency Plans and inclusion in service business plans, eradicating areas of less than average performance and initiatives to improve efficiency in specific themed areas.

- 17.4 The strategy recognises the importance of obtaining external assessment of Sutton's efficiency and VFM and included an Action Plan following the IDEA Efficiency Peer Review conducted in Sutton in November 2007. The other main source of external validation is the VFM element of the Use of Resources assessment. The 2007 Use of Resources scored Sutton at 4 out of 4 for managing and improving VFM and 3 out of 4 for achievement of VFM. It is anticipated that this will improve to 4 out of 4 for both categories when results are published on 5 March.
- 17.5 The main driver for identifying cashable efficiencies to assist the 2009/10 budget and three year forecast, has been the Group Efficiency Plans. Of the savings of £4.4m recommended for 2009/10, £4.1m will be achieved through changing the way we work and being more efficient. This represents 93% of the savings recommended and continues the good progress made in previous years with efficiency and efficiency related savings contributing £3.3m in 2007/08 and £2.7m in 2008/09.

## **18. THREE YEAR FORECAST**

- 18.1 The Sutton Plan sets out the Council's key priorities on a three year rolling basis. Resources will be directed towards key specific objectives in the plan, subject to the constraint of available resources.
- 18.2 2009/10 is the second year of a three year settlement, covering the financial years 2008/09 to 2010/11. Headline information is included in paragraph 10. The Local Government Minister advised in his statement on Local Government Finance in November 2008 that, in line with the Government's policy on three year settlements, he does not expect the 2010/11 Formula Grant advised to change from those published in his statement. Sutton's Formula Grant is confirmed at £54.518m, a 1.5% increase over 2009/10 on a like for like basis. For the forecast I have included a provisional increase of 1.25% for 2011/12. The 2011/12 settlement will form part of the Government's next Comprehensive Spending Review. In the current economic climate the Review is expected to be very tight, and the figure may need to be reviewed downwards when more information becomes available. Of specific note in our planning process is the Government's expectation that local authorities will make annual efficiency improvements of 3% and that Council Tax increases should be "substantially below" 5%.
- 18.3 In 2008/09 the Council increased Council Tax by 3.4%, and the administration indicated that it was aiming to keep Council Tax for 2009/10 and 2010/11 to a similarly low level. This aim has been achieved for 2009/10 and the recommended Council Tax increase for 2009/10 is 2.9%. In forecasting the 2010/11 and 2011/12 General Fund budget I have included provision for a 3.4% increase in Council Tax on a purely indicative basis. The figures in the table below assume a 3.4% increase and project the resultant anticipated shortfall that would need to be met through efficiency savings and other measures. The figures will be adjusted as better information on service requirements becomes available. For budget

planning purposes I have included a provision of £3.5m for both 2010/11 and 2011/12 for demographic and unavoidable growth. This assumes the trend of demand for service growth remains as budgeted over the past few years.

- 18.4 A three year settlement for schools was also announced in November 2007. The Dedicated Schools Grant (DSG) figures for 2010/11 and 2011/12 have been updated on revised 2009 and 2010 pupil projections. The government advises that their figures are indicative, and that local authorities should use their own estimates of pupil numbers to estimate their 2010/11 and 2011/12 DSG allocation and to set their Schools Budget. The implications for Sutton are included in paragraph 7.

	2009/10 £'m	2010/11 £'m	2011/12 £'m
General Fund Expenditure Requirement	138.478	144.772	151.485
Potential Funding	138.478	142.462	146.466
Cumulative Savings Requirement Based on a 3.4% Increase in Council Tax	0	2.312	5.021
Schools Budget Financed from Dedicated Schools Grant (DSG)	125.455	131.842	135.797

## 19. GREATER LONDON AUTHORITY (GLA) PRECEPT

- 19.1 The GLA precept for 2008/09 is £309.82 at Band D. The Mayor of London proposed to freeze the GLA group's level of Council Tax in 2009/10, which means that there will be no increase in the Council Tax precept for a Band D property, in his draft consolidated budget issued for consultation on 11 December 2008. The Council wrote to the GLA welcoming the zero increase, which we feel will be beneficial for residents of Sutton and the rest of London, and recognises the economic realities facing them at this difficult time. It also starts to improve the value for money of the GLA precept and to compensate for the very substantial increases imposed by the GLA in previous years.
- 19.2 The deadline for consultation was 12 January 2009. The Mayor presented his draft Consolidated Budget to the London Assembly on 28 January 2009.
- 19.3 The Mayor has to consider any Assembly amendments and will present his final budget to the GLA's budget setting meeting on 11 February. The GLA has a statutory deadline of 28 February to approve a budget. I will update this Committee of decisions from the GLA's 11 February budget setting meeting. In the meantime we are using the provisional figure of £309.82 in our exemplifications based on the Mayor's original proposal.

## 20. FINANCING NET EXPENDITURE

### The Collection Fund

- 20.1 Any estimated surplus or deficit arising on the Collection Fund at 31 March 2009 has to be taken into account in calculating the Council Tax for 2009/10. I have

calculated the estimated surplus at £1.282m of which the Council's proportion totals £1.002m. This sum will reduce the Council Tax Band D equivalent by an estimated £13.65 compared with £13.70 in the current year. Figures may be subject to further adjustment depending on the GLA precept. The surplus on the Collection Fund can only be used to reduce the Council Tax.

Formula Grant

20.2 As reported in paragraph 10, Sutton's Formula Grant for 2009/10 has been confirmed at £53.735m. This represents 38.8% of Sutton's budget, compared to 39.2% in 2008/09.

National Non-Domestic Rate

20.3 The Department for Communities and Local Government has advised of an increase of 5.0% in the business rate multiplier for 2009/10 as follows:-

Small Business Multiplier – 48.1p per £ (45.8p in 2008/09)

Standard Multiplier – 48.5 per £ (46.2p in 2008/09)

The increase is in line with the September RPI of 5.0%.

20.4 The cost of collecting the NNDR is partly reimbursed on the basis of a formula which I estimate will result in some £222k being paid to the Authority in 2009/10.

**21. COUNCIL TAX**

Chargeable Dwellings

21.1 The number of chargeable dwellings included in each valuation range and the relevant band ratio are as follows (valuations are based on assessed capital value as at 1 April 1991):-

Band	Chargeable Dwellings	Valuation Range £	Band Ratio
A	692	not exceeding 40,000	6/9
B	6,441	40,000 – 52,000	7/9
C	25,070	52,000 – 68,000	8/9
D	23,123	68,000 – 88,000	1
E	11,871	88,000 – 120,000	11/9
F	6,684	120,000 – 160,000	13/9
G	3,536	160,000 – 320,000	15/9
H	239	exceeding 320,000	2
TOTAL	77,656		

Tax Base

- 21.2 The Council on 15 December 2008 approved its tax base for 2009/10 for tax setting purposes as 73,400 Band D equivalents, in accordance with the Local Authorities (Calculation of Tax Base) Regulations 1992.

Council Tax Resolution

- 21.3 The budget requirements for 2009/10 inclusive of the growth and reduction options are outlined in Annex REV4. This resolution, to be recommended to Council, may change as it includes the provisional precept notification from the Greater London Authority.

**22. FINANCIAL IMPLICATIONS**

- 22.1 These are considered in the report.

**23. INFLUENCE OF THE COUNCIL'S CORE VALUES**

- 23.1 Decisions on the annual budget and our medium term plans facilitate the delivery of the Council's objectives through the Sutton Plan within the context of its core values.

**24. EQUALITY IMPACT ASSESSMENT**

- 24.1 Decisions on changes to the Council's overall budget and the funding of services clearly have the potential for quite complex and differential impacts on equalities and diversity. Where expenditure reductions are necessary the Council seeks to minimise these impacts through protecting front line services as much as possible and maximising the use of back office efficiencies to find required savings. The Council has also consulted on its budget proposals to draw the proposed changes to the attention of stakeholders.
- 24.2 The Council is very conscious that it delivers services to our most vulnerable and disadvantaged residents. Some of the growth and savings proposals e.g. transforming care services for vulnerable adults positively address inequalities. For others the position is more complex. For all major proposals Equality Impact Assessments are carried out to analyse the potential impact and to incorporate mitigation in their delivery.
- 24.3 Virtually everyone is currently suffering the adverse effects of the economic recession. The Council was one of the very first authorities to respond to this situation. We published a 10 point plan which sets out our commitment to support local businesses and residents through a range of practical measures including keeping council tax rises as low as possible.
- 24.4 All Sutton residents benefit from efficient and effective services and the lowest Council Tax consistent with maintaining good service provision. The proposed Council Tax increase for Sutton purposes of 2.9% is lower than the September Retail Price Index of 5.0% which is the basis of the increase in State pensions and other allowances from April 2009.

**25. BACKGROUND PAPERS**

Revenue Estimates Working Papers 2009/010.

Report to The Executive – 11 July 2008 “Medium Term Financial Forecast”.

Report to The Executive – 4 November 2008 “Updated Forecast of the Council’s Budget Requirements and to Agree Savings and Growth Options”.

Report to The Executive – 1 December 2008 “Council Tax Base 2009/10”

Reports to The Executive – 3 February 2009 “Budget Consultation 2009/10”.

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