

## Public Document Pack

# Public Accounts Select Committee Supplementary Agenda 3

Tuesday, 14 July 2015

**7.00 pm**, Committee Room 1

Civic Suite

Lewisham Town Hall

London SE6 4RU

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This meeting is an open meeting and all items on the agenda may be audio recorded and/or filmed.

### Part 1

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<b>PUBLIC ACCOUNTS SELECT COMMITTEE / MAYOR &amp; CABINET</b>			
<b>REPORT TITLE</b>	2016/17 to 2019/20 Medium Term Financial Strategy		
<b>KEY DECISION</b>		<b>Item No.</b>	10
<b>WARD</b>	All		
<b>CONTIBUTORS</b>	Executive Director for Resources & Regeneration		
<b>CLASS</b>	Part 1	<b>Date:</b>	14 July 2015

## **REASONS FOR LATENESS AND URGENCY**

This report was not available for the original dispatch because the Chancellor of the Exchequer announced the summer budget on the 8 July, and information from that budget has informed parts of this report. The report is urgent and cannot wait until the next meeting of the Public Accounts Select Committee on 29 September 2015 as this is too far into the financial year for this Committee to consider the Council's predicted forecast position to inform plans for making savings.

Where a report is received less than five clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972, Section 100(b)(4), the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

## **1. EXECUTIVE SUMMARY**

- 1.1. The Medium Term Financial Strategy (MTFS) for 2016/17 to 2019/20, sets out the Council's medium term financial plan over the next 4 years. It includes a review of the Council's overall financial position bringing together the outturn for 2014/15, the forecast for the current financial year of 2015/16, and considers prospects for 2016/17 and future years.
- 1.2. The strategy forecasts a further reduction in resources of a minimum of £30.4m (12.3%) between 2015/16 and 2019/20. At the same time spending projections, including national insurance changes, pay and prices and provision for budget pressures related to an increasing population and changing demographic needs, estimate that minimum additional spending of £52.7m (21.4%) will be required to meet those needs.
- 1.3. The Chancellor announced his Summer Budget 2015 on the 8 July. This indicated that certain assumptions in the budget overview and related savings in this report (originally based on the March 2015 budget) may now change. In particular, that there will be £2.6 billion of in-year departmental savings, £20 billion of departmental savings will be required over the period, and that these savings for 2016/17 onwards will now be phased more evenly over the period to

2019/10 to return an overall budget surplus one year later than previously forecast. The detail of how these savings will impact local government specifically will not be set out until the Comprehensive Spending Review (CSR) 2015 in the Autumn (date to be confirmed).

- 1.4. The Council estimates the level of savings required for the four year period 2016/17 to 2019/20 at £83.1m. Of this £11.1m of savings were agreed in the 2015/16 budget. The budget model therefore estimates the remaining savings requirement over the next four years to be £72.0m.
- 1.5. The Lewisham Future Programme continues to work to address the budget gap. This report sets out the main areas covered by the Lewisham Future Programme. The immediate target is now to deliver up to £35m of savings to bridge the budget gap for 2016/17.

## **2. PURPOSE**

- 2.1. The main purpose of this report is to set out the medium term financial position for the Council over the next four years and the assumptions on which this is based. It also provides an overview of the current financial situation and provides an update on the delivery of the savings programme for 2016/17.
- 2.2. The MTFS covers the following areas:
  - It sets out the expected resource envelope that the Council's General Fund must operate within in 2016/17, attempts to project funding in future years, and identifies the main factors that might affect this.
  - It sets out service and other spending projections (e.g. Housing Revenue Account, Capital Programme, Dedicated Schools Grant) and the main factors that may affect these.
  - It projects the General Fund budget gap which is the difference between the resource envelope and spending projections. This includes some sensitivity analysis for a best, base and worst projection for each year, depending on the assumptions made, the base representing the most likely outcome.
  - It sets out the measures the Council needs to take to address the budget gap through the Lewisham Future Programme.

## **3. RECOMMENDATIONS**

- 3.1. The Mayor is recommended to note the 2016/17 to 2019/20 Medium Term Financial Strategy and request that a further update is brought back as part of the savings and budget setting process to reflect any changes arising from the CSR 2015 expected in the Autumn.

## **4. STRUCTURE OF THE REPORT**

- 4.1. The Report is structured as follows:
  1. Executive Summary

2. Purpose
3. Recommendations
4. Structure of the report

### **STRATEGIC REVIEW**

5. Introduction
6. Local Policy Context
7. National Policy Context
8. Budget Update

### **MEDIUM TERM FINANCIAL STRATEGY**

9. Introduction
10. Resource Envelope
11. Revenue Expenditure Assumptions
12. General Fund Budget Gap
13. Addressing the Budget Gap
14. Housing Revenue Account
15. Dedicated Schools Grant
16. Capital Programme
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### **SUMMARY AND IMPLICATIONS**

18. Conclusion
19. Financial Implications
20. Legal Implications
21. Equalities Implications
22. Environmental Implications
23. Crime & Disorder Implications
24. Background Papers
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## **STRATEGIC REVIEW**

### **5. INTRODUCTION**

- 5.1. The MTFs represents the start of the Council's formal budget process, which concludes with the setting of the overall Budget each year. The Budget Report for 2016/17 will be presented to Mayor & Cabinet in January 2016 and full Council in February 2016.
- 5.2. This report sets out the scope of the Council's financial planning which includes: the General Fund; Housing Revenue Account; the Dedicated Schools Grant and the Capital Programme.
- 5.3. The key objectives of the 2016/17 to 2019/20 Strategy are to:
  - plan the Council's finances over a four year period to take account of local improvement priorities and national priorities;
  - ensure that the Council's corporate priorities continue to drive its financial strategy and resource allocation;
  - assist the integration of business and financial planning processes;
  - ensure that the plan takes account of: stakeholder and partner consultation; external drivers; capital investment; budget risk assessments; and expected developments in services;
  - ensure that the Council's medium term financial strategy is linked to other internal strategies and plans; and
  - ensure that the final agreed budget reflects all these considerations.
- 5.4. Over the last five years, the Council has undertaken a major budget reduction programme to manage the difficult financial challenge it has been faced with. In the period 2010/11 to 2015/16 the Council has identified savings of £121m. The financial outlook for the Council and the public sector as a whole remains extremely challenging. The Government has re-affirmed the need for significant reductions in public sector expenditure over the medium term. The Council has already seen the effects of these in its revenue budget settlements for the previous and current financial years and in the reduction of capital resources provided to the Council.
- 5.5. The Local Government Association (LGA) has recently produced a report which predicts harsher cuts to local authority funding over the next four years than was anticipated this time last year. In 2016/17, it is predicting a 12.1% cut to the Settlement Funding Assessment (compared to 8% this time last year).
- 5.6. The focus of the MTFs is the Council's General Fund budget. Whilst it is very important, particularly at a time of financial constraint, to identify ways in which all services can be delivered more effectively across traditional organisational and financial boundaries, the nature of the current financial austerity regime is such that most of the budget reductions have to come from Council General Fund services. Having a sound General Fund MTFs, and a strategy for responding to

the challenges it presents, is an essential pre-requisite to ensuring effective responses from all of the services the Council directs and influences.

## **6. LOCAL POLICY CONTEXT**

- 6.1. The Council's strategy and priorities drive the medium term financial planning process, with changes in resource allocation determined in accordance with policies and priorities. *Shaping our future* is Lewisham's Sustainable Community Strategy. It covers the period for 2008 to 2020 and sets out a vision for Lewisham and the priority outcomes that organisations, communities and individuals can work towards to make this vision a reality. The key priorities are set out at Appendix 1 for reference.
- 6.2. In taking forward the Council's Budget Strategy, in engaging our residents, service users and employees, and in deciding on the future shape, scale and quality of services, we will be driven by the Council's four core values:
  - We put service to the public first.
  - We respect all people and all communities.
  - We invest in employees.
  - We are open, honest and fair in all we do.

## **7. THE NATIONAL POLICY CONTEXT**

- 7.1. The Chancellor of the Exchequer made his 2015 Budget speech on 18 March this year. Following the general election in May a Summer Budget 2015 was presented to parliament on 8 July. This updated the global and UK economic forecasts and indicated some changes to the public sector finances for the period to 2019/20.
- 7.2. The global economic position continues to be one of growth (3% in 2015) with the UK performing well amongst the larger economies. Nonetheless there remain some key risks and headwinds to continued global growth which bear on the UK economy. These include:
  - geo-political uncertainties, for example in the Middle East and former Soviet states
  - declining growth in the USA and China
  - potential vulnerabilities in the Euro Zone and the position in Greece, and
  - economic shocks as withdrawal from quantitative easing and return rising interest rates take effect
- 7.3. The Office for Budget Responsibility (OBR) has revised up reported growth for the UK in 2015 to 3.0% from 2.4% and its forecasts in 2016 to 2.4%. The OBR now forecasts growth of 2.4% in 2017, and the years thereafter. The OBR is anticipating the creation of 1m new jobs to 2019/20. The OBR forecasts real terms growth in average earnings for all years of the forecast. This increased growth helps with the government deficit and borrowing position, reducing the impact for spending reductions or tax rises.

- 7.4. The Government remains committed to cutting public sector spending by an anticipated £20 billion to 2019/20. It has also reaffirmed its on-going protection for key spending areas, including health, defence and overseas development. This means spending cuts fall on other un-protected spending areas, including local authorities. Within the local authority sector, the Government has reversed some of the mechanisms in the local government finance system for equalising needs and resources. The consequence has been a much larger reduction in resources for areas of higher deprivation, typically poorer urban areas. It remains to be seen in the CSR 2015 whether this approach to funding reductions in local government is sustained.
- 7.5. The consequence for Lewisham is plain. The Settlement Funding Assessment (the total amount the government assumes to come from Revenue Support Grant and business rates) fell by 14% in 2015/16 and is set to fall, as estimated by the GLA, by an estimated 12.1% in 2016/17.
- 7.6. The expected continuing improvement in economic activity will have a beneficial impact on aspects of the Council's services. It should help drive regeneration within the borough, leading to more businesses and jobs as well as additional housing. The Council will achieve some direct financial benefits from these developments, including additional Council tax, New Homes Bonus and a share of increased business rates. There will also be benefits to Lewisham residents in terms of more jobs and more housing. However, the consequence of other aspects of government policy, such as failure to curb rising house prices and welfare reform impact on levels of homelessness, will have a significant continuing adverse impact on Lewisham residents and, together with demographic pressures, will lead to increased pressure on services.
- 7.7. Other economic indicators will have an impact on the Council's spending. Inflation is expected to remain at around 2% but real wages are increasing. The Summer Budget 2015 assumes public sector wages will be held to annual 1% rises for the four years to 2019/10. In addition, the expected increase in interest rates, with the governor of the Bank of England forecasting interest rates in the region of 2.5% by 2017/8, will affect the authority's finances. In this case it should be beneficial since interest on the Council's cash balances will rise while interest on Council debt, which is mainly funded from long term fixed interest loans, should remain largely unaffected.

## **8. BUDGET UPDATE**

### **2014/15 Financial accounts**

- 8.1. The Council's draft final accounts for 2014/15 have been prepared and were reviewed by the Audit Panel on 18 June 2015, before being submitted for audit by the Council's external auditor, Grant Thornton. A separate report on the Council's final outturn position for revenue and capital budgets was presented to Mayor & Cabinet at the 3rd June 2015 meeting.
- 8.2. The Council's final 2014/15 Directorate revenue outturn position was a Directorate overspend of £9.1m, reduced to £5.2m after applying a corporately



held provision of £3.9m. The Housing Revenue Account (HRA) and the Dedicated Schools Grant were both spent to budget. Capital expenditure for the year was £122.6m. This represents 89% of the revised forecasted year-end expenditure budget of £137.3m

### 2015/16 Budget

- 8.3. The 2015/16 budget was approved by Council on the 25 February 2015. The overall budget position for the Council is a net General Fund Budget Requirement of £246.224m, as set out in Table 1 below.

**Table 1 - Overall Budget Position for 2015/16**

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Settlement Funding Assessment (SFA) for 2015/16	(160.017)	
Council Tax 2015/16 at 0% increase	(80.084)	
SFA: Adjustment 2015/16*	(1.259)	
Surplus on Collection Fund	(4.864)	
<b>Assumed Budget Requirement for 2015/16</b>		<b>(246.224)</b>
<b>Total Resources available for 2015/16</b>		
Base Budget for 2014/15	268.062	
<b>Plus:</b> Reversal of reserves drawn in 14/15 (once off)	3.000	
<b>Plus:</b> Pay inflation	1.503	
<b>Plus:</b> Non-pay Inflation	3.417	
<b>Plus:</b> Grant adjustments for changes 14/15 to 15/16	0.911	
<b>Plus:</b> Budget pressures to be funded from 15/16 fund	4.280	
<b>Plus:</b> Risks and other potential budget pressures	3.220	
<b>Less:</b> Previously agreed savings for 2015/16	(1.480)	
<b>Less:</b> New savings for 2015/16	(26.729)	
<b>Less:</b> Use of New Homes Bonus reserve for five yrs.	(5.000)	
<b>Less:</b> Once off use of provisions and reserves	(4.960)	
<b>Total</b>		<b>246.224</b>

### 2015/16 General Fund Revenue Budget Monitoring

- 8.4. Officers continue to undertake regular revenue budget monitoring in 2015/16. The first revenue budget monitoring report will be presented to the Public Accounts Select Committee on 14 July. The report is based on information to the end of May 2015 and forecast a year-end overspend of £8.6m. The main service areas overspending are:
- Clients with No Recourse to Public Funds £1m,
  - Childrens Social Care £3m, and

- Adult Services £1.9m.
  - Strategic Housing £2.4m
- 8.5. The Executive Director noted that, in setting the council's budget for 2015, a sum of £3.2m was set aside and is being held corporately for managing 'risks and other budget pressures'. This is for items which although difficult to quantify with absolute certainty, could prove significant should they materialise. Amounts required will be confirmed by the year end.

### **Housing Revenue Account Monitoring**

- 8.6. The forecast position for the Housing Revenue Account is to spend to budget for 2015/16.

### **Dedicated Schools Grant**

- 8.7. The forecast position for the Dedicated Schools Grant is to spend to budget for 2015/16.

### **Capital Programme**

- 8.8. The overall spend this financial year to the end of May 2015 is £11.4m. This is 7% of the revised 2015/16 budget.

## **MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

### **9. INTRODUCTION**

- 9.1. The MTFS takes a forward view of the likely financial position of the Council over the next four years. This strategy does not seek to duplicate or replace any of the Council's other policies and strategies.
- 9.2. The financial strategy has produced a model with financial forecasts that aim to deliver the Council's priorities and identifies the constraints of the significant financial challenges it faces.
- 9.3. The MTFS projects:
- a. the resource envelope the Council's General Fund must operate within in future years;
  - b. service and other spending pressures and the main factors that may affect these; and
  - c. the General Fund budget gap which is the difference between the resource envelope and the spending projections.
- 9.4. As the level of uncertainty regarding funding is high for all years to 2019/20, the strategy has again modelled three indicative scenarios, the best case, the base case, and the worst case scenarios. The base case is assumed to be the most likely expected to happen. These scenarios are formulated on a number of local

and national assumptions which have been made based on the information available (Please see Appendix 2).

- 9.5. Pending the CSR 2015, the range for the remaining savings requirement to 2019/20 is from £57m to £105m with the base case assumed at £72m.

## 10. RESOURCE ENVELOPE

- 10.1. The resource envelope set out in this section of the report consists of the following elements:
- The ‘Settlement Funding Assessment’ (SFA) which is the total of Revenue Support Grant, business rate top-up, and retained business rate income; and
  - Council Tax income.

### Settlement Funding Assessment (SFA)

- 10.2. Local authorities currently receive funding from the government via the Settlement Funding Assessment (SFA). This consists of the local share of business rates, and Revenue Support Grant.
- 10.3. The Government is yet to announce the provisional figures for 2016/17. The Local Government Association (LGA) has produced a paper on the funding outlook for councils to 2019/20. This suggests a reduction in the SFA of 12.1% in 2016/17, and further reductions of 11.6% in 2017/18, 4.7% in 2018/19, and an increase of 7.1% in 2019/20 based on national government spending projections (March 2015) and the assumption that health, schools’ and overseas development spending would continue to be protected in real terms. Table 2 below sets out the estimated SFA for Lewisham from 2016/17 to 2019/20 based on the LGA’s forecast.

**Table 2: Make-up of Lewisham’s Settlement Funding Assessment, 2016/17 to 2019/20**

	2015/16	2016/17	2017/18	2018/19	2019/20
	£’000	£’000	£’000	£’000	£’000
Revenue Support Grant	73.7	55.4	38.9	32.1	39.7
Business Rate Top-up (to reflect Lewisham’s low business rate base)	70.5	71.2	71.9	72.6	73.3
Retained Business Rates	15.8	16.0	16.1	16.3	16.5
<b>Total SFA</b>	<b>160.0</b>	<b>142.6</b>	<b>126.9</b>	<b>121.0</b>	<b>129.5</b>

- 10.4. One factor in particular that could mean that the reductions in SFA in Lewisham are greater than the amounts assumed in the LGA publication:

- Since 2010/11, grant reductions have systematically been greater in areas with higher levels of deprivation, typically inner city areas.

10.5. The different modelled scenarios for the total SFA over the next four years is shown in Table 3 below. The assumptions used in each of the projections are stated in Appendix 2.

**Table 3: Total SFA Future Year Projections**

	<b>2015/16 Actual</b>	<b>2016/17 Projection</b>	<b>2017/18 Projection</b>	<b>2018/19 Projection</b>	<b>2019/20 Projection</b>	<b>Change 15/16 to 16/17</b>
	£m	£m	£m	£m	£m	%
Best Case	N/A	149.3	139.7	130.0	120.8	-6.7%
Base Case	160.0	142.6	126.9	121.0	129.5	-10.9%*
Worst Case	N/A	139.4	121.3	113.1	107.4	-12.9%

\*The 2016/17 base includes £2.2m of Council tax freeze grant and SFA adjustment grant, therefore the % reduction in grant is less than the 12% predicted by the LGA.

### **Business rate income**

- 10.6. Following changes to the local government finance system which came into effect in 2013/14, the Council retains 30% of the business rate income it receives, with 20% going to the GLA and 50% paid to government. Each year the Council receives an amount (the top-up) from central government. The Council's business rate income is therefore materially impacted by the national tax take and to a lesser degree by growth in business rates locally (see Table 2 above).
- 10.7. The base case assumption is a conservative 1% rise above inflation in business rate valuations in the borough and nationally. This and other assumptions are stated in Appendix 2.

### **Council Tax income**

- 10.8. Council Tax income is affected by growth in the number of properties in the borough, the rate of Council Tax collection, and decisions about the level of Council Tax. For the purposes of the MTFs base case, it has been assumed that there will be no increase in Council Tax for 2016/17 and a 1.5% increase from 2017/18 onwards. This reflects the assumption that the Council Tax Freeze Grant will end after 2016/17. The MTFs does include assumptions for growth in the number of properties in the borough and rate of Council Tax collection. These are set out in Appendix 2.

- 10.9. Forecast Council Tax income from 2016/17 to 2019/20 is set out in Table 4. using the assumptions in Appendix 2.

**Table 4: Council Tax Income Future Year Projections**

	<b>2015/16 Expected</b>	<b>2016/17 projection</b>	<b>2017/18 projection</b>	<b>2018/19 projection</b>	<b>2019/20 projection</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Best</b>	N/A	81.7	84.6	87.5	90.5
<b>Base</b>	80.1	81.3	83.7	86.2	88.8
<b>Worst</b>	N/A	80.5	81.7	82.9	84.1

## **11. REVENUE EXPENDITURE ASSUMPTIONS**

- 11.1. In addition to the reduction in the level of resources available over the next four years, the Council faces a number of budget pressures which will add to the overall revenue expenditure. This section of the report considers the effect such pressures will have on the future years' revenue expenditure.

### **Pay**

- 11.2. A pay award of 2.2% from 1<sup>st</sup> January 2015 to 31 March 2016 averaging out to 1% across both financial years, was agreed last year. The base model has assumed that pay awards will remain at 1% in future years in line with the Summer Budget 2015. The assumptions used in the MTFS are stated in Appendix 2.

### **Employer pension contributions**

- 11.3. As with most Councils, the Lewisham Pension Fund has a significant deficit reflecting the nature of a final salary scheme, the available return on investments, and the increased longevity of staff who have retired. Changes to the scheme affecting the contributions made by employees, the age at which benefits can be taken, and the calculation of the benefits and indexing arrangements have helped to address pressures on the Pension Fund but not eliminated the deficit.
- 11.4. As a result of the last Valuation of the Pension Fund assets and liabilities at 31<sup>st</sup> March 2013, an additional £1m per annum needs to be put into the Pension Fund. This is on top of the 21.5% of basic pay that the Council contributes for those staff who are members of the Fund. The next valuation is at 31<sup>st</sup> March 2016 and has effect from 2017/18. The assumptions used in the projections are stated in Appendix 2.

### **Employer national insurance contributions**

- 11.5. Changes to the State Pension scheme which take effect from 1 April 2016 will mean that there is a universal pension. Previously staff in the local government pension scheme opted out of the second state pension. The universal pension rules will mean that there will no longer be a lower employer (or employee) national insurance contribution for opted out employees.
- 11.6. The employer's national insurance contribution for the 82.5% of staff who are in the Local Government Pension Scheme will therefore increase from 10.4% to 13.8% on earnings between about £8,000 and £40,000 per annum. There will also be a loss of the 3.4% rebate on earnings between about £5,500 and £8,000. This is estimated to cost General Fund services an additional £2.0m per annum from 2016/17.
- 11.7. The best, base and worst case models all build in the cost of this change. No allowance has been made for the possibility of further changes that the Government might make to employer National Insurance contributions. For example, as a way of responding to funding pressures in health and social care.

### **General price inflation assumptions**

- 11.8. General price inflation is calculated on non-pay expenditure on General Fund services (excluding internal recharges and housing benefit payments). A proportion of this expenditure is contractual with indices linked to inflation but in many cases the Council is in a position to re-negotiate increases. For the purposes of these projections, it is assumed that all prices go up by inflation, which in 2016/17 has been estimated at 2%. The assumptions used in the projections beyond 2015/16 are in Appendix 2.

### **General fees and charges assumptions**

- 11.9. The Council's approach in the past has been to expect fees and charges it makes to rise in line with inflation unless there is a specific decision to increase them by more or less. In some cases, this will be outside the control of the Council (for example, where charge rates are set by statute). However, for the purposes of these projections of spending, it is assumed that on average fees and charges in aggregate will increase by inflation.

### **Further budget pressures and risks**

- 11.10. Forecasting the impact of demand changes is the most difficult aspect of the MTFS. But the MTFS needs to make allowance for the potential impact of these. The key challenges that impact on the demand for Council services are as follows:
  - Population growth – this particularly affects people based services such as adult and children's social care. But it also affects general demand for universal services such as leisure and cultural services and school places;

- Ageing population – this affects care for the very elderly but also impacts on care for younger adults and children with disabilities who are living longer as a result of improvements in medical care. It also has a direct impact on the funding the Council needs to provide for the London-wide concessionary fares scheme;
- Household growth – this impacts on property based services such as refuse collection and waste disposal;
- Impact of government policy – improvements in economic well-being and reduction in crime should potentially mean less demand for Council services. However, the shortage of housing, the impact of welfare changes, and policy toward people with No Recourse to Public Funds are all having a major impact on social needs within the borough. This is reflected directly through the number of families the Council has to accommodate in bed and breakfast and expenditure incurred on families with No Recourse to Public Funds. It also affects the ability of families to cope with economic and social pressures, with potential consequence for the number of children at risk or who need to be placed in care; and
- Impact of reducing preventative services – reductions in budgets for preventative services such as early years, the youth service and aspects of adult social care provision are likely to affect demand for acute services including children at risk, children involved in crime, adults with drug and alcohol problems, adults in residential accommodation and so on.

11.11. The Council is pro-actively trying to address these demand pressures and seeks to ensure wherever possible that the changes it has to make to services reduce rather than increase demand. These include, for example, measures to support people with a social care need at home, prevent children coming into care, increase the supply of affordable housing, reduce household and commercial waste disposal, as well as rigorous application of criteria for access to services.

11.12. Other pressures, such as the cost of transition of children with disabilities into adult services or when specific grants are withdrawn, are assumed to be managed within service budgets.

11.13. Nevertheless, with significant population growth forecast additional demand in some services is unavoidable. Therefore, the Council annually provides £7.5m for growth from demand and other unavoidable pressures. The model assumes this will continue for future years.

### **Specific grant assumptions**

11.14. The following assumptions have been made in the projections on specific grants which fund services:

- The Public Health grant – this grant is currently £20.1m in 2015/16. Shortly after the May 2015 general election, the Chancellor of the Exchequer announced an in year savings target for non-NHS health budgets of £200m. It is assumed this includes the Public Health grant, in which case Lewisham's reduction in funding could be approximately £1.4m. This will have to be met with an equivalent reduction in expenditure.

- The Better Care Fund – this funding increased to £21.1m (£6.3m in 2014/15) in 2015/16. £3.1m of the increase is for new burdens and is therefore neutral. The balance of growth is intended for social care funding that could reduce health spending, including offsetting budget reductions that would otherwise have had to be made in adult social care. These arrangements have to be jointly agreed with the local Clinical Commissioning Group (CCG).
- Adult Social Care new burdens funding – the government has awarded funding of £1.1m for the additional costs in 2015/16 of implementing the Care Act 2014 (Dilnot) reforms. The changes include a move to national eligibility criteria, new thresholds below which people do not have to pay for care, new maximum lifetime contributions to the cost of care, and the ability to defer payment for care. Some of the changes took effect from April 2015 but the main changes associated with new thresholds and maximum life-time contributions take effect from April 2016. The Care Act could have very large final consequences for the Council but it is not possible at this stage to estimate what these will be or to assess the extent to which the government will fund them. No provision is therefore made for impact of this in the base, medium or worst cases.
- The Council receives a number of other grants but most are relatively small or directly related to specific projects. For example, funding we receive from the London Mayor’s Office for Policing and Crime (MOPAC) to support crime reduction work. Any changes to these other grants will have to be met with an equivalent reduction in service spend to ensure it will have a neutral impact on the budget gap.

### **Other Income and Expenditure Items**

- 11.15. There are other income and expenditure items in the Council’s budget which are mainly non-service specific. These consist of the following elements:

#### **Capital financing charges**

- 11.16. Capital financing costs includes all revenue costs relating to the Council’s outstanding borrowing which comprises repayment of principal and interest charges. It also includes provision for capital spending which is charged directly to revenue and repayment of historic debt in respect of the former Inner London Education Authority. These costs are offset by principal and interest repayments from the Catford Regeneration Partnership Limited and interest on the Council’s investment balances.
- 11.17. The main factors that affect the forecasting of capital financing costs are the level of borrowing for capital purposes, the level of the Council’s cash balances, and interest rates. The MTFS assumes that capital spending will be funded either from grant, capital receipts, capital reserves, be charged direct to revenue or borrowing. Projected borrowing over the next five years is approximately £35m.
- 11.18. It also assumes that cash balances remain at their current level. Changes to interest rates should not affect borrowing costs as the Council borrows long term (typically 30 plus years) at fixed rates. If interest rates rise the Council receives



more interest. However, the projections have not built in any assumptions about changes to interest rates as timing remains uncertain and any rise is likely to be small in the near term. The assumptions used in the projections are stated in Appendix 2.

### **Levies**

- 11.19. These cover the London Pension Fund Authority, the Environment Agency and Lee Valley. The Council has not yet been provided indicative totals for levies in 2016/17. The assumptions used in the projections are stated in Appendix 2.

### **Added years pension costs**

- 11.20. In the past, staff who retired early were awarded additional assumed years in the Pension Fund with the additional cost being charged to the General Fund. Although added years stopped being awarded some years ago, the Council has an on-going commitment for those staff who were awarded added years in the past. The assumptions used in the projections are stated in Appendix 2.

### **Other known future years budget adjustments**

- 11.21. There are two further adjustments that are included within the budget projections for future years, both funded from the £7.5m provision stated in para 11.13 above:
- Concessionary fares – the cost of concessionary fares to the Council changes each year to reflect increases in population entitled to concessionary fares, increases in fares themselves, and changes to the basis for allocation of costs between boroughs. Transport for London has provided projections for boroughs through to 31 March 2015. From 2016/17 onwards, the projections assume an increase of £0.5m each year.
  - Highways and footways maintenance – the 2014/15 budget report included a proposal to switch highways and footways maintenance funding from capital to revenue in order to avoid the build up of prudential borrowing charges. To fund this, it was agreed that £350k growth would be provided each year in the revenue budget together with funding that would be released within the capital financing charges budget as a result of prudential borrowing no longer being required.

### **Education Services Grant**

- 11.22. This is a grant carved out of Revenue Support Grant which is an assessment of the amount the Council needs to fund local authority education functions which it would no longer be responsible for if all schools in its area were Academies or Free Schools. Lewisham's 2015/16 allocation is £3.9m an £0.8m reduction from 2014/15. The 2016/17 grant has not yet been announced. Although the grant is not ring-fenced, it will reduce if schools opt out of local authority control. The assumptions made on Education Services Grant are listed in Appendix 2.

### **New Homes Bonus**

- 11.23. The New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes in use. The grant is paid each year for six years. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions, and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.
- 11.24. Growth in the number of properties in Lewisham will lead to an increase in the New Homes Bonus although this will be offset from 2017/18 onwards as funding for properties for which New Homes Bonus was allocated in earlier years of the system drop out of the calculation. There is a top-slice of £70m of New Homes Bonus from all London Boroughs to fund Greater London Authority (GLA) led projects in 2015/16. This equates to approximately £2.2, for Lewisham. Although the government has not said what it will do post 2015/16, it is assumed that this top-slice will remain in place in subsequent years.
- 11.25. In 2015/16 the Council's allocation after the top slice is £5.6m. £650k of this has been committed within the revenue budget to additional spending requirements resulting from the provision of new housing. The balance is held in provisions for anticipated growth in Lewisham. The funding will be used to improve the borough's town centres, increase in the number of jobs in the borough, provide improved transport links to the rest of London and build upon the necessary infrastructure such as schools, health facilities and open spaces.

### **Council Tax Freeze Grant**

- 11.26. The government provided additional grant funding to support Councils that freeze Council Tax in 2015/16. Local authorities received funding equivalent to a 1% increase in Council Tax, Lewisham's allocation is £0.9m. The amounts received in 2014/15 have been rolled into the RSG. It is assumed that this will continue in 2016/17 only and from 2017/18 onwards, this funding is assumed to transfer to Revenue Support Grant.

## **12. GENERAL FUND BUDGET GAP**

- 12.1. Using the medium term resource envelope and revenue expenditure projections stated above the resulting overall forecast position for the authority is shown in Table 8 below

**Table 8: Summary of Projected Financial Position**

	Best Case				Base Case				Worst Case			
	2016 / 17	2017 / 18	2018 / 19	2019 / 20	2016 / 17	2017 / 18	2018 / 19	2019 / 20	2016 / 17	2017 / 18	2018 / 19	2019 / 20
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Total Resources</b>	232.3	225.3	218.8	228.7	<b>225.4</b>	<b>211.7</b>	<b>208.4</b>	<b>219.6</b>	220.8	203.4	196.5	203.5
<b>Total Revenue Expenditure</b>	(268.5)	(246.5)	(236.8)	(229.0)	<b>(266.5)</b>	<b>(238.7)</b>	<b>(223.2)</b>	<b>(219.9)</b>	(270.3)	(238.3)	(219.9)	(212.2)
<b>Approved Savings</b>	6.5	4.7	0	0	<b>6.5</b>	<b>4.7</b>	<b>0</b>	<b>0</b>	6.5	4.7	0	0
<b>Annual Savings Required</b>	22.2	16.5	18.0	0.3	<b>34.6</b>	<b>22.3</b>	<b>14.8</b>	<b>0.3</b>	<b>43.0</b>	<b>30.0</b>	<b>23.4</b>	<b>8.7</b>
<b>Cumulative Savings Required</b>	<b>22.2</b>	<b>38.7</b>	<b>56.7</b>	<b>57.0</b>	<b>34.6</b>	<b>56.9</b>	<b>71.7</b>	<b>72.0</b>	<b>43.0</b>	<b>73.0</b>	<b>96.4</b>	<b>105.1</b>

12.2. Taking the base case scenario as the expected position, it shows the annual measures required to bridge the budget gap from 2016/17 to 2019/20 are £34.6m, £22.3m, £14.8m, and £0.3m. A total of £72m over the four years to 2019/20. This is a substantial budget gap for the Council, especially as previous savings made from 2010/11 to 2015/16 have totalled £121m.

12.3. The best case scenario has been modelled to show the effect that positive changes in the assumptions will have on the overall budget gap. Here the cumulative budget gap to 2019/20 reduces by £15m to £57m. This is based on projected higher central government funding and Council Tax levels.

12.4. The worst case scenario is the most unlikely scenario projected. The cumulative budget gap to 2019/20 increases by £33m to £105.1m. This scenario demonstrates the difficulty the Council could potentially face if the very worst happens. Once again it is prudent to show these figures as future funding levels remain unknown.

12.5. The next section of this report looks at how the Council continues to address the gap in order to produce a balance budget.

### **13. ADDRESSING THE BUDGET GAP**

#### **Lewisham Future Programme**

13.1. The Lewisham Future Programme, established in the Autumn of 2013, is the Council's organisational approach to deliver savings in order to address the budget gap. The Programme focuses on the areas of greatest spend, recognising that in many consecutive years of spending reductions even greater

innovation, focus on the customer, and cross-cutting thinking is required to deliver savings whilst attempting to minimise the impact on residents and customers of Lewisham.

### **The Lewisham Future Programme Board (LFP)**

- 13.2. The Lewisham Future Programme Board was established to transform the way Council services are delivered by 2020. The Board manages delivery of these changes and develops options for the Mayor and Council to consider. The Board is chaired by the Chief Executive and consists of all Executive Directors plus the Head of Corporate Resources and the Head of Technology and Change.
- 13.3. Its objective is to oversee a programme of change which will ensure that Lewisham's public services continue to be relevant and responsive to the community, in a way that provides opportunities and meets the Council's statutory obligations. It is recognised that the impact of the LFP will be fundamental and require innovative solutions that re-focus and re-shape services to meet this objective.
- 13.4. The role of the Board is in two parts: 1) to develop savings options for Mayor and Council to consider and then, once consulted upon and agreed, 2) to implement the changes.
- 13.5. Work to date has focused on developing options via 18 service and cross-cutting based reviews, each led by Heads of Service across the organisation. Each review has been provided an indicative target to help frame the scale of change needed. These targets are set between 10-40% of the net budget and 5-25% of the gross budget.

### **Progress to Date**

- 13.6. The Board continues to assess, challenge and support work strand leads to bringing forward a range of possible savings options. The focus since the budget in February 2015 has been on targeting £45m of savings proposals (£30m for 2016/17 and £15m for 2017/18). At the same time implementing the agreed £30m of savings for 2015/16.
- 13.7. In addition to work on the individual work strands, engagement remains a critical part of the transformation programme. There have been regular communications on the work of the Board and a transformation day for all managers was held in June with a range of external speakers presenting ideas and challenge.
- 13.8. The Council holds various revenue reserves for the risk of events that may disrupt 'business as usual' activities. These were used again in setting the budget for 2015/16 to enable time to develop, consult with stakeholders and implement the scale of savings required. The level of remaining reserves is being maintained given the continuing uncertainty prevailing from austerity.
- 13.9. The Council holds £13m of un-earmarked reserves and corporate provisions for unforeseen events. A review of the current reserves and provisions was undertaken as part of the 2015/16 budget setting process. This evaluated how they might best be used to mitigate the financial risks to the Council as it

transforms and reshapes services. The position will be reviewed as part of the 2016/17 budget and once the impact of the CSR 2015 is known.

### **Revenue Budget Savings Process**

13.10. The next steps are for:

- 1) the proposals to be presented to members for scrutiny and decision;
- 2) the LFP to continue informal member level discussions around key service areas; and
- 3) the Board to continue to develop further savings proposals for 2016/17 and future years.

13.11. The Board has agreed to putting savings forward as they are ready this year, and the provisional timetable for scrutiny and decision making is shown in Table 10 below. These savings decisions and any further savings that may be identified after these rounds will then be collated and included in the usual budget process in February 2016.

**Table 10: Budget Timetable – Key Dates**

<b>Month</b>	<b>Key Stage</b>
September 2015	Select Committees - Revenue Budget Savings report
	PAC and Mayor & Cabinet - Treasury Management Mid Year report
	PAC and Mayor Cabinet - Revenue Budget Savings
November 2015	Select Committees – 2 <sup>nd</sup> Revenue Budget Savings report
December 2015	Provisional Local Government Finance Settlement
	Select Committees – 2 <sup>nd</sup> Revenue Budget Savings report
	PAC – 2 <sup>nd</sup> Revenue Budget Savings Report
January 2016	Final Local Government Finance Settlement
	PAC - the 2016/17 Budget Report
	Mayor & Cabinet – 2 <sup>nd</sup> Revenue Budget Savings Report
February 2016	National Non Domestic Rates consultation session
	Greater London Authority sets the Budget and Precept for 2016/17
	Notification of Precepts and Levies
	Mayor & Cabinet agrees the Budget & Council Tax 2016/17
	Council approves Budget & Council Tax for 2016/17

**14. HOUSING REVENUE ACCOUNT**

- 14.1. The Housing Revenue Account (HRA) is a statutory account which sets the Landlord costs and income for the housing stock.
- 14.2. The HRA now operates with a 30 year business plan which allows the housing strategy to be updated and implements long term planning on resources and asset maintenance.
- 14.3. The plan contains a long-term assessment of the need for investment in assets, such as Decent Homes and other cyclical maintenance requirements, as well as forecasts on income streams such as rents, in line with rent restructuring.

**15. DEDICATED SCHOOLS GRANT**

- 15.1. Lewisham was allocated a Dedicated School Grant (DSG) of £275.6m for 2015/16.
- 15.2. The Government has committed to protect schools budgets in cash terms and to fund increased pupil numbers. The Institute for Fiscal Studies (IFS) has published analysis suggesting that due to pressures on schools this represents a real terms reduction, over the life of this parliament, of between 7% and 12%. The main budget pressure comes from the increase in salaries and wages, national insurance, and pension increases
- 15.3. If this happens, then schools would see the following reductions where pupil numbers do not change:

School Type	Primary School		Secondary School	
Size of School	210 Pupils	400 Pupils	850 pupils	1200 pupils
Typical Budget	£ 1,130,000	£ 2,180,000	£ 6,130,000	£ 9,360,000
7% Reduction	79,100	152,600	429,100	655,200

- 15.4. Overall, this would represent a £17m reduction in funding in real terms for state funded schools within Lewisham.
- 15.5. The coalition Government took some tentative steps towards a National Funding Formula and the current government has indicated its intention to continue this work. In the last Parliament extra funding (£390m) was provided to the lowest funded authorities and to some outer London Borough's. Lewisham did not receive any of this funding. No authorities had funding taken away.
- 15.6. There is now a real possibility that there will be a redistribution of funds between the Local Authorities with the highest per pupil funding to the lowest. Lewisham is the 9th highest per pupil funded authority in the country. The F40 group (a group of the 40 lowest funded Local Authorities with significant representation in the majority party) have put forward proposals where Lewisham would see a reduction of around 10% per pupil. The proposals would be over a three-year

period but would present a significant management challenge for schools in Lewisham.

## 16. CAPITAL PROGRAMME

- 16.1. The Capital Programme is a financial expression of the Council's priorities for investment. It has strategic links to the Council's Community Strategy and the Corporate Plan. The Asset Management Strategy sets out the Council's approach to the assets required to deliver excellent services to local people and this also influences the content of the Capital Programme.

### Capital Programme Schemes and Resources 2015 to 2020

- 16.2. The estimated resources available, the forecast spend and the under programming within the 2015/16 to 2019/20 Committed Capital Programme are set out in Table 11 below:

**Table 11: Capital Programme Resources and Forecast Expenditure 2015/16 to 2019/20 (as at June 2015)**

<b>SCHEMES</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>General Fund</b>	84,427	36,350	12,266	9,600	10,423	153,066
<b>HRA</b>	65,728	80,613	77,753	56,365	28,813	309,272
	<b>150,155</b>	<b>116,963</b>	<b>90,019</b>	<b>65,965</b>	<b>39,236</b>	<b>462,338</b>
<b>RESOURCES</b>						
<b>Prudential Borrowing</b>	29,164	5,472	0	0	0	34,636
<b>Grants and Contributions</b>	49,966	19,518	6,020	612	0	76,116
<b>General (Capital Receipts, Reserves, Revenue)</b>	71,025	91,973	83,999	65,353	39,236	351,586
	<b>150,155</b>	<b>116,963</b>	<b>90,019</b>	<b>65,965</b>	<b>39,236</b>	<b>462,338</b>

- 16.3. The proposed 2015/16 to 2019/20 Capital Programme totals £462m and brings together all capital projects across the Council. It sets out the key priorities for the Council over the next five years and is the subject of regular review.
- 16.4. Over the next five years the Council faces a period of financial uncertainty as revenue funding is cut and Government grants are reduced or terminated. This places increased reliance on the Council's capacity to generate capital receipts from asset sales to fund infrastructure development. For this reason, any new projects or programmes will need to clearly demonstrate a sound business case for investment.

## **17. RISK MANAGEMENT**

- 17.1. A critical element of the Council's medium term financial planning processes is to ensure that the financial consequences of risk are adequately reflected in the Council's budgets. The Council's risk register sets out those strategic and corporate risks which could materialise, together with the key risk areas in service budgets and associated mitigating measures. These include failure to contain expenditure within agreed cash limits, not meeting the revenue budget savings target and under achievement of income, as well as more specific risks on certain budgets.

## **SUMMARY AND IMPLICATIONS**

## **18. CONCLUSION**

- 18.1. The Medium Term Financial Strategy sets out initial estimates of the scale of financial challenge the Council will face over the medium term to 2019/20. It presents the outturn for 2014/15, summarises the current financial position for 2015/16, and looks forward to 2016/17 and later years.
- 18.2. The next stages in the development of the financial strategy will be further refinement of the Council's longer term forecasting in light of the next Spending Round and the Council's development of the proposals by the Lewisham Future Programme. The Council will have to make further difficult decisions to prepare for future shortfalls.
- 18.3. In the absence of a CSR for 2016/17 and the years beyond, it is difficult to predict the Council's finances after 2015/16 with certainty. However, it remains true that more challenging times lie ahead. Local authorities have largely acknowledged that deep changes are required if they are to continue to deliver positive outcomes for their citizens. What is not yet clear is how authorities can continue to make this happen in practice and what local government will look like in future.

## **19. FINANCIAL IMPLICATIONS**

- 19.1. This report is concerned with the Council's medium term financial strategy and as such, the financial implications are contained within the body of the report.

## **20. LEGAL IMPLICATIONS**

- 20.1. The purpose of this report is to develop a medium term approach in support of better service and financial planning. Members are reminded that the legal requirements are centred on annual budget production, and that indicative decisions made for future years are not binding.
- 20.2. The Local Government Act 2000 and subsequent regulations and guidance says that it is the responsibility of the full Council to set Lewisham's budget, including all of its components and any plan or strategy for the control of the Council's capital expenditure. Regulations provide that it is for the Executive to have overall responsibility for preparing the draft budget for submission to the full



Council to consider. Once the budget has been set, it is for the Mayor & Cabinet to make decisions in accordance with the statutory policy framework and the budgetary framework set by the Council.

- 20.3. Where there are proposals for a reduction to a service which the Council is either under a statutory duty to provide, or which it is providing in the exercise of its discretionary powers and there is a legitimate expectation that it will consult, then consultation with all service users will be required before any decision to implement the proposed saving is taken. The outcome of such consultation must be reported to the Mayor. Where the proposed savings will have an impact upon staff, then the Council will have to consult the staff affected and their representatives in compliance with all employment legislative requirements and the Council's own employment policies.

## **21. EQUALITIES IMPLICATIONS**

- 21.1. The Council's budget is of primary importance as a means of delivering Lewisham's objectives. When the budget savings and resources allocation proposals are considered during the latter part of this year, they will be assessed in terms of their impact on service delivery and equalities implications.

## **22. ENVIRONMENTAL IMPLICATIONS**

- 22.1. There are no environmental implications directly arising from the report.

## **23. CRIME & DISORDER IMPLICATIONS**

- 23.1. There are no crime and disorder implications directly arising from this report.

## **24. BACKGROUND PAPERS**

<b>Title of Document</b>	<b>Date</b>	<b>File Location</b>	<b>Contact Officer</b>
Budget Report 2015/16	25 February 2015 (Full Council)	5 <sup>th</sup> Floor Laurence House, Corporate Resources	David Austin
Final Revenue and Capital Outturn 2014/15	3 June 2014 Mayor and Cabinet	5 <sup>th</sup> Floor Laurence House, Financial Services	Selwyn Thompson
2015/16 Budget Monitoring Report	14 July 2014 Public Accounts Committee	5 <sup>th</sup> Floor Laurence House, Financial Services	Selwyn Thompson

## **25. APPENDICES**

Appendix 1 – Corporate Priorities

Appendix 2 – Summary of MTFS Assumptions

Appendix 3 – Glossary of Terms

### **For further information on this report please contact**

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## APPENDIX 1 – LEWISHAM CORPORATE PRIORITIES

The six Sustainable Community Priority outcomes, agreed with the Lewisham Strategic Partnership and the Council's 10 Corporate Priorities are set out as follows:

### Sustainable Community Strategy

- **Ambitious and achieving:** where people are inspired and supported to fulfil their potential.
- **Safer:** where people feel safe and are able to live free from crime, anti-social behaviour and abuse.
- **Empowered and responsible:** where people can be actively involved in their local area and contribute to supportive communities.
- **Clean, green and liveable:** where people live in high quality housing and can care for and enjoy their environment.
- **Healthy, active and enjoyable:** where people can actively participate in maintaining and improving their health and well being.
- **Dynamic and prosperous:** where people are part of vibrant localities and town centres well-connected to London and beyond.

### Corporate Priorities

- **Community Leadership and Empowerment:** developing opportunities for the active participation and engagement of people in the life of the community.
- **Young people's achievement and involvement:** raising educational attainment and improving facilities for young people through partnership working.
- **Clean, green and liveable:** improving environmental management, the cleanliness and care for roads and pavements, and promoting a sustainable environment.
- **Safety, security and a visible presence:** partnership working with the police and others to further reduce crime levels and using Council powers to combat anti-social behaviour.
- **Strengthening the local economy:** gaining resources to regenerate key localities, strengthen employment skills and promote public transport.
- **Decent Homes for all:** investment in social and affordable housing to achieve the decent homes standard, tackle homelessness and supply key worker housing.
- **Protection of children:** better safeguarding and joined up services for children at risk.
- **Caring for adults and older people:** working with health services to support older people and adults in need of care.
- **Active, healthy citizens:** leisure, sporting, learning and creative activities for everyone
- **Inspiring efficiency, effectiveness and equity:** ensuring efficiency and equity in the delivery of excellent services to meet the needs of the community.

## APPENDIX 2 - SUMMARY OF ASSUMPTIONS

	Best Case	Base case	Worst case
<b>RESOURCE ENVELOPE</b>			
Settlement Funding Assessment	<ul style="list-style-type: none"> <li>8% cash reduction in 16/17 and 7% per annum in 17/18 and 18/19, and 5% increase in 19/20</li> <li>£2.9m added to baseline used for 2016/17 calculation for consolidation of Council Tax freeze grant for 2014/15 and 2015/16 and Settlement Funding Assessment Adjustment grant</li> <li>Nothing additional is included for projected population growth as this is assumed to be included in the government's SFA calculation</li> </ul>	<ul style="list-style-type: none"> <li>12.1% cash reduction in 16/17, 11.6% reduction in 2017/18, 4.7% reduction in 2018/19 and 7.1% increase in 2019/20</li> <li>£2.9m added to baseline used for 2016/17 calculation for consolidation of Council Tax freeze grant for 2014/15 and 2015/16 and Settlement Funding Assessment Adjustment grant</li> <li>Nothing additional is included for projected population growth as this is assumed to be included in the government's SFA calculation</li> </ul>	<ul style="list-style-type: none"> <li>14.1% cash reduction in 16/17, 13.6% reduction in 2017/18, 6.7% reduction in 2018/19 and 5.1% increase in 2019/20</li> <li>£2.9m added to baseline used for 2016/17 calculation for consolidation of Council Tax freeze grant for 2014/15 and 2015/16 and Settlement Funding Assessment Adjustment grant</li> <li>Nothing additional is included for projected population growth as this is assumed to be included in the government's SFA calculation</li> </ul>
Retained business rates	<ul style="list-style-type: none"> <li>2% real terms increase each year from 2016/17 from growth in rateable value base</li> </ul>	<ul style="list-style-type: none"> <li>1% real terms increase each year from 2016/17 from growth in rateable value base</li> </ul>	<ul style="list-style-type: none"> <li>No real terms change in rateable value base</li> </ul>
Council Tax income	<ul style="list-style-type: none"> <li>No change in Council Tax level</li> <li>2% increase each year in Council Tax base from 2016/17 onwards</li> <li>1% change in property base in 2016/17 to reflect inclusion of projected in-year growth in Council Tax base report</li> <li>CT collection rate of 96.5% each year from 2016/17 onwards</li> </ul>	<ul style="list-style-type: none"> <li>No change in Council Tax level</li> <li>1.5% increase each year in Council Tax base from 2016/17 onwards</li> <li>1% change in property base in 2016/17 to reflect inclusion of projected in-year growth in Council Tax base report</li> <li>CT collection rate of 96% each year from 2016/17 onwards</li> </ul>	<ul style="list-style-type: none"> <li>No change in Council Tax level</li> <li>0.5% increase each year in Council Tax base from 2016/17 onwards</li> <li>1% change in property base in 2016/17 to reflect inclusion of projected in-year growth in Council Tax base report</li> <li>CT collection rate of 95.5% each year from 2016/17 onwards</li> </ul>

	<b>Best Case</b>	<b>Base case</b>	<b>Worst case</b>
Settlement Funding Assessment Adjustment Grant	<ul style="list-style-type: none"> <li>£0.9m in 2014/15 and £1.259m 2015/16</li> <li>Consolidated in RSG from 2016/17</li> </ul>	<ul style="list-style-type: none"> <li>£0.9m in 2014/15 and £1.259m 2015/16</li> <li>Consolidated in RSG from 2016/17</li> </ul>	<ul style="list-style-type: none"> <li>£0.9m in 2014/15 and £1.259m 2015/16</li> <li>Consolidated in RSG from 2016/17</li> </ul>
Surpluses/deficits on Collection Fund	<ul style="list-style-type: none"> <li>£0.741m surplus declared for 2015/16, of which Lewisham share is £0.548m. This is taken into account in 2016/17 budget</li> </ul>	<ul style="list-style-type: none"> <li>£0.741m surplus declared for 2015/16, of which Lewisham share is £0.548m. This is taken into account in 2016/17 budget</li> </ul>	<ul style="list-style-type: none"> <li>£0.741m surplus declared for 2015/16, of which Lewisham share is £0.548m. This is taken into account in 2016/17 budget</li> </ul>
Pay awards	<ul style="list-style-type: none"> <li>1% from 2016/17 onwards</li> </ul>	<ul style="list-style-type: none"> <li>1% through to 2019/20</li> </ul>	<ul style="list-style-type: none"> <li>2% from 2016/17 onwards</li> </ul>
Employer pension contributions	<ul style="list-style-type: none"> <li>£1m added each year until 2019/20</li> </ul>	<ul style="list-style-type: none"> <li>£1m added each year until 2019/20</li> </ul>	<ul style="list-style-type: none"> <li>£1m added each year until 2019/20</li> </ul>
Employer national insurance contributions	<ul style="list-style-type: none"> <li>£2m increase in 2016/17 (removal of 3.4% reduction for employees who are opted out) put to pressures and risks</li> </ul>	<ul style="list-style-type: none"> <li>£2m increase in 2016/17 (removal of 3.4% reduction for employees who are opted out) put to pressures and risks</li> </ul>	<ul style="list-style-type: none"> <li>£2m increase in 2016/17 (removal of 3.4% reduction for employees who are opted out) put to pressures and risks</li> </ul>
General price inflation	<ul style="list-style-type: none"> <li>1.5% increase each year in non-pay budgets</li> </ul>	<ul style="list-style-type: none"> <li>2% increase each year in non-pay budgets</li> </ul>	<ul style="list-style-type: none"> <li>2.5% increase each year in non-pay budgets</li> </ul>
General fees and charges	<ul style="list-style-type: none"> <li>1.5% increase each year in fees and charges budgets</li> </ul>	<ul style="list-style-type: none"> <li>2% increase each year in fees and charges budgets</li> </ul>	<ul style="list-style-type: none"> <li>2.5% increase each year in fees and charges budgets</li> </ul>
Pressures and risks	<ul style="list-style-type: none"> <li>£6.5m growth each year (in addition to increase in Pension Fund contributions)</li> </ul>	<ul style="list-style-type: none"> <li>£6.5m growth each year (in addition to increase in Pension Fund contributions)</li> </ul>	<ul style="list-style-type: none"> <li>£6.5m growth each year (in addition to increase in Pension Fund contributions)</li> </ul>
New legislation	<ul style="list-style-type: none"> <li>Nothing allowed</li> </ul>	<ul style="list-style-type: none"> <li>Nothing allowed</li> </ul>	<ul style="list-style-type: none"> <li>Nothing allowed</li> </ul>

	<b>Best Case</b>	<b>Base case</b>	<b>Worst case</b>
Capital financing charges	<ul style="list-style-type: none"> <li>Borrowing requirement reduces by the amount of repayment of debt through Minimum Revenue Provision</li> <li>Consolidated Rate of Interest on borrowing remains at 2013/14 rate</li> <li>General Fund investments remain unchanged</li> <li>Interest on investments remains 0.6%</li> </ul>	<ul style="list-style-type: none"> <li>Borrowing requirement reduces by the amount of repayment of debt through Minimum Revenue Provision</li> <li>Consolidated Rate of Interest on borrowing remains at 2013/14 rate</li> <li>General Fund investments remain unchanged</li> <li>Interest on investments remains 0.6%</li> </ul>	<ul style="list-style-type: none"> <li>Borrowing requirement reduces by the amount of repayment of debt through Minimum Revenue Provision</li> <li>Consolidated Rate of Interest on borrowing remains at 2013/14 rate</li> <li>Slight reduction in General Fund investments</li> <li>Interest on investments remains 0.6%</li> </ul>
Levies	<ul style="list-style-type: none"> <li>No increase from 2016/17</li> <li>Historic GLC liabilities funded from reserves</li> </ul>	<ul style="list-style-type: none"> <li>No increase from 2016/17</li> <li>Historic GLC liabilities funded from reserves</li> </ul>	<ul style="list-style-type: none"> <li>2% increase from 2016/17</li> <li>Historic GLC liabilities funded from reserves</li> </ul>
Added years pensions costs	<ul style="list-style-type: none"> <li>Charges to HRA netted off</li> <li>No reduction</li> </ul>	<ul style="list-style-type: none"> <li>Charges to HRA netted off</li> <li>No reduction</li> </ul>	<ul style="list-style-type: none"> <li>Charges to HRA netted off</li> <li>No reduction</li> </ul>
2016/17 budget pressures and risks	<ul style="list-style-type: none"> <li>All used and allocated to service spend</li> </ul>	<ul style="list-style-type: none"> <li>All used and allocated to service spend</li> </ul>	<ul style="list-style-type: none"> <li>All used and allocated to service spend</li> </ul>
Council Tax freeze grant	<ul style="list-style-type: none"> <li>For 2016/17 only then consolidated in RSG from 2017/18</li> </ul>	<ul style="list-style-type: none"> <li>For 2016/17 only then consolidated in RSG from 2017/18</li> </ul>	<ul style="list-style-type: none"> <li>For 2016/17 only then consolidated in RSG from 2017/18</li> </ul>
Education Services Grant	<ul style="list-style-type: none"> <li>No national reduction from 2016/17 onwards</li> </ul>	<ul style="list-style-type: none"> <li>No national reduction from 2016/17 onwards</li> </ul>	<ul style="list-style-type: none"> <li>20% national reduction from 2016/17 onwards</li> </ul>

## **APPENDIX 3 - GLOSSARY OF TERMS**

### **Actuarial valuation**

An independent report of the financial position of the Pension Fund carried out by an actuary every three years. The actuary reviews the Pension Fund assets and liabilities as at the date of the valuation and makes recommendations such as, employer's contribution rates and deficit recovery period, to the Council.

### **Baseline funding level**

The amount of a local authority's start-up funding allocation which is provided through the local share of the estimated business rates aggregate (England) at the outset of the scheme as forecast by the Government. It forms the baseline against which tariffs and top-ups are calculated.

### **Budget Requirement**

The Council's revenue budget on general fund services after deducting funding streams such as fees and charges and any funding from reserves. (Excluding Council Tax, RSG and Business Rates)

### **Capital expenditure**

Spend on assets that have a lasting value, for example, land, buildings and large items of equipment such as vehicles. This can also include indirect expenditure in the form of grants or loans to other persons or bodies.

### **Capital Programme**

The Council's plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.

### **Capital Receipts**

These are proceeds from the disposal of land or other assets and can be used to finance new capital expenditure but cannot be used to finance revenue expenditure.

### **Capping**

This is the power under which the Government may limit the maximum level of local authority spending or increases in the level of spending year on year, which it considers excessive. It is a tool used by the Government to restrain increases in Council Tax. The Council Tax cap, currently 2%, means that any local authority in England wanting to raise Council Tax by more than 2% in 2015/16 must consult the public in a referendum, Councils losing a referendum would have to revert to a lower increase in their bills.

### **CIPFA**

The Chartered Institute of Public Finance and Accountancy are one of the UK accountancy institutes. Uniquely, CIPFA specialise in the public sector. Consequently CIPFA holds the responsibility for setting accounting standards for local government.

## **Collection fund**

A statutory account maintained by the Council recording the amounts collected from Council Tax and Business Rates and from which it pays the precept to the Greater London Authority.

## **Collection Fund surplus (or deficit)**

If the Council collects more or less than it expected at the start of the financial year, the surplus or deficit is shared with the major precepting authority, in Lewisham's case this is the GLA, in proportion to the respective Council Taxes. These surpluses or deficits have to be returned to the Council taxpayer in the following year through lower or higher Council taxes. If, for example, the number of properties or the allowance for discounts, exemptions or appeals vary from those used in the Council Tax base, a surplus or deficit will arise. The Council generally achieves a surplus, which is shared with the GLA.

## **Contingency**

This is money set-aside centrally in the Council's base budget to meet the cost of unforeseen items of expenditure, such as higher than expected inflation or new responsibilities.

## **Council Tax Base**

The Council Tax base for a Council is used in the calculation of Council Tax and is equal to the number of Band D equivalent properties. To work this out, the Council counts the number of properties in each band and works out an equivalent number of Band D equivalent properties. The band proportions are expressed in ninths and are specified in the Local Government Finance Act 1992. They are: A 6/9, B 7/9, C 8/9, D 9/9, E 11/9, F 13/9, G 15/9 and H 18/9, so that Band A is six ninths of the 'standard' Band D, and so on.

## **CPI and RPI**

The main inflation rate used in the UK is the CPI (Consumer Price Index), the Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is currently set at 2%. The CPI differs from the RPI (Retail Price Index) in that CPI excludes housing costs. Also used is RPIX, which is a variation on RPI, one that removes mortgage interest payments.

## **Dedicated schools grant (DSG)**

This is the ring-fenced specific grant that provides most of the Government's funding for schools. This is distributed to schools by the Council using a formula agreed by the schools forum.

## **Financial Regulations**

These are a written code of procedures set by a local authority, which provide a framework for the proper financial management of the authority. They cover rules for accounting and audit procedures, and set out administrative controls over the authorisation of payments, etc.

## **Financial Year**

The local authority financial year commences on 1st April and finishes on the following



## **General Fund**

This is the main revenue fund of the local authority, day-to-day spending on services is met from the fund. Spending on the provision of housing however, must be charged to the separate Housing Revenue Account (HRA).

## **Gross Domestic Product (GDP)**

GDP is defined as the value of all goods and services produced within the overall economy.

## **Gross expenditure**

The total cost of providing the Council's services, before deducting income from Government grants, or fees and charges for services.

## **Housing Revenue Account (HRA)**

A separate account of expenditure and income on housing that Lewisham must keep. The account is kept ring-fenced from other Council activities. The Government introduced a new funding regime for social housing within the HRA from April 2012.

## **Individual authority business rates baseline**

This is derived by apportioning the billing authority business rates baseline between billing and major precepting authorities on the basis of major precepting authority shares.

## **Levies**

A levy is an amount of money a local authority is compelled to collect (and include in its budget) on behalf of another organisation. Lewisham is required to pay levies to a number of bodies such as the London Pensions Fund Authority.

## **Local share**

This is the percentage share of locally collected business rates that will be retained by local government, currently 50%.

## **Net Expenditure**

This is gross expenditure less services income, but before deduction of government grant.

## **New Homes Bonus**

Under this scheme Councils receive a new homes bonus (NHB) per each new property built in the borough for the first six years following completion. Payments are based on match funding the Council Tax raised on each property with an additional amount for affordable homes. It is paid in the form of an un-ringfenced grant.

## **Prudential Borrowing**

Set of rules governing local authority borrowing for funding capital projects under a professional code of practice developed by CIPFA to ensure the Council's capital investment plans are affordable, prudent and sustainable.

## **Revenue Expenditure**

The day-to-day running expenses on services provided by Council.

### **Revenue Support Grant (RSG)**

All authorities receive Revenue Support Grant from central government in addition to its baseline funding level under the local government finance system. An authority's Revenue Support Grant amount plus its baseline funding level together comprises its Settlement Funding Assessment.

### **Section 151 officer**

Legally Councils must appoint under section 151 of the Local Government Act 1972 a named chief finance officer to give them financial advice, in Lewisham's case this is the post of the Executive Director for Resources and Regeneration.

### **Settlement Funding Assessment (SFA)**

A local authority's share of the local government spending control total which comprises its Revenue Support Grant for the year in question and its baseline funding level.

### **Specific Grants**

As the name suggests funding through a specific grant is provided for a specific purpose and cannot be spent on anything else e.g. The Dedicated Schools Grant (DSG) for schools.

### **Spending Review**

The Spending Review is an internal Government process in which the Treasury negotiates budgets for each Government Department. The 2010 SR set government spending for the four financial years up to 2014/15, the 2013 SR set spending for a single year 2015/16. The next spending review is expected in 2016.

### **Start-up funding allocation (SUFA)**

Refer to Settlement Funding Assessment.

### **Treasury Management**

The process of managing the Council's cash flows, borrowing and cash investments to support Lewisham's finances. Details are set out in the Treasury Management Strategy which is approved by Mayor and Cabinet and Full Council in February each year.