

<b>Mayor &amp; Cabinet</b>			
<b>Report Title</b>	Strategic Financial Review Update		
<b>Key Decision</b>	Yes	<b>Item No.</b>	
<b>Ward</b>	All Wards		
<b>Contributors</b>	Executive Director for Resources & Regeneration		
<b>Class</b>	Part 1	<b>Date:</b>	13 November 2013

## 1. Summary

- 1.1 On 13 July 2013, Mayor & Cabinet received a report on the financial projections for the council and the need to adapt our financial planning process to meet the future challenges. This report provides an update on the financial projections and the approach proposed to meeting the challenges they pose.
- 1.2 Officers estimate that further savings of £16m will be required in 2014/15, in addition to £16m<sup>1</sup> agreed for 2014/15 in last year's budget. Overall, it is estimated that £85m of savings will be required between 2014/15 and 2017/18 over and above savings already agreed. This is an increase of £10m compared to the £75m additional savings reported in July and takes into account further information received on the likely impact of the 2015/16 Spending Round announcement. No figures for funding for local government are available beyond 2015/16, so savings have been based on an assessment of the likely impact of reductions in the overall government spending envelope.
- 1.3 In July 2013, Mayor and Cabinet agreed the need to reconfigure, re-design and fundamentally re-purpose services to fit the available resources whilst preserving the best of what Lewisham has done to date. This report sets out the approach being developed for thematic reviews to deliver the required savings over the next four years. This process will require political and managerial leadership to be re-focused on the substantial changes that are needed to deliver these substantial savings, weighing their financial impact against their consequences for service delivery and in terms of community impact. The report also sets out the planned arrangements for setting the budget for 2014/15 as part of our longer term strategic approach.

## 2. Purpose of report

- 2.1 To agree the proposed approach to thematic and cross-cutting reviews as a way of delivering savings required in future years.
- 2.2 To agree the approach to finalising the 2014/15 budget.

<sup>1</sup> Savings of £17m were previously agreed for 2014/15 in the 2013/14 Budget. A review by officers has identified circa £0.7m of these savings which are not achievable. Details of these are set out at Appendix A.

### **3. Recommendations**

- 3.1 To note the updated strategic financial position set out in section 6.
- 3.2 To agree the approach to the Lewisham Future Programme, set out in section 7, as a strategic response to the longer term financial challenges the council faces.
- 3.3 To agree the process for finalising the 2014/15 budget set out in section 8.

### **4. Policy Context**

- 4.1 Presenting financial information in a clear and understandable format contributes directly to the council's tenth corporate priority: inspiring efficiency, effectiveness and equity. In the round, budget processes are designed to support all of the council's corporate priorities by linking policy objectives, including the community strategy, to the available resources.

### **5. Background**

- 5.1 Everything that the council spends money on is intended to achieve agreed policy and community goals and hence to deliver value and benefits for the borough. The council has a strong reputation for delivering innovative and valuable services at low costs, often with significantly lower overheads than other boroughs.
- 5.2 The council delivered savings of £82m between May 2010 and 2013/14. Further savings of £16m have been agreed for 2014/15 and £1m for 2015/16. Despite this significant achievement, officers currently estimate that further savings of £85m will need to be delivered between now and 2017/18 in order to ensure that the council's services remain affordable into the medium-term. This is an increase from the £75m reported to Mayor and Cabinet in July and reflects further analysis of the implications for local government of the Chancellor's Spending Round 2015/16 announcement.
- 5.3 In July 2013, Mayor & Cabinet agreed that further savings on this scale could not solely be delivered through managerial efficiencies or service innovation to preserve outcomes at lower costs. There would of course be a continued focus on these and other disciplines to improve value for money, but hard choices would have to be confronted over the coming years about which services will need to be scaled back dramatically or even cut altogether.
- 5.4 Since July, work has been carried out on how the options for making the savings could be delivered by looking at the opportunities on a thematic basis. In advance of detailed work being carried out on each of the thematic areas, options for delivering savings required for 2014/15 have been identified and these will be presented through the Scrutiny process over the next five weeks.

### **6. Updated strategic financial position**

- 6.1 Prior to the Spending Round 2013 (SR13) announcement on 26 June, the council estimated that it needed to find savings of £75m over the period 2014/15 to 2017/18 in addition to savings for 2014/15 and 2015/16 agreed as part of the 2013/14 budget process.

- 6.2 SR13 announced a headline real terms reduction of 10% in funding for local government in 2015/16. However, subsequent analysis by the Local Government Association has revealed that the amount available for general distribution to councils will reduce by 14.6% in real terms because a significant element of the funding available in 2015/16 has been set aside by government for specific purposes. As a result, officers now estimate that additional savings of £10m will be required in the council's budget in 2015/16, taking total projected savings up to 2017/18 to £85m.
- 6.3 Uncertainty with funding in subsequent years means the estimate of the budget gap in future years is likely to vary up and down as more information becomes available. Even after the local government finance settlement is announced in December 2013, we will only have some certainty for 2014/15 and 2015/16 and will need to make projections for savings from 2016/17 onwards.
- 6.4 The absence of detailed information should not prevent the council from planning its approach now. Further savings required by 2017/18 are so substantial that they could only be delivered by considering significant options to reconfigure, re-design and fundamentally re-purpose services to fit the available resources, whilst preserving the best of what Lewisham has done to date.

## **7. The Lewisham Future Programme**

- 7.1 As Lewisham and its residents experience change on an unprecedented scale, the council needs to offer high level strategic leadership in response to that change. It must balance the need to sustain local neighbourhoods that are clean and where people feel safe; protect the vulnerable with complex needs; promote, facilitate and provide opportunities for all; develop and maintain the public realm and infrastructure; and support local communities and the organisations that help deliver this and develop the social capital on which Lewisham is built.
- 7.2 Lewisham takes a prudent and forward thinking approach to its budget and recognises that the further savings required in 2014/15 of £16m, (in addition to the £16m previously agreed)<sup>2</sup> need to be developed and delivered in the context of the projections of further savings required through 2015/16 to 2017/18.
- 7.3 The Lewisham Future Programme is the response to the direction of the Mayor to carry out a fundamental review of services. This Programme focuses on the areas of greatest spend, recognising that in the fourth consecutive year of spending reductions even greater innovation, focus on the customer, and cross-cutting thinking will be required to deliver savings whilst attempting to minimise the impacts on residents and customers of Lewisham.
- 7.4 The Lewisham Future Programme will be led by a Board chaired by the Chief Executive. The Board (LFPB) will develop options for the Mayor and Council to consider. It will drive the changes once they have been consulted upon and agreed. It will only work well if the governance is right and tight. Actions and accountabilities to Mayor & Cabinet and the council's relevant select committees is crucial. While the LFPB will be led by senior management, it will need to engage and involve as many staff, trade unions, suppliers and service users as possible.

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<sup>2</sup> See footnote 1.

- 7.5 While attention will focus on large budgets, no part of the council's activity can be excluded from the approach set out in the Lewisham Futures Programme. The council's own directly managed services as well as those delivered by partner organisations and the third sector will all be included. Those areas which cannot be examined over the next few months will be looked at later.
- 7.6 Savings in *central support services* have been one focus of the budget strategy in 2010-13. Further savings will be sought in this area, but this requires a cross-cutting review of the options of centralising core functions to identify the potential to further reduce costs.
- 7.7 The council will review its *asset base* with the aim of fully utilising its key assets, disposal of other assets, and developing a strategic approach to community assets. This approach should deliver savings in 2014/15, but will also be part of a longer term delivery strategy over a number of years.
- 7.8 External policy changes, and the SR13 announcements on the transfer of NHS funding into an Integration Fund, make it important to review the *future shape of adult social care*, and the potential of integration with health partners. Health and social care is already well integrated in Lewisham, but the development of options on how adult social care and health services may further align has the potential not only to deliver savings over 2015-18, but also improve outcomes for residents.
- 7.9 Lewisham has invested in a range of *preventative and early intervention services* designed to improve outcomes, and reduce the demand on our acute services. As public health has returned to local authorities this year, it is appropriate that the council reviews how the public health funding can be used together with existing council funding to create new and innovative approaches that deliver savings. The effectiveness of existing early intervention services will be reviewed to ensure that we invest in the programmes that are shown to be effective.
- 7.10 Where the council is providing paid-for services, a *review of income and full cost recovery* is necessary. Ensuring that the council is delivering value for money is the key driver of the budget strategy. This will include exploring how regulation and enforcement might reduce costs imposed on the council, and ensuring that the council achieves full cost recovery in its transactional or paid-for services.
- 7.11 The council has used opportunities for *joint commissioning and procurement across Boroughs* as a way of reducing costs. This has delivered savings already, and the council will focus attention on how joint procurement, commissioning and the sharing of services with other Boroughs might reduce costs in Lewisham.
- 7.12 These areas of activity have been brought together in a set of thematic and cross-cutting reviews. Officers are currently preparing initial scoping papers which will identify the opportunities for change under each of the headings, the actions required to achieve the change and timescales for delivering outcomes from the reviews. Initial financial targets for savings over the next four years have been set against each of the reviews and the scoping exercise will identify the realism of these targets and the timescales over which they can be delivered. Each of the reviews will report into a relevant select committee at initial planning stage, at key stages during implementation, and post-completion. All key decisions during delivery of the reviews will go to Mayor and Cabinet for approval.

7.13 The list of reviews and initial target savings are included in Table 1 below.

**Table 1 Thematic and cross-cutting reviews with initial target savings**

<b>Thematic – total savings £64m</b>	<b>Cross-cutting – savings £21m</b>
<p>1. <i>Smarter assessment arrangements and deeper integration of social &amp; health care incl. public health - £22m</i></p> <p>2. <i>Sharing services with other Councils and bodies - £12m</i></p> <p>3. <i>A Council wide “efficiency review” across all budgets - £10m</i></p> <p>4. <i>A Council wide asset rationalisation programme - £8m</i></p> <p>5. <i>Grouping more corporate &amp; business support services together - £6m</i></p> <p>6. <i>Review of income generation - £4m</i></p> <p>7. <i>Combining front-line services (enforcement &amp; regulation) - £2m</i></p>	<p>1. <i>Management and corporate overheads</i></p> <p>2. <i>School effectiveness services and functions</i></p> <p>3. <i>Crime reduction services</i></p> <p>4. <i>Culture and community services</i></p> <p>5. <i>Housing strategy and non-HRA funded services</i></p> <p>6. <i>Environmental Services</i></p> <p>7. <i>Public Services</i></p> <p>8. <i>Planning and Economic Development</i></p> <p>9. <i>Safeguarding and Early Intervention services for children and families</i></p>

## **8 Budget process**

8.1 An effective budget process needs to reflect the political and managerial leadership’s priorities and to facilitate an appropriate degree of review and challenge to proposals. It needs to provide a framework for financial accountability and enable clear decision making and it needs to do all of this in an efficient manner to ensure that the work in developing, reviewing and scrutinising proposals is proportionate to the objectives, rather than an end in itself.

8.2 The proposed approach to thematic and cross-cutting reviews set out in section 7 above will require our existing budget processes to change. The longer term and cross-cutting approach proposed will mean that savings will be delivered over longer time periods and will not fit easily into the annual budget timetable. Instead there will be an on-going identification of opportunities to take costs out of services as the reviews are carried out. Decisions will happen at different times of the year and savings will be taken when they are identified rather than waiting to be agreed at the annual budget meeting. All savings that have been agreed – and those forecast for future years – will then be reported in the annual budget report, but many of the key decisions will already have been taken or may be taken at a later date. This means that political and managerial focus will move away from individual smaller scale savings that have typified the budget process in previous years to larger scale savings delivered through major change programmes.

8.3 It should be noted that 2014/15 is a transition year. The process for delivering a balanced budget for 2014/15 is as follows:

- a. Savings of £17m in 2014/15 were agreed as part of the 2013/14 budget process. Officers have now reviewed these and in most cases they are confident that they will be delivered. There are five savings proposals, listed in

Appendix A, which will not now be delivered. These total £0.742m and mean that the required new savings for 2014/15 increases to £16m.

- b. Officers have also been developing a set of further individual budget savings proposals for 2014/15 that will be considered at relevant Scrutiny Committees in November and December and be submitted to Mayor & Cabinet on 18 December 2013. These savings will go some way to bridging the revised £16m gap for 2014/15.
- c. As outlined in the July report to Mayor and Cabinet, it is important that every budget holder in the council feels that it is their responsibility to deliver smaller-scale savings. This will instil a greater sense of financial accountability within the organisation. These proposals, such as deleting vacant posts and other marginal, but nonetheless important efficiency measures, will be co-ordinated under an overall efficiency programme. This will help to ensure that realistic savings, currently targeted at £2.5m, are delivered without senior focus being diverted from the major change programmes required to meet the council's demanding financial targets.
- d. The initial scoping work for thematic and cross-cutting reviews will be used to identify areas where officers believe savings can be delivered in 2014/15 and for future years.. This element of the process will enable savings proposals to be put up on a rolling basis as and when the work to develop them to a sufficient standard has been reached. The savings will only be allocated against individual budgets once the proposals have been reviewed by scrutiny and decisions taken by Mayor & Cabinet.

8.4 The 2014/15 budget is scheduled to be considered at Full Council on 26 February 2014. The timetable for securing scrutiny input into budget proposals for 2014/15 and the other requirements is set out at Appendix B.

8.5 From 2015/16 onwards, the work carried out on the thematic and cross-cutting reviews, including oversight by scrutiny and decisions of Mayor & Cabinet, during the preceding financial year be the primary basis for identifying and delivering savings.

## **9. Financial Implications**

9.1 This report is concerned with the approach to be adopted for the council to address the financial challenges it faces and the processes for agreeing the budget for 2014/15. There are no direct financial implications arising from the report itself.

## **10. Legal Implications**

10.1 The Council must set and maintain a balanced budget and must act prudently in relation to the stewardship of council taxpayers funds.

## **11. Crime and disorder implications**

11.1 None specific to this report, although future budget proposals may have crime and disorder implications. If so they will be considered at the appropriate time.

## 12. Equalities Implications

- 12.1 None specific to this report, although future budget proposals may have equalities implications. If so they will be considered at the appropriate time.

## 13. Environmental Implications

- 13.1 None specific to this report, although future budget proposals may have environmental implications. If so they will be considered at the appropriate time.

## 14. Conclusion

- 14.1 The council expects to need to make further savings of around £85m over the period to 2017/18, although this figure is subject to significant change as financing estimates are refined. The proposals in this report will make the process for developing policies and budgets to deliver this more focused to key priorities and efficient to administer.

## 15. Background documents and further information

Short Title of	Date	Location	Contact
2013/14 Budget	27 February 2013 (Council)	3 <sup>rd</sup> Floor Laurence House	Selwyn Thompson
Strategic Financial Review	12 July 2013 (M&C)	3 <sup>rd</sup> Floor Laurence House	Selwyn Thompson

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

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## APPENDIX A

### Savings agreed for 2014/15 as part of the 2013/14 Budget that are no longer deliverable

Ref	Service Area and proposal	£'000s	Reason why saving is considered as being no longer deliverable
<b>CYP 52</b>	Referral and Assessment – The proposal is to delete a specialist team manager role in this service who manages matters such as private fostering, young carers and missing children	60.0	Current pressures in the service mean that this proposal is no longer deliverable.
<b>CUS 1</b>	Bereavement Services – Consider through the consortium (Lewisham, Lambeth, Southwark and Greenwich) a reduction in costs paid to the inner South London Coroner Court by 10%	30.0	The coroner has questioned the current level of funding received.
<b>CUS 3</b>	Lee Valley Park Levy – Seek a reduction of 20% in the annual sum paid for financial year 2014/15 for Lee Valley Regional Park	52.0	The budget is no longer part of the Customer Services Directorate.
<b>CUS 29</b>	Parking Services – The saving is the removal of the exit barrier system and staff at the Holbeach car park and the introduction of pay and display. The saving would be realised in the new parking contract to run from July 2013.	100.0	Action has been implemented, but the contract cost is higher than the budget
<b>RNR 13</b>	Planning - Introduction of locally set planning application fees	500.0	The legislation has been delayed and may not happen, making this saving undeliverable.
	<b>Total</b>	<b>742.0</b>	

## APPENDIX B

### Key Dates – Budget timetable for 2014/15

Key task	Key dates
Mayor & Cabinet agree budget process	13 Nov
Overview and Scrutiny Business Panel (OSBP) – Strategic Financial Review Update report	26 Nov
Select Committees review budget savings proposals	3 Dec to 17 Dec
Trade union consultation (Joint Consultative Committees and Corporate Joint Council, Works Council)	TBC
Provisional Local Government Finance Settlement (expected)	w/c 16 Dec
Mayor & Cabinet consider budget savings proposals	18 Dec
OSBP – option to consider Mayor & Cabinet decisions on budget proposals	TBC
Mayor & Cabinet considers Council Tax Base report	15 Jan
Council agree Council Tax Base report	22 Jan
Public Accounts Select Committee review 2014 Budget Report	6 Feb
Final Local Government Finance Settlement and GLA precepts notification (expected)	20 Jan to 13 Feb
Mayor & Cabinet review proposals and 2014 Budget Report	12 Feb
OSBP - 2014 Budget Report	18 Feb
Despatch Budget Report to Council	18 Feb
Mayor & Cabinet consider Budget Report update (precepts and final Settlement)	19 Feb
Council agree 2014 Budget Report	26 Feb
Council 'fall back' date for 2014 Budget Report	5 March