

<b>MAYOR &amp; CABINET</b>			
<b>Report Title</b>	2015/16 Budget Update		
<b>Key Decision</b>	Yes	<b>Item No.</b>	
<b>Ward</b>	All		
<b>Contributors</b>	Executive Director for Resources & Regeneration		
<b>Class</b>	Part 1	<b>Date: 18 February 2015</b>	

## **REASONS FOR URGENCY AND LATENESS**

Urgency: Given the significance of the financial constraints that the Council will face over the coming years, it is essential that the Mayor and his Cabinet are updated on any changes affecting the 2015/16 Budget prior to presenting it to full Council. The reason for lateness was to ensure that any decisions taken by the Mayor & Cabinet on 11 February 2015 could be appropriately considered within this report.

### **1 SUMMARY**

- 1.1 This report seeks the Mayor's approval to finalise the recommended 2015/16 budget for consideration and agreement by the Council on 25 February 2015.

### **2 PURPOSE**

- 2.1 The purpose of this report is to finalise the 2015/16 budget for consideration by the Council on 25 February 2015. The main budget report was presented to Mayor & Cabinet on 11 February 2015.

### **3 RECOMMENDATIONS**

That the Mayor:

- 3.1 Agrees to recommend a Council Tax for 2015/16 of £1,060.35 for the Council's element. This is an increase of 0%, based on a General Fund Budget Requirement of £246.224m for 2015/16.
- 3.2 Notes and asks Council to note an overall reduction in the total Council Tax for 2015/16 of 0.29% to include the Greater London Authority (GLA) precept being reduced by £4 to £295, a 1.3% reduction from its 2014/15 level as proposed.
- 3.3 Agrees to recommend to Council on 25 February 2015, the statutory calculation of the Budget Requirement for Lewisham for 2015/16, attached at Appendix A;
- 3.4 Agrees to recommend to Council on 25 February 2015, the motion on the budget, attached at Appendix B.
- 3.5 Notes the provisional and estimated precept and levies from the GLA and other bodies as detailed in Appendix C.

- 3.6 Notes the final settlement figure of £160.017m announced on the 3 February 2015, which is an increase of £0.677m on the provisional settlement figure.
- 3.7 Notes the impact on the budget gap of savings decisions taken by Mayor and Cabinet on 11 February 2015 detailed in 4.3 below.
- 3.8 Notes the overall implications of the increased settlement figure and the savings decisions which has resulted in a net revised Budget requirement figure of £246.224m, and a revised savings gap of £9.960 (to be met from the New Homes Bonus reserve and General Reserves) thereby creating a net decrease of £0.477m in the amount of reserves required to fill the potential budget gap as reported in the Budget report on the 11 February and as detailed in paragraph 4.2 below.
- 3.9 Notes that there were no responses from Business rate payers to the consultation on the draft Budget which took place from 20 January 2015 to 3 February 2015.
- 3.10 Considers the Section 25 Statement from the Chief Financial Officer. This is attached at Appendix D.

#### **4 UPDATE ON THE COUNCIL'S CURRENT FINANCIAL POSITION**

- 4.1 This report updates the main 2015/16 Budget Report through considering the following areas:-
- Revenue Budget Savings and Funding Issues
  - The Greater London Authority Precept
  - Final Level of Council Tax

##### **Revenue Budget Savings and Funding Issues**

- 4.2 The impact of the final grant settlement and savings decisions taken at the Mayor and Cabinet meeting of the 11 February and their impact on the statutory calculations in respect of Council Tax are set out in this section:
- 4.3 On the 11 February, the Mayor rejected the 2015/16 savings proposal relating to ending the discretionary Freedom Pass Scheme of £0.2m (O1). This reduced the total 2015/16 new savings to £26.729m and increased the call on reserves by £0.2m.

##### ***Final Settlement Funding Assessment***

- 4.4 The Department for Communities and Local Government announced the final Local Government settlement figures on the 4 February 2015.
- 4.5 The Council's total Settlement Funding Assessment increased by £0.677m from the provisional figure announced on the 18 December 2014, as a result of an increase in the upper-tier funding of the Revenue Support Grant (RSG). In total the Government is providing a further £74 million to upper-tier authorities to recognise that such councils have asked for additional support, including to help them respond to local welfare needs and to improve social care provision. For the Council the impact of this additional funding is to reduce the need to use once off resources in the 2015/16 to set a balanced budget.

## **Revised Overall Budget Position for 2015/16**

- 4.6 For 2015/16, the overall budget position for the Council is an increased assumed General Fund Budget Requirement of £246.224m, with a net reduction in the call on reserves of £0.477m. The overall position is set out in Table 1 below.

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

<b>Detail</b>	<b>Expenditure/ (Income) £m</b>	<b>Expenditure/ (Income) £m</b>
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>

\*Value of Section 31 grants to compensate local authorities for the cost of capping the business rates multiplier in 15/16 confirmed in the local government financial settlement.

### **Levies**

- 4.7 There are three bodies which charge a levy against Lewisham's Council Tax: the London Pensions Fund Authority; the Environment Agency; and the Lee Valley Park Authority. Formal notifications for the first two levies have been received, and officers have estimated the levy for the Lee Valley Park Authority and assumed no change. The detail for these levies is provided in Appendix C. The Council's 'relevant basic' amount of Council Tax has been calculated and results in a 0% increase for 2015/16.

### **The Greater London Authority Precept**

- 4.8 On the 20 January, the Mayor of London's draft budget was announced. The proposed 2015/16 GLA precept for Band D is £295. This represents a reduction of £4 from its 2014/15 level. The final announcement is due

imminently and officers have assumed no change to the precept already announced.

- 4.9 Accordingly, the Mayor is asked to agree to recommend to Council on 25 February 2015, the motion, attached at Appendix B.

### **Final Level of Council Tax**

- 4.10 Table 2 shows Lewisham's overall Council Tax Calculation for 2015/16 and calculation of the Council Tax for Band D for 2015/16, based on the recommended budget requirement of £246.224m.

**Table 2: Calculation of Council Tax Requirement and Band D based on spend of £246.224m for 2015/16.**

	£
Assumed Budget Requirement for 2015/16	246,224,155
<b>Less:</b> Revenue Support Grant	73,653,574
<b>Less:</b> Baseline Funding Level	86,363,020
<b>Less:</b> Surplus in collection fund	4,864,000
Less: SFA Adjustment Grant	1,259,461
Council Tax requirement	<b>80,084,100</b>
<b>Divide by:</b> Council Tax Base	75,526.1
<b>Council Tax for Lewisham Services (Band D)</b>	1060.35
<b>Add:</b> Precept demand from GLA (estimated)	295.00
<b>Total Council Tax (Band D)</b>	<b>1,355.35</b>

- 4.11 The final calculation of Council Tax for different Council Tax bands is shown in Table 3, based on the Band D calculated in Table 2.

**Table 3: Council Tax for different Council Tax Bands in 2015/16**

	Property Value	Fraction	Lewisham Council Tax	GLA Precept	Total Council Tax
	£'000		£	£	£
A	Up to 40	6/9	706.90	196.67	903.57
B	40-52	7/9	824.72	229.44	1,054.16
C	52-68	8/9	942.53	262.22	1,204.75
<b>D</b>	<b>68-88</b>	<b>9/9</b>	<b>1,060.35</b>	<b>295.00</b>	<b>1,355.35</b>
E	88-120	11/9	1,295.98	360.56	1,656.54
F	120-160	13/9	1,531.62	426.11	1,957.73
G	160-320	15/9	1,767.25	491.67	2,258.92
H	Over 320	18/9	2,120.70	590.00	2,710.70

### **Conclusion**

- 4.12 This report sets out the updated information for the Mayor to make recommendations to Council to set the 2015/16 budget. This includes

finalising the statutory requirements to allow Council to make final decisions on 25 February 2015.

## **5 FINANCIAL IMPLICATIONS**

5.1 This entire report is concerned with the Council's budget.

## **6 LEGAL IMPLICATIONS**

6.1 For the legal implications, these are set out in detail in the main 2015/16 Budget Report and the 2015/16 Revenue Budget Savings Report both presented to Mayor & Cabinet on 11 February 2015.

## **7 HUMAN RESOURCES IMPLICATIONS**

7.1 There are no specific human resources implications directly arising from this report. Any human resources implications have been set out in the main budget report.

## **8 CRIME & DISORDER IMPLICATIONS**

8.1 There are no specific crime and disorder implications directly arising from this report. Any crime and disorder implications have been set out in the main budget report.

## **9 EQUALITIES IMPLICATIONS**

9.1 There are no specific equalities implications arising from this report beyond those set out and considered by Mayor & Cabinet on the 11 February in the 2015/16 Budget Report and 2015/16 Revenue Budget Savings Report.

## **10 ENVIRONMENTAL IMPLICATIONS**

10.1 There are no specific environmental implications directly arising from this report. Any environmental implications have been set out in the main budget report.

## **11 BACKGROUND DOCUMENTS AND ORIGINATOR**

<b>Short Title of Document</b>	<b>Date</b>	<b>Location</b>	<b>Contact</b>	<b>Exempt</b>
2015/16 Budget Report	Mayor & Cabinet 11 February 2015	5 <sup>th</sup> Floor Laurence House	David Austin	No
2015/16 Revenue Budget Savings Report	Mayor & Cabinet 11 February 2015	5 <sup>th</sup> Floor Laurence House	David Austin	No

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

Janet Senior, Executive Director for Resources & Regeneration on 020 8314 8013

David Austin, Head of Corporate Resources on 020 8314 9114

## APPENDIX A

### Statutory Calculations

- 1) It be noted that at its meeting on 21 January 2015, the Council calculated the number of 75,526.1 as its Council Tax base for 2015/16 in accordance with the Local Authorities (Calculation of Taxbase) Regulations;
- 2) The following amounts be now calculated by the Council for the year 2015/16 in accordance with the Local Government Finance Act 1992:
  - a. **£1,042,058,620** being the aggregate of the amounts which the Council estimates for gross expenditure, calculated in accordance with Section 32(2)A of the Act;
  - b. **£795,834,465** being the aggregate of the amounts which the Council estimates for income, calculated in accordance with Section 32(3)A of the Act;
  - c. **£246,224,155** being the amount by which the aggregate of 2(a) above exceeds the aggregate of 2(b) above, calculated by the Council, in accordance with Section 32A(4) of the Act, as its General Fund budget requirement for the year;
  - d. **£161,276,055** being the aggregate of the sums which the Council estimates will be payable for the year into its General Fund in respect of the Settlement Funding Assessment. This includes a Settlement Funding Assessment adjustment of **£1,259,461**;
  - e. **£84,948,100** being the residual amount required to be collected from Council Tax payers. This includes the surplus on the Council's Collection Fund of **£4,864,000**.
  - f. **£1,060.35** being the residual sum at (e) above (less the surplus on the Collection Fund), divided by the Council Tax base of **75,526.1** which is Lewisham's precept on the Collection Fund for 2014/15 at the level of Band D;

Band	Council Tax (LBL)
	£
A	706.90
B	824.72
C	942.53
<b>D</b>	<b>1,060.35</b>
E	1,295.98
F	1,531.62
G	1,767.25
H	2,120.70

Being the amounts given by multiplying the amount at (f) above by the number which, in proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation Band D, calculated by the Council in

accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands;

3) It be noted that for the year 2015/16, the Greater London Authority is currently consulting on the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992 (as amended), for each of the categories of dwellings shown below:-

<b>Band</b>	<b>GLA Precept</b>
	<b>£</b>
A	196.67
B	229.44
C	262.22
<b>D</b>	<b>295.00</b>
E	360.56
F	426.11
G	491.67
H	590.00

4) Having calculated the estimated aggregate amount in each case of the amounts at 2) (f) and 3) above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, assumed the following amounts as the amounts of Council Tax for the year 2015/16 for each of the categories of dwellings shown below:-

<b>Band</b>	<b>Total Council Tax (LBL &amp; GLA)</b>
	<b>£</b>
A	903.57
B	1,054.16
C	1,204.75
<b>D</b>	<b>1,355.35</b>
E	1,656.54
F	1,957.73
G	2,258.92
H	2,710.70

## **APPENDIX B**

### **MOTION FOR THE MAYOR TO RECOMMEND TO COUNCIL**

Having considered an officer report and a presentation from the Cabinet Member for Resources the Mayor, from the options available, agreed that:

(i) the consideration of the Public Accounts Select Committee of 5 February 2015, incorporating the views of the respective select committees on the previously agreed, returning and new revenue budget savings proposals for 2015/16 to 2017/18 be noted;

(ii) having considered the views of those consulted on the budget, if required and subject to proper process and consultation, the following modifications be made to the proposals published in the 2015/16 Budget Report;

#### **Capital Programme**

- 3.1 the 2014/15 Quarter 3 Capital Programme monitoring position as set out in section 5 of the budget report be noted;
- 3.2 Council be recommended to approve the 2015/16 to 2018/19 Capital Programme of £424.3m, there are two new proposed major capital projects for 2015/16 and it includes an allocation of £90,000 of capital to Phoenix Housing in respect of their proposals for developing the Fellowship Inn, as set out in section 5 of the report and attached at Appendices W1 and W2;

#### **Housing Revenue Account**

- 3.3 Council be asked to note the consultation report on service charges to tenants' and leaseholders in the Brockley area, presented to area panel members on 11<sup>th</sup> December 2014, as attached at Appendix X3 of the report;
- 3.4 Council be asked to note the consultation report on service charges to tenants' and leaseholders and the Lewisham Homes budget strategy presented to area panel members on 15 December 2014, as attached at Appendix X4 of the report;
- 3.5 Council be recommended to set an increase in dwelling rents of 2.61% (an average of £2.51 per week) – option B as presented in section 6 of the report in accordance with current Housing Revenue Account financial strategy;
- 3.6 Council be recommended to set an increase in the hostels accommodation charge by 2.20% (or £1.50 per week), in accordance with the Rent Restructuring formula;
- 3.7 Council be recommended to approve the following average weekly increases for dwellings for:
  - 3.7.1 service charges to non-Lewisham Homes managed dwellings (Brockley);



- caretaking 2.20% (£0.07)
- grounds 2.20% (£0.04)
- communal lighting 2.20% (£0.01)
- bulk waste collection 2.20% (£0.02)
- window cleaning 0.00% (£0.00)
- tenants' levy No increase

3.7.2 service charges to Lewisham Homes managed dwellings:

- caretaking No increase
- grounds No increase
- window cleaning No increase
- communal lighting 40.70% (£0.35)
- block pest control 5.16% (£0.08)
- waste collection No change
- heating & hot water -18.93% (-£1.87) decrease
- tenants' levy No increase

3.8 Council be recommended to approve the following average weekly percentage increases for hostels and shared temporary units for;

- service charges (hostels) – caretaking etc.; 4.08% (£2.77)
- no energy cost increases for heat, light & power; 0.0% (£0.00)
- water charges increase; 5.88% (£0.01)

3.9 Council be recommended to approve an increase in garage rents by Retail Price Inflation (RPI) of 2.3% (£0.20 per week) for Brockley residents and 2.3% (£0.27 per week) for Lewisham Homes residents;

3.10 Council be asked to note that the budgeted expenditure for the Housing Revenue Account (HRA) for 2015/16 is £130.9m;

3.11 Council be asked to endorse the HRA budget strategy savings proposals in order to achieve a balanced budget in 2015/16, as attached at Appendix X1 of the report;

3.12 Council be asked to endorse the write off of 20 cases of Former Tenants' Arrears as set out in section 6 and Appendix X6 of the report, totalling £265,843.81;

### **Dedicated Schools Grant and Pupil Premium**

3.13 Council be recommended to approve, subject to final confirmation of the allocation, that the provisional Dedicated Schools Grant allocation of £275.8m be the Schools' Budget for 2015/16; and

- Agree the changes to the funding arrangements for High Needs Pupils as set out in paragraph 7.12 of the report;
- Note the level of pupil premium anticipated for 2015/16 of £18.2m

## **General Fund Revenue Budget**

- 3.14 Council be asked to note the projected overall variance against the agreed 2014/15 revenue budget as set out in section 8 of the report and that any year-end overspend will have to be met from reserves;
- 3.15 Council be asked to endorse the previously approved revenue budget savings of £1.48m for 2015/16 and delegated budget savings proposals as per the Mayor and Cabinet meeting of the 12 November 2014, as set out in section 8 and summarised in Appendix Y1 and Y2 of the report;
- 3.16 Council be asked to note that the revenue budget savings presented at the Mayor and Cabinet meeting held on the 11 February 2015 as summarised in Appendices Y1 and Y2 of the 2015/16 Revenue Budget Savings Report, (with the exception of proposal O1) will be used to balance the budget.
- 3.17 Council be asked to endorse the previously agreed efficiency savings of £2.5m from 2015/16 to 17/18 to be off-set against non-pay inflation in directorate budgets.
- 3.18 Council be asked to agree the transfer of £5.0m in 2015/16 from the New Homes Bonus reserve to the General Fund for one year to meet funding shortfalls and that the position be reviewed again for 2016/17;
- 3.19 Council be asked to agree the use of £4.96m reserves to fill the budget gap in 2015/16;
- 3.20 Council be asked to agree to create a fund in respect of quantified revenue budget pressures in the sum of £4.3m in 2015/16, allowing the Executive Director for Resources & Regeneration to hold these resources corporately until such time that these pressures emerge during the year, and authorise the Executive Director for Resources and Regeneration to allocate these funds to meet pressures when satisfied that those pressures cannot be contained within the Directorates' cash limits;
- 3.21 Council be asked to agree to create a fund in respect of as yet un-quantified revenue budget risks in the sum of £3.2m in 2015/16, allowing the Executive Director for Resources & Regeneration to hold these resources corporately in case these pressures emerge during the year, and authorise the Executive Director for Resources and Regeneration to allocate these funds to meet such pressures when satisfied that those pressures cannot be contained within the Directorates' cash limits;
- 3.22 Council be recommended to approve a General Fund Budget Requirement of £246.224m for 2015/16, based on a 0% increase in Lewisham's Council Tax element and the 1% Council Tax freeze grant of £1.0m being accepted. This will result in a Band D equivalent Council Tax level of £1,060.35 for Lewisham's services and £1,355.35 overall. This represents an overall decrease in Council Tax for 2014/15 of 0.29% and is subject to the GLA precept for 2014/15 being reduced by 1.3% from its existing 2014/15 level, in line with the GLA's final draft proposal;

- 3.23 Council be asked to note the Council Tax Ready Reckoner which for illustrative purposes sets out the Band D equivalent Council Tax at various levels of increase. This is explained in section 8 of the report and set out in more detail in Appendix Y3 of the same report;
- 3.24 Council be recommended to ask that the Executive Director for Resources & Regeneration issues cash limits to all Directorates once the 2015/16 Revenue Budget is agreed;
- 3.25 Council be recommended to note the Chief Financial Officer's Section 25 Statement, as attached at Appendix C of this report;
- 3.26 Council be recommended to agree the statutory calculations for 2015/16 as set out at Appendix Y5 of the report;
- 3.27 Council be recommended to note the prospects for the revenue budget for 2016/17 and future years as set out in section 9 of the report;
- 3.28 Council be recommended to agree that officers continue to develop firm proposals as part of the Lewisham Future Programme to help meet the forecast budget shortfalls in 2015/16 and for future years;

#### **Other Grants (within the General Fund)**

- 3.29 Council be recommended to note the adjustments to and impact of various specific grants for 2015/16 on the General Fund as set out in section 8 of the report;

#### **Treasury Management Strategy**

- 3.30 Council be recommended to approve the prudential indicators and treasury limits, as set out in section 10 of the report;
- 3.31 Council be recommended to approve the 2015/16 treasury strategy, including the investment strategy and the credit worthiness policy, as set out at Appendix Z3 of the report;
- 3.32 Council be recommended to agree to delegate to the Executive Director for Resources & Regeneration authority during 2015/16 to make amendments to borrowing and investment strategies provided there is no change to the Council's authorised limit for borrowing;
- 3.33 Council be recommended to agree the Minimum Revenue Provision (MRP) policy as set out in section 10 of the report.
- 3.34 Council be recommended to agree the credit and counterparty risk management criteria, as set out at Appendix Z3 of the report, the proposed countries for investment at Appendix Z4 of the report, and that it formally delegates responsibility for managing transactions with those institutions which meet the criteria to the Executive Director for Resources & Regeneration;

- 3.35 Council be recommended to agree to decrease the maximum deposit limits with the part nationalised banks from £65m to £40m for each of Lloyds Banking Group and Royal Bank of Scotland (RBS) Group;
- 3.36 Council be recommended to note that there was one incidence of a breach of the investment policy in November 2014 when an investment with an approved counter party was made for 12 months which should have been limited to 6 months; and
- 3.37 Council be recommended to note the development of the Municipal Bond Agency.

## APPENDIX C

### RELEVANT AMOUNTS OF COUNCIL TAX AND LEVIES

<b>Basic Amount of Council Tax</b>	<b>2014/15</b>	<b>2015/16</b>
Council Tax Base	73,941	75,526.1
Council Tax Requirement with Levy (£)	78,403,552	80,084,100
Basic Amount of Council Tax (£)	1,060.35	1,060.35
<b>% Increase in basic amount of Council Tax</b>		<b>0.00%</b>

<b>Levy bodies for Lewisham</b>	<b>2014/15</b>	<b>2015/16</b>	<b>Change</b>
LPFA	£1,243,426	£1,231,690	(£11,736)
Lee Valley Regional Park (Estimated)	£232,194	£232,194	0
Environment Agency	£170,425	£172,889	£2,464
<b>Total Levies</b>	<b>£1,646,045</b>	<b>£1,636,773</b>	<b>(£9,272)</b>



## **APPENDIX D**

### **CHIEF FINANCIAL OFFICER'S STATEMENT REQUIRED UNDER SECTION 25 OF THE LOCAL GOVERNMENT ACT**

This statement makes reference to the 2015/16 Budget Report to Mayor & Cabinet circulated to all Members.

Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to an authority when it is making the statutory calculations required to determine its Council Tax. The Authority is required to take the report into account when making the calculations. The report must deal with the robustness of the estimates, included in the budget and the adequacy of the reserves, for which the budget provides. This Statement also reflects the requirements of CIPFA's current Local Authority Accounting Panel (LAAP) Bulletin 77 on 'Local Authority Reserves and Balances'.

Section 114 of the Local Government Act 1988, requires the Chief Financial Officer (CFO) to issue a report to all the Local Authority members to be made by that officer, in consultation with the monitoring officer and head of paid service, if there is or is likely to be unlawful expenditure or an unbalanced budget.

#### **Generally**

The Council has already made savings from its revenue budget of £93m since May 2010. The Medium Term Financial Strategy was reported to Mayor & Cabinet in July 2014. This set out that an estimated £85m of savings is required from 2015/16 to 2017/18, over and above savings already agreed. The final Local Government Finance Settlement on 4 February 2015 announced a one year settlement for 2015/16. This confirmed the need for £40m of savings in 2015/16. The estimates for 2016/17 and 2017/18 may vary depending on future year settlements. Current forecasts expect the Council to need to find £40m to £50m of savings for the two years 2016/17 and 2017/18.

Our estimates were for a further £85m of savings but following the Chancellors announcement in the Autumn Statement of a further £10 billion of cuts to public sector expenditure these estimates are likely to worsen and it would be prudent to revisit the overall estimates in the next financial survey in the summer.

The Council continues to take a prudent approach towards financial planning. During these times, the Council will need to weigh up the need to hold reserves and balances whilst going through this period of increased risk to the delivery of the budget versus the need to use reserves and balances when considering the need to set a balanced budget.

#### **Pressures on the Council's Revenue Budget in 2015/16**

During 2014/15 there have been a number of pressures which have crystallised due to increasing demographics and legislative changes. These have given rise to an increase in individuals presenting with no recourse to public funds and an increase in bed and breakfast usage. Consideration is given in the report to the management and funding of these risks.

In setting this budget, the Council will maintain a level of corporate balances and reserves, which should be adequate to deal with any risk associated with the delivery of this budget. That said, there are still considerable risks associated with delivering the

scale of savings required. The Chief Financial Officer recommends that the un-earmarked reserves are held at the current level of £12.0m. Should the need arise to call upon these reserves during the year, consideration should be given to replenish these as soon as possible.

In addition, the Council holds General Earmarked Reserves which total £63m. These funds are earmarked for various future planned spending and to undertake one-off projects or work that does not happen every year. Examples include, the transitional fund, redundancy provisions, elections, replacement of obsolete equipment and contractual claims that may become due (e.g. dilapidations that may become payable on properties we lease from the private sector to provide housing).

The 2015/16 budget pressures have been outlined in the main budget report. These include a range of pressures, some of which cannot be quantified at this stage, and include: demographic pressures for children and adult services; redundancy and further potential changes to funding as a result of government legislation and reform. These funds will either be transferred to the Directorate budgets where quantifiable and not thought to be directly controllable at the start of the year or held corporately until such time when the pressure emerges during the year.

## **Budget assumptions**

### Inflation

For financial planning purposes, the Council continues to anticipate the environment of public sector pay restraint to continue and assume an average pay inflation of 1% per annum, which equates to approximately £1.1m. Negotiations concluded in 2014 confirmed a pay award of 2.2% with effect from January 2015 for the two years 2014/15 and 2015/16, and funding for this increase is provided within the budget.

The Council applies a notional non-pay inflation level of 2.5% per annum which equates to approximately £3.4m on net expenditure.

Moving forward, officers will need to closely monitor inflationary pressure on contracts, which in many cases, continue to outstrip the current level of Consumer Prices Index (CPI) inflation. In particular, this applies to those areas which are viewed as being particularly sensitive to contract price changes, such as Adult Social Care, or with long term fixed rate contracts, such as the range of PFI contracts which the Council is currently engaged with.

## **Budget Risks**

### Capital Programme

The risks related to the Capital Programme are managed programme-wide and scheme by scheme. Officers review anticipated capital receipts quarterly, the last review was carried out in January 2015. Projections are updated and reported on regularly to Mayor & Cabinet.

### Service volume pressure

The Council continues to maintain a medium term financial strategy and corporate budget model by which it attempts to identify and anticipate financial pressures.



With regards to the overall financial standing of the authority, issues concerning the level of borrowing and debt outstanding, are considered in section ten of the 2015/16 Budget Report.

### Business Rates Retention

This is the third local government finance settlement under the new 'business rate retention' funding system. There is now an increased emphasis on local authorities to grow their business activities locally. Councils retain 30% of locally collected business rates, but have no discretion to vary the rateable value or 'multiplier', (i.e. the pound charged per rateable value). This element makes up 17% of the total baseline funding received by Lewisham in respect of business rates in the financial settlement.

Each local authority is given an indicative target of business rates yield against which growth will be judged. Councils will be able to retain a share of any growth in business rate income and therefore have a direct financial incentive to promote growth in their local economies. Conversely, any decline in business rates will also be borne by the authority and will negatively impact upon income levels.

### Savings

#### *Identifying savings*

The Council, through the Lewisham Future Programme, continues to look at reshaping the Council over the medium term. This Programme recognises that in the fifth consecutive year of spending reductions even greater innovation, focus on the customer, and cross-cutting thinking is required to deliver savings. This whilst attempting to minimise the impacts on residents and customers of Lewisham.

The Programme comprises a mixture of thematic and cross-cutting reviews. Some examples of these include: smarter assessment arrangements and deeper integration of social & health care, including public health; approach to safeguarding and early intervention services; opportunities for asset rationalisation; a strategic review of income generation and the drive to make further reductions in management and corporate overheads.

The 2014/15 budget was supported by the use of reserves. The 2015/16 budget makes use of once off resources from New Homes Bonus of £5.0m and £5m of earmarked reserves. Going forward, ongoing measures will need to be put in place to ensure the sustainability of the budget.

#### *Implementing savings*

There is a risk that one or more budget savings, in full or in part, may not be delivered on time in the year. The Council operates financial management on the principle of devolved responsibility for budgets to managers in Directorates. This is managed through the monthly budget monitoring process with quarterly updates provided in the budget monitoring reports for members. The extent to which any anticipated savings are not delivered adds to future pressures.

### Control

Going forward into 2015/16, it will be even more important that the Council continues to maintain its strong systems for monitoring expenditure and controlling expenditure through Directorate cash limits.

During 2014/15 instructions to budget managers were re-affirmed to ensure tight spending on budgets and focus on ensuring the Council's budget position remains

within budget at the year-end. However, throughout the year the Council has forecast a significant overspending position. While this has been reduced, the forecast outturn position for the year at the December 2014 was an overspend of £9.5m. In light of this position the Chief Executive and the Executive Director for Resources and Regeneration introduced a Central Expenditure Panel to approve all spending decisions in October 2014. Any overspend at the end of the financial year will have to be met from once off resources.

For 2015/16, the budget holders within Directorates are again being requested to endorse their cash limits before the start of the financial year and provide confirmation of an ability to deliver their services within the agreed allocated resources. It is expected that the Departmental Expenditure Panels and the Corporate Expenditure Panel will continue into 2015/16 and this will be reviewed after the first quarter.

Given the forecast outturn position in 2014/15, the unprecedented level of savings required for 2015/16 and the anticipated very significant level of savings/cuts required in the years beyond; it remains critically important to monitor the progress being made in implementing these savings throughout the year.

### Conclusion

The Council has a robust and sophisticated approach for producing and maintaining its annual budget. Its financial plans and strategies have contributed to the achievement of the Council's corporate objectives to date.

However, this has required the Council to draw on once off resources in 2014/15 and again in 2015/16. This action reduces the resilience of the Council to respond flexibly in the event of continued resource reduction or meet the financial consequences of a severe shock to or failure of service(s).

Tight control will need to be exercised over the budget for 2015/16 given the levels of risk, as set out earlier in this statement. Attention needs to continue to be focussed on managing within budget and identifying the savings necessary to achieve a balanced budget in future years. The use of once off resources on a continuous basis to balance the annual budget is not sustainable and could quickly lead to the depletion of reserves. Should the Council find itself in a position where it does not have the resources to meet expenditure this would lead to the consideration of a Section 114 notice. Whilst the Council does currently have adequate reserves and a robust financial management regime, the budget preparation must remain a focus.

Janet Senior – Executive Director for Resources & Regeneration  
**Chief Financial Officer – Section 151**

**February 2015**