

<b>Mayor and Cabinet</b>			
<b>Title</b>	Response to Public Accounts Select Committee on the financial outturn for 2016/17 and on income generation	<b>Item No</b>	
<b>Contributors</b>	Head of Corporate Resources		
<b>Class</b>	Part 1	<b>Date</b>	4 October 2017

## **1. PURPOSE**

- 1.1 At its meeting on 28 June 2017, the Public Accounts Select Committee referred the following recommendation to Mayor & Cabinet after reviewing the Council's financial outturn for 2016/17:
- 1.2 To advise Mayor and Cabinet of the following:
- The Committee asks for additional information about the level of the Council's reserves. It would like to better understand the different types of financial reserves held by the Council.
  - The Committee recommends that the contingency put aside in the budget should more closely relate to the level of risk of achieving savings put forward each year in the Lewisham Future Programme.
  - The Committee also requests further information about school deficits. Specifically, it would like to know how many primary and secondary schools are in deficit, how many are projected to be in deficit in the future and whether or not Lewisham is an outlier in London and in England, in relation to the number of schools in financial difficulty.
  - The Committee welcomes the creation of new posts to support the Council's approach to income generation and the Committee recommends that these posts be filled as soon as possible.
  - The Committee believes that the appointees to these posts should have the relevant experience of commercial strategy, innovative business models and procurement to maximise the opportunities available. Members would welcome the opportunity to review CVs for these new posts.
- 1.3 This report provides the information to these questions that can be forwarded to the Public Accounts Select Committee.

## **2. RECOMMENDATION**

- 2.1 The Mayor is asked to:
- 2.1.1 approve the officer response to the referral by Public Account Select Committee on the 2016/17 Financial outturn and income generation, and

2.1.2 agree that this report should be forwarded to the Public Accounts Select Committee.

### **3. BACKGROUND**

3.1 In June 2017 the Financial Results 2016/17 report was presented to the Public Accounts Committee.

3.2 The report summarised the revenue spend end of year results as follows:

- The directorates' net general fund revenue budget was overspent by £9.8m and after applying the corporately held sum of £2.75m for 'risks and other budget pressures' this reduces the overall directorates' overspend to £7m.
- The Dedicated Schools Grant (DSG) of £284.7m was in balance at the end of the year. There were nine schools in deficit at the year-end, three primary schools and the pupil referral unit. All of those schools have a licensed deficit agreement or are in the process of applying for one.

3.3 The level of cuts in central government funding over the years, which has led to unprecedented levels of budget reductions, has made it increasingly difficult for the Council to keep its spend within budget. The Council also continues to face additional pressures and risks which are outside its control.

3.4 The Council has had an end of year overall overspend continuously from 2014/15 to 2016/17. Executive Directors have continued to put in place a number of measures designed to alleviate the Council's overall budget pressures to help bring spending back into line with budget. These measures have included the strengthening of local controls on particular expenditure in the short term.

3.5 It is clear that the short and medium-term outlook will remain difficult. However, the Executive Director for Resources and Regeneration will continue to work with Directorate Management Teams across the council to effect the necessary continued actions to manage their services.

### **4. RESERVES**

#### Introduction

4.1 The use of reserves is not a solution to the year on year loss of grant funding the Council is dealing with and continues to face.

4.2 The Council does not have reserves, other than £13m, which are not identified to specific purposes. The £13m is the minimum level regarded as prudent for an organisation of the scale of the Council and meet the statutory obligation to hold reserves.

4.3 Many of the other reserves are ring fenced to specific purposes such as housing and schools or as part of committed capital investment plans. For the

last three years and again this year the Council has used reserves to set a balanced budget. Without reserves the Council would have to make immediate disruptive in-year cuts in the event of any unforeseen events.

4.4 As per the audited financial statements (see the Movement of Reserves Statement and Note 9), the Council currently holds the following 'usable' reserves:

- Earmarked reserves £150m;
- Capital works, including repairs £109m;
- Housing Revenue Account (HRA) £57m; and
- General reserve £13m.

#### Earmarked Reserves

4.5 The earmarked reserves of £150m are committed to areas of ongoing activity, spending on which extends beyond one year, and for certain anticipated priorities via the specific earmarked reserve.

4.6 The majority of earmarked reserves, £79m, are committed to underpin the following ongoing activities:

- PFI sinking funds (principally schools) to protect assets £24m;
- New Homes Bonus to support service growth as used in recent budgets £20m;
- Schools balances £17m;
- Self-insurance reserves held to limit the level of premium and tax paid £17m; and
- Capital programme spend £1m.

4.7 The specific earmarked reserves of £71m are set aside to fund a range of priorities, including:

- Monies to fund the transformation and redundancy costs of implementing savings and changing the Council;
- Pension obligations, mainly for legacy London arrangements;
- Capital projects – highways and estate – to be funded (not from grant); and
- Corporate & Directorate projects – e.g. ICT changes, elections, and other areas of budget priority or pressure.

### Capital works

- 4.8 The capital works reserves of £109m include capital receipts, grants, and revenues set aside for asset and major repairs works. They are held for projects agreed by Council as part of the capital programme. The four year capital programme to 2020/21 was agreed as part of setting the 2017/18 budget in February 2017.
- 4.9 The budget agreed a four year programme of £99m with the main elements for projects in respect of:
- Bringing forward additional school places;
  - Maintaining highways and infrastructure assets;
  - Acquisition or development of additional non-HRA housing; and
  - Progressing regeneration schemes.
- 4.10 The budget further identifies how these projects are expected to be funded, from a combination of grant, capital receipts, revenue set aside for capital purposes and borrowing. The statutory conditions attached to these monies mean they have to be spent on capital projects and cannot be used as a substitute for revenue spending.

### Housing Revenue Account

- 4.11 The HRA reserves of £57m have been built up in recent years to support the strategy within the 30 year business plan to maintain existing stock to 'Decent Homes' standard and bring forward new build developments to increase the amount of stock available as part of the Council's 'Housing Matters' programme.
- 4.12 The HRA business plan for the next four years is summarised in the Council's annual budget as part of the capital programme. The budget notes the HRA business plan priorities and identifies £237m of expected capital commitments to 2020/21. This follows updated stock condition surveys, the target for an additional 500 homes, and future new build plans.
- 4.13 The £57m of HRA reserves will therefore be fully required to support these capital project plans.

### Other considerations and next steps

- 4.14 As well as having already committed £5m of reserves as part of the 2017/18 budget, the Council is currently facing a forecast in-year overspend of £13m. This arises in the main from the rising costs of children and adult social care, environment service costs, and delay in achieving some savings. If these pressures are not managed or alternative savings found then the overspend becomes a further call on reserves.

4.15 The Council does review its reserve position regularly and will do so again as part of preparing the 2018/19 budget. As noted above, this has to be done with great caution as reserves can only be used once.

## 5. PRESSURES AND RISKS

5.1 Every year, when setting the annual budget, the Council approves an amount to be set aside to cover specific identified budget pressures and identified budget risks. These arise as a result of mainly external factors outside the Council's control such as a change in legislation, or a change in demographics.

5.2 Not all budget pressures are recommended for funding, a number of them are expected to be contained within existing budgets. There are, however, those that the Executive Director for Resources and Regeneration considers unmanageable and need to be funded. If they are not funded, they would definitely contribute to an increase in the overspend at the end of the year.

5.3 The discussion in the budget report and the decisions on which pressures and risks to fund is linked to controlling the Council's overall overspend at the end of the year. Addressing the overspend pressures then allows the focus to be on savings.

5.4 Table 1 below summarises how this budget, approved by Council when setting the annual budget, has been committed from 2014/15 to 2017/18. It shows that all of the risk and pressures monies have been committed.

**Table 1: Use of pressures and risks budget 2014/15 to 2017/18**

Use of risk and pressures in Council's budget	14/15	15/16	16/17	17/18
	£m	£m	£m	£m
Total allocated risk and pressures budget	7.50	7.50	7.50	6.50
B/fwd from previous year		3.90		
Prior year allocations recouped as not needed				0.75
<b>Revised Total</b>	<b>7.50</b>	<b>11.40</b>	<b>7.50</b>	<b>7.25</b>
<b>Allocated in budget to in-year pressures (as set out below):</b>	<b>-3.60</b>	<b>-8.18</b>	<b>-3.75</b>	<b>-5.12</b>
<i>Actuarial Valuation</i>	1.00	1.00	1.00	
<i>Asset Management</i>	0.15			
<i>Concessionary Fares</i>	0.80	0.43	0.20	
<i>Highways</i>	0.35	0.35	0.35	0.35
<i>Looked After Children</i>	0.50			1.20
<i>Parking</i>	0.80			
<i>London living wage &amp; travel time</i>		2.20		
<i>Waste Disposal</i>		0.30		
<i>No recourse to public funds</i>		2.90		0.50
<i>Nightly paid accommodation</i>		1.00		

Use of risk and pressures in Council's budget	14/15	15/16	16/17	17/18
	£m	£m	£m	£m
<i>National Insurance changes</i>			2.00	
<i>Licensing</i>			0.20	0.20
<i>Business rates appeals</i>				0.50
<i>Apprenticeship Levy</i>				0.40
<i>Unachieved savings - Education Support</i>				0.40
<i>Unachieved savings - Waste Disposal and Parks income</i>				0.50
<i>Unachieved savings - advertising and wireless income</i>				0.35
<i>Leaving Care</i>				0.20
<i>CYP Transport</i>				0.50
<i>Business rates discretionary relief</i>				0.02
<b>Balance unallocated</b>	<b>3.90</b>	<b>3.22</b>	<b>3.75</b>	<b>2.13</b>
Allocated to additional pressures at year end (as set out below):		-3.22	-3.75	TBC
<i>No recourse to public funds</i>		1.20		
<i>Temporary accommodation</i>		2.02		
<i>Dry recycling costs</i>			1.00	
<i>Reduce future year savings target</i>			2.75	
<b>Final balance</b>	<b>-3.90</b>	<b>0.00</b>	<b>0.00</b>	<b>TBC</b>

## 6. SCHOOL DEFICITS

- 6.1 The latest available data from the end of March 2017 shows that Lewisham has three primary schools and nine secondary schools in deficit. The average deficit in primary schools is £75k and in secondary schools it is £402k. In Lewisham 14% of the schools have deficits.
- 6.2 There is no detailed national data published on school deficits but there is summarised data. The latest data available relates to the position for schools at the end of March 2016. Nationally (excluding academies) 6% of maintained schools have a deficit. The average deficit in primary schools is £37k and in secondary schools it is £373k.
- 6.3 In comparison with the national data, at end of March 2016 12% of Lewisham schools were in deficit. The average primary deficit was £42k and the secondary schools' deficit averaged £365k.
- 6.4 There is no specific data published on London. There is data published by the Department for Education which shows the in-year balance for each school (the difference between the income the school received and expenditure made for a year). However, this does not show any carry forward or reserves the school holds, making it impossible to see which schools are in deficit.

- 6.5 Last year we approached each London borough and asked them the number of schools they had in deficit and the size of those deficits. The responses we received are summarised in the attached table at Appendix 1. Compared to those Boroughs who shared this information it identifies a disproportionately high number of Lewisham secondary schools with a deficit. However, this has to be understood in the context that the majority of local authorities, unlike Lewisham, now have very low numbers of secondary schools because of the level of academies.

## **7. INCOME GENERATION**

- 7.1 The Committee recommended that the posts outlined in the update report to be filled as soon as possible. The Committee also recommended that the appointees to these should have the relevant experience of commercial strategy, innovative business models and procurement in order to maximise the opportunities available.
- 7.2 Since the committee meeting and over the course of the summer, officers have developed a job description and person specification for the main post. The job description and person specification have now been externally evaluated. This post is being advertised internally during October and the post-holder is expected to work with others in the Council to re-establish the in-house procurement function. It is intended that this will, in turn, provide the appropriate platform for the development of a more commercial approach to income generating activities for the Council.
- 7.3 As part of the Council's approach to this work, officers are currently liaising with a company of recruitment consultants specialising in procurement and commercial personnel for an individual who could be engaged for a short term period to support the new appointment in building the procurement and commercial base.
- 7.4 Members will continue to be update on progress.

## **8. FINANCIAL IMPLICATIONS**

- 8.1 This entire report deals with the Council's finances. Therefore, the financial implications are explained throughout.

## **9. LEGAL IMPLICATIONS**

No specific legal implications.

## **10. HUMAN RESOURCES IMPLICATIONS**

- 10.1 There are no human resources implications in this report.

## 11. CRIME AND DISORDER

11.1 There are no crime and disorder implications in this report.

## 12. EQUALITIES

12.1 There are no equality implications in this report.

## 13. BACKGROUND DOCUMENTS AND FURTHER INFORMATION

Short Title of	Date	Location	Contact
Medium Term Financial Strategy 2018/19 to 2021/22	19 July 2017 (M&C)	5th Floor Laurence House	David Austin
Financial Results for 2016/17	28 June 2017 (PAC)	5th Floor Laurence House	Selwyn Thompson
2017/18 Budget Report	22 February 2017 (Council)	5th Floor Laurence House	David Austin

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

David Austin - **Head of Corporate Resources on 020 8314 9114**

or

Selwyn Thompson - **Head of Financial Services on 020 8314 6932**



## APPENDIX 1 – London Boroughs schools in deficit at 31 March 2017

Borough and type of school	No. schools	No. of schools forecasting a deficit			Deficits as % of total schools			
		No.	£0-499k	£500-999k	£1m+	£0-499k	£500-999k	£1m+
<b>Bexley</b>								
Primaries	31	0	0	0	0	0%	0%	0%
Secondaries	0	0	0	0	0	0%	0%	0%
<b>Bracknell Forest</b>								
Primaries	35	3	3	0	0	9%	0%	0%
Secondaries	4	1	1	0	0	25%	0%	0%
<b>Bromley</b>								
Primaries	11	1	1	0	0	9%	0%	0%
Secondaries	1	0	0	0	0	0%	0%	0%
<b>Croydon</b>								
Primaries	60	3	3	0	0	5%	0%	0%
Secondaries	6	3	2	1	0	33%	17%	0%
<b>Ealing</b>								
Primaries	64	2	2	0	0	0%	0%	0%
Secondaries	9	0	0	0	0	0%	0%	0%
<b>Enfield</b>								
Primaries	61	1	1	0	0	2%	0%	0%
Secondaries	11	5	2	0	3	18%	0%	27%
<b>Greenwich</b>								
Primaries	60	1	1	0	0	2%	0%	0%
Secondaries	5	3	1	1	1	20%	20%	20%
<b>Hackney</b>								
Primaries	52	5	5	0	0	10%	0%	0%
Secondaries	17	0	0	0	0	0%	0%	0%
<b>Harrow</b>								
Primaries	36	0	0	0	0	0%	0%	0%
Secondaries	2	0	0	0	0	0%	0%	0%

Borough and type of school	No. schools	No. of schools forecasting a deficit				Deficits as % of total schools		
		No.	£0-499k	£500-999k	£1m+	£0-499k	£500-999k	£1m+
<b>Havering</b>								
Primaries	50	8	8	0	0	16%	0%	0%
Secondaries	4	3	3	0	0	75%	0%	0%
<b>Hillingdon</b>								
Primaries	51	1	1	0	0	2%	0%	0%
Secondaries	2	1	0	1	0	0%	50%	0%
<b>Islington</b>								
Primaries		1						
Secondaries		1						
<b>Kingston</b>								
Primaries	31	1	1	0	0	3%	0%	0%
Secondaries	1	1	0	0	1	0%	0%	100%
<b>Lambeth</b>								
Primaries	58	4	4	0	0	7%	0%	0%
Secondaries	8	0	0	0	0	0%	0%	0%
<b>Lewisham</b>								
Primaries	63	3	3	0	0	5%	0%	0%
Secondaries	11	9	7	2	0	64%	18%	0%
<b>Richmond</b>								
Primaries	40	1	1	0	0	3%	0%	0%
Secondaries	2	0	0	0	0	0%	0%	0%
<b>Sutton</b>								
Primaries	33	1	1	0	0	3%	0%	0%
Secondaries	3	1	1	0	0	33%	0%	0%
<b>Waltham Forest</b>								
Primaries	31	3	3	0	0	10%	0%	0%
Secondaries	10	3	3	0	0	30%	0%	0%