PUBLIC ACCOUNTS SELECT COMMITTEE			
REPORT TITLE	DRAFT Medium Term Financial Strategy 2020/21 to 2023/24		
KEY DECISION	No	**Item No.**	
WARD	All		
CONTRIBUTORS	Acting Chief Finance Officer		
CLASS	Part 1	**Date:**	13 June 2019

REASONS FOR URGENCY AND LATENESS

Lateness: This report was not available for the original dispatch to allow officer further time to assess the information from closing the accounts and to prepare the report.

Urgency: Given the significance of the financial constraints that the Council will face over the coming years, it is essential that the Committee are updated and keep under reviewthe plans and risks for the 2020/21 Budget and future years outlook.

Where a report is received less than 5 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) 2020/21 to 2023/24 sets out the Council's medium term financial plan for the next four years. It includes a review of the Council's overall financial position bringing together the outturn for 2018/19, the forecast for the current financial year 2019/20, and considers prospects for 2020/21 and future years. Council services that support all major policy objectives and priorities are delivered using a range of different resources. This document sets out the Council's strategy to ensure proper financial management and control of those resources to secure efficiency.

1.2. Central government has stated that it remains committed to long term reforms in the way councils are financed. The aim is to significantly reduce reliance on central grants and move local authorities to be self-financing. If the main Local government grant, the Revenue Support Grant (RSG), is to be phased out then Councils will need to rely more on income from council tax, local business rates, fees and charges, and trading income.

1.3. Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Therefore,

to legally balance the budget the Council must continue to make spending plans affordable by matching them to the estimated funding available over that time.

1.4. Reviewing the MTFS remains essential to ensuring the Council's medium term financial sustainability. Over the past five years, the Council has responded to the financial challenges in a planned way through the work of the Lewisham Future Programmes Board (LFPB). The LFP was stopped in 2018/19 given the change of administration in 2018. This was to enable a review of progress and ensure alignment to the new administration's priorities. The approach taken for cuts planned for 2019/20 and beyond recognised the need for a rigorous 'back to basics approach', focusing on the Directorates accountability for delivering services to budget.

1.5. The Acting Chief Executive conducted internal reviews of all services against their business plans to assess performance and progress with 'invest to save' initiatives. Officer STAR chamber sessions were then held. Targets were not set by service area or work strand. Executive Directors and Directors (formerly Heads of Service) were asked to set out the full range of cuts that could potentially be made (including any investment required) for 2019/20 and 2020/21, setting out the risks and possible mitigations, up to their boundaries with statutory responsibilities. These officer proposals were then subject to Member scrutiny before being taken to Mayor and Cabinet in November 2018. £9.0m cuts were identified for 2019/20 and £8.9m for £2020/21.

1.6. The Acting Chief Finance Officer has begun a similar process for 2020/21. Directors will once again be asked to make proposals for a forecast gap of £12.0m in 2020/21, as the funding estimated to be received from central government and from council tax and business rate payers over the next four years is not sufficient to cover current level of spend and meet new budget pressures.

1.7. The funding gap is a combination of the Council's best estimate of the future budget needed to cover rising cost pressures and demands for services alongside a reduced amount of income. Action is required now to enable the Council to meet the legal requirement to balance the budget both next year and in future years.

1.8. The government currently distributes funds to local government based on proportionate need as expressed within its 'Settlement Funding Assessment' (SFA). The SFA represents a combination of monies receivable through Business Rates Retained and Business Rates Top-up/Tariff system (and previously Revenue Support Grant (RSG)). The SFA has suffered continued reductions ever since being introduced in 2013/14, with the reductions and eventual phasing out of the RSG every year since.

1.9. The Council cannot presume this is likely to change pending the delayed but needed Comprehensive Spending Review (CSR) for 2020 onwards and a number of other mooted and related budget changes.

1.10. The government's stated policy objective is to move to 75% devolved business rates from April 2020. This may require local authorities to assume additional responsibilities to match costs to the available business rates and enable the

Treasury to reduce other sources of funding. For example; by rolling in other specific grants, such as the Public Health Grant, from 2020.

1.11. As part of the preparation towards this move, the Secretary of State for Housing, Communities and Local Government, announced as part of the 2019/20 Settlement, that the London BR Pilot Pools will operate as a 75% Retention Pilot Pool from April 2019, as opposed to 100% the previous year. Lewisham entered the Pool on the 1st April 2018 along with the other 32 London Boroughs and the Greater London Authority (GLA).

1.12. The government, in 2016, committed to undertaking a Fair Funding review which would include a full review of the Needs Distribution system and possibly some 'normalisation' of council tax. Current funding levels are based on the needs assessments undertaken in 2013, increased annually by the Retail Price index, which are now outdated. Local authority's demographics and needs have changed over the years and a review of the system is essential to ensure funding remains fair.

1.13. The government set out its approach to the review. It set out six principles which represent the framework which the government will use in designing a new relative needs assessment methodology. They are simplicity, transparency, contemporary, sustainability, robustness, and stability.

1.14. The fair funding review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence. The first consultation exercise was undertaken from December 2017 to March 2018 and the second exercise was undertaken from December 2018 to February 2019.

1.15. There is general support across the local government sector for the review and for the objective of making local government funding more "objective and transparent". However, a serious criticism of the Fair Funding Review is that local authorities are still in the dark about what their funding is going to be in 2020-21, even after the two consultation exercises.

1.16. The political uncertainty created by Brexit is causing delay to many decisions throughout Whitehall. One casualty of the delay might be the Spending Review (SR). The Chancellor announced that the SR19 would be revealed later in the autumn and would cover the period 2020-21 to 2022-23. Brexit uncertainty could possibly cut this to a single year (2020-21).

1.17. A one-year spending review is an increasingly likely possibility. The Council, has therefore assumed the current trajectory continues in respect of SFA and the level of recurring grant income remains the same (i.e. maintaining the additional funding provided in recent years for Adult Social Care) for 2020/21 as in 2019/20.

1.18. The government has also announced a green paper, which was expected in 2018 but is now to be published 'at the earliest opportunity', to address Health and Social Care which will likely impact the funding and governance of these services, in particular Adult Social Care for the Council.

1.19. This MTFS forecasts a further reduction in the Council's main funding from £121.2m to £108.7m between 2019/20 and 2023/24. This is based on an

assumption that ‘rolled-in’ RSG will reduce by a further 20% between 2019/20 to 2023/24.

1.20. Alongside this, the Adult Social Care precept ends in 2019/20. This precept was introduced by the government in 2017/18 as an increase in Council tax of 6% over a three year period. In 2019/20, Lewisham increased its Council tax by 2% for this purpose (after precepts of 3% and 1% in 2017/18 and 2018/19 respectively). No allowance for this has been provided from 2020 onwards.

1.21. In 2019/20, the government extended the 2.99% Council Tax referendum trigger point for another year (normally 1.99%). It is assumed the trigger will revert to 1.99% for 2020/21 and future years.

1.22. At the same time spending projections - including pay and prices inflation, provision for budget pressures related to an increasing population and changing demographic needs, and changing responsibilities for local government - mean additional spending of at least £47m will be required to meet those needs.

1.23. The immediate target is now to deliver £12m of savings to bridge the gap for 2020/21. This is in addition to the £9m savings already approved by Mayor and Cabinet for 2020/21. The Council estimates the total level of savings required for the four year period 2020/21 to 2023/24 is approximately £50m.

1.24. The combination of these factors contributes to a lack of clarity regarding funding levels after 2019/20, the responsibilities local government will have, and the pressures and risks faced by the sector nationally and regionally. This MTFS is therefore more uncertain than in recent years. It is therefore anticipated that a revised and updated version may need to be brought forward as part of the budget build up process to include any additional information and the impact on the Council’s financial plans as it becomes known.

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 it is based. It also provides an overview of the current financial situation and provides an update on the delivery of the savings programme for 2020/21.

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 2020/21, 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 other funding streams) and the main factors that may affect these.
- It projects the General Fund funding gap which is the difference between the resource envelope and spending projections. This includes some sensitivity analysis for an optimistic, main and pessimistic projection for each year, depending on the assumptions made, the main case representing the most likely outcome.

- It sets out the measures the Council needs to take to address the funding gap.

3. RECOMMENDATIONS

3.1. Public Accounts are recommended to:

3.1.1. Note the 2020/21 to 2023/24 Medium Term Financial Strategy;

3.1.2. Request that a further update is brought back as part of the cuts and budget setting process to reflect any changes arising from the Autumn Budget or Local Government Finance Settlement.

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. Economic 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
17. Risk Management

Summary and Implications

18. Conclusion

19. Financial Implications
20. Legal Implications
21. Equalities Implications
22. Environmental Implications
23. Crime & Disorder Implications
24. Background Papers
25. Appendices

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 2020/21 will be presented to Mayor and Cabinet in January 2020 and full Council in February 2020.

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, other funding streams, and the Capital Programme.

5.3. The key objectives of the 2020/21 to 2023/24 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 alignment 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 MTFS is linked to other internal strategies and plans; and
- ensure that the final agreed budget reflects all these considerations.

5.4. Over the last ten 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 2019/20 the Council has implemented savings of £174m, identified cuts of £8m in 2020/21 and work is underway to identify and deliver further cuts of £12m by 2020/21.

5.5. 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 into the 2020s.

5.6. This involves the main local government grant, the Revenue Support Grant (RSG), being phased out, 75% of business rates devolved, additional responsibilities transferred to local authorities, the rolling-in of some specific

grants, changes to school funding (formula and paid direct to schools), the continuing impact of the move to Universal Credit, and further health and social care integration.

5.7. At the start of 2018/19, a London Business Rates Pool was created, with the objective of trialling a 100% Business Rates Retention Scheme. All 32 London Boroughs and the City of London and the GLA agreed to setting up the pool and were given the assurance that none would be worse off in the pool than if they had been funded as usual with the RSG.

5.8. In 2019/20, the government changed the Pool from a 100% retention pilot pool to a 75% retention pilot pool. This means that from 1 April 2019 the London authorities will retain 75% of their non-domestic rating income. They will also receive section 31 grants in respect of government changes to the business rates system which reduce the level of business rates income. Section 31 grant will amount to 75% of the value of the lost income. Tariffs and top-ups will be adjusted to ensure cost neutrality.

5.9. In moving to 75% business rates retention, the Ministry of Housing, Communities and local government will continue not to pay Revenue Support Grant to the London authorities in 2019/20. No “new burdens” have been transferred to London and participation in the pilot will not affect the development or implementation of the Fair Funding Review.

5.10. The main advantage for Lewisham being part of the pool is that the pool gets to keep 75% of any growth it generates, which is then distributed across all members of the pool. In 2019/20, (Lewisham is expected to receive approximately £3m of growth from the pool); and the system of top-ups and tariffs which redistributes revenues between local authorities will be retained.

5.11. 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’s 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 2018 to 2022 Corporate Strategy identifies seven corporate priorities and four core values which are the driving force behind what we do as an organisation. It sets out a vision for Lewisham and the priority outcomes that organisations, communities and individuals can work towards to make this vision a reality.

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.

6.3. These core values align with the Council's seven corporate priorities namely:

1. **Open Lewisham** - Lewisham is a welcoming place of safety for all where we celebrate the diversity that strengthens us.
2. **Tackling the housing crisis** - Everyone has a decent home that is secure and affordable.
3. **Giving children and young people the best start in life** - Every child has access to an outstanding and inspiring education and is given the support they need to keep them safe, well and able to achieve their full potential.
4. **Building an inclusive local economy** - Everyone can access high quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
5. **Delivering & defending: Health, Social Care and Support** - Ensuring everyone receives the health, mental health, social care and support services they need.
6. **Making Lewisham greener** - Everyone enjoys our green spaces and benefits from a healthy environment as we work to protect and improve our local environment.
7. **Building safer communities** - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

7. THE ECONOMIC CONTEXT

National

7.1. In his spring 2019 statement, the Chancellor of Exchequer made a number of announcements in relation to the economic condition, forecasts and the government's policies. Some of his key announcements were as follows.

- GDP is forecast to increase by 1.2% in 2019, revised down from 1.6%. In 2020, growth is forecast to be 1.4% and 1.6% for the following three years. In the October 2018 budget, growth was forecast at 1.4% for both 2020 and 2021 and 1.6% for the two years after that.

- Forecast for borrowing in 2018/19 has been revised down from £25.5bn in October 2018 to £22.8bn in March 2019. This is equivalent to 1.1% of GDP. Borrowing is forecast to be 1.3% of GDP in 2019/20, 0.9% in 2020/21, 0.7% in 2021/22, 0.6% in 2022/23 and 0.5% in 2023/24. The trend, as it stands, is very much in line with the government's stated fiscal objective of balancing the budget by 2025/26.

- Debt as a percentage of GDP is expected to fall every year from 82.2% of GDP in 2019/20, 79.0% in 2020/21, 74.9% in 2021/22, 74.0% in 2022/23 and 73.0% in 2023/24.

- Inflation is forecast to fall from 2.1% in 2019 to 1.9% in 2020 before rising slightly to 2.0% a year from 2021 to 2023.

7.2. All of the above Office of Budget Responsibility (OBR) forecasts were made in the backdrop of the UK leaving the EU in an orderly fashion, including that of a transition period to 2020, both of which were government policy at one time. Furthermore, there was also the assumption that the subsequent terms of departure will be relatively pain-free. In reality though, with the continually changing political dynamics, its best to treat these figures with caution as no one really knows how the departure will actually pan out to be.

7.3. Further announcements include £100m towards funding for police to tackle violent crime in local authorities. The funding will be ring-fenced to allow for more police presence and police patrol in neighbourhoods. The funding will be available for seven police forces where serious violence levels are highest and make up 70% of knife crimes. These police forces include London, West Midlands, Merseyside, South Yorkshire, West Yorkshire, South Wales and Greater Manchester.

7.4. The chancellor also restarted a once-scrapped affordable homes guarantee scheme with the announcement of £3bn to support the delivery of around 30,000 affordable homes across the country. With housing associations being able to borrow at a cheaper rate, it is expected that this will help increase the number of affordable houses in the market. Of course, this is by no means a solution though to the housing crisis that grips cities such as London.

7.5. A number of key announcements were made in the autumn budget in October 2018. The chancellor boldly claimed that the “austerity is finally coming to an end”. Whether or not this is true will ultimately depend on who the winners and losers are and how much they are expected to gain or lose from the decisions. Some other key announcements were as follows:-

- From April 2019, Tax-free personal allowance, the amount people earn before they start paying income tax, increased to £12,500. This is an increase of £650 compared to 2018. Furthermore, there was also an increase in the national living wage from £7.83 per hour to £8.21, an increase of 4.9%. It is the government’s objective for the National Living Wage to reach 60% of median earnings by 2020.
- The government increased stamp duty exemption to first time buyers for properties up to £500,000 where the property is part of a shard ownership programme. This is an increase of £200,000 and the new allowance will be backdated for properties purchased up to 22nd November 2017. It was also announced that a new help to buy equity loan will run from April 2021 for two years. Furthermore, the government will invest £291m from the housing infrastructure fund to unlock some 18,000 new homes through improvements to the Docklands Light Railway.
- Businesses, in particular smaller businesses, also saw a number of helpful announcements. It was announced that business rates for firms with rateable value of £51,000 or less will be cut by a third over two years. This

is part of £900m rate relief for small businesses to help alleviate the pressures of having to compete with online shopping. Furthermore, there was also an announcement of £650m injection to redevelop the under-used high-street properties. The Future High Street Fund, as it's called, will be introduced over the next four years. Additionally, contributions from small businesses to the apprenticeship levy would be reduced from 10% to 5%. This is hoped to encourage small businesses to offer more apprenticeships at a reduced cost.

- The government made its largest ever investment in developing the strategic roads across the country. Called the National Roads Fund, the £28.8bn commitment will be largely funded from road tax and will be rolled out in the next few years. In addition, the government also announced releasing £420m to local authorities to fix potholes and repair damaged roads. Another £150m was also made available to local authorities for smaller improvement projects such as roundabouts.

Local Government

7.6. In February this year, the National Audit Office published an article on local government in 2019, shedding further light on the difficult times ahead. It said 2019 will be a pivotal year for local government in England. Numerous difficult and open-ended questions need rapid resolution, at a time when government focus and capacity is directed elsewhere.

7.7. Alongside central government funding cuts of nearly 50% since 2010-11, local authorities are facing strong demand and cost pressures, and no reduction in their statutory obligations to provide services. Local spending is becoming more narrowly focused on social care due to the statutory need to meet the growing demand and falling central government funding, alongside some council tax increases that are restricted to use only for adult social care. At the same time, income can be uncertain from other revenue sources, such as business rates, the New Homes Bonus, and fees and charges.

7.8. Pending the 2019 Spending Review, certainty about local authority funding disappears from 2020-21. The uncertain future is compounded by not knowing whether local authorities' retention of 75% of business rates will be the government's preferred long-term funding mechanism for the sector, nor the outcome of the Fair Funding Review, which will determine the distribution of money from the Spending Review across authorities.

7.9. The article concludes there are many major areas of need that will impact on local government finances in the coming year – including social care, health and social care integration, housing and homelessness, education, and transport. With MHCLG acting in a coordinating role, government departments need to collectively build a consensus about the role and significance of local government as a whole in the context of the current funding climate, rather than each engaging with authorities solely to deliver their individual service responsibilities.

8. BUDGET UPDATE

2018/19 Financial Accounts

8.1. The Council's draft final accounts for 2018/19 have been prepared and have been submitted to the Council's external auditor, Grant Thornton. The draft accounts will be reviewed by the Audit Panel on 11 July 2019. A separate report on the Council's final outturn position for revenue and capital budgets will be presented to Public Accounts Select Committee at the 10 July meeting.

8.2. The Council's final 2018/19 Directorate revenue outturn position was a Directorate overspend of approximately £10m.

8.3. The Housing Revenue Account (HRA) is projecting an additional surplus of £2.5m above the already budgeted surplus of £4.0m, making the total for the year £6.5m. This surplus is expected to be transferred to reserves at the end of the year which will ensure that there are sufficient resources available to fund the current housing programme over the medium term.

8.4. The Dedicated Schools Grant (DSG) of £258m was in balance at the end of the year. There were thirteen schools in deficit at the year-end. 9 Schools are supported with loans totalling £3m.

8.5. The Capital Programme spend as at 31 March 2019 was £71.1m. This represents 82% of the revised budget of £87.3m. The overall capital expenditure last financial year was £87m, which was 86% of the revised budget of £100.7m.

2019/20 Budget

8.6. The 2019/20 budget was approved by Council on the 27 February 2019. The overall budget position for the Council is a net General Fund Budget Requirement of £243.012m, as set out in Table1 below.

8.7. **Table 1 - Overall Budget Position for 2019/20**

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Settlement Funding Assessment (SFA) for 2019/20	(121.175)	
Council Tax 2019/20 at 4.99% increase	(111.739)	
Surplus on Collection Fund	(1.698)	
Business Rates Levy Surplus	(1.400)	
Business Rates S31 and Growth	(7.000)	
Assumed Budget Requirement for 2019/20		**(243.012)**
Total Resources available for 2019/20		
Base Budget for 2018/19	241.281	
Plus: Reversal of reserves drawn in 18/19 (once off)	8.570	
Plus: Additional Pay inflation	3.300	
Plus: Non-pay Inflation	2.463	
Plus: Single Persons Discount work	0.500	
Plus: Budget pressures to be funded from 19/20 fund	6.500	
Plus: Adult Social Care Precept	2.129	
Less: Reduction in Bad Debt Provision	(5.000)	
Less: November approved cuts for 2019/20	(9.270)	

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Less: Use of New Homes Bonus reserve	(5.000)	
Less: Once-off use of reserves	(2.461)	
Total		**243.012**

2019/20 General Fund Revenue Budget Monitoring

8.8. Officers continue to undertake regular revenue budget monitoring in 2019/20. The first revenue budget monitoring is expected to report to Mayor & Cabinet on on the 10 July 2019. The report will be based on information to the end of May 2018 and estimates for June income and expenditure and include an update in progress with the implementation of the agreed £9m of cuts for 2019/20.

8.9. The process for monitoring is underway. It is anticipated that the main overspending areas will be environment services and transport. Work is already underway in the services to address these.

Housing Revenue Account Monitoring

8.10. The forecast position for the Housing Revenue Account is to spend to budget for 2019/20.

Dedicated Schools Grant

8.11. The forecast position for the Dedicated Schools Grant overall is to spend to budget for 2019/20. Schools Forum has supported a transfer of circa £1m from Schools to High Needs. The Department for Education has also noted the pressures and provided £704k. These are to support the forecasted pressures within Special Needs (High Needs Block).

8.12. The overall schools balances for 2018-19 out-turn at an £21m surplus but this is supported by £3m worth of loans drawn leaving a net position of £18m. It should be noted that overall Primary and special schools are in surplus and that secondary schools are in deficit. A further piece of work is currently taking place with Schools to determine the split between committed and non-committed spend. Recent discussions with schools have highlighted that overall many are cautious to spend knowing that the reserves will support them to balance budgets in future years. For many schools they had cautiously reserved funds for the teachers' pay award and pensions increase which is supported by DfE for 2019/20, this in part has contributed to the increase in balances.

8.13. There are thirteen schools in total with deficit balances totalling £3.5m at the end of the 2018-19 financial year. Three Primary, six Secondary one special, two all through and one nursery.

Capital Programme

8.14. The Capital Programme (General Fund and Housing Revenue Account) budget for 2019/20 to 2021/22 totals £344.7m, of which £142.2m is for 2019/20.

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 Funding gap which is the difference between the resource envelope and the spending projections.

9.4. As the level of uncertainty regarding funding is relatively high for years 2020/21 to 2023/24, the strategy has again modelled three indicative scenarios, the optimistic case, the **main** case, and the pessimistic case. The main case is assumed to be the most likely expected to happen. These scenarios are formulated on a number of local and national assumptions made based on the information available. These are discussed below for the main case and summarised in Appendix 1.

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 retained business rate income and business rate top-up.
- Council Tax income.

Settlement Funding Assessment (SFA)

10.2. Local authorities receive funding from the government via the Settlement Funding Assessment (SFA). This previously consisted of a share of local Business Rates and a Revenue Support Grant (RSG).

10.3. This financial year, Lewisham is part of the London Business Rates pool, trialling the 75% Business Rates retention for at least one year. The 2019/20 SFA is entirely paid from Business Rates, the RSG having been 'rolled in'.

10.4. The government offered any Council that wished to take it up a four-year funding settlement to 2019-20 which provided funding certainty and stability.

10.5. The government is now carrying out a Fair Funding Review for 2020 onwards, which is basically a review of the way the government distributes financial resources to local authorities. A number of consultations have taken place but there is limited information on the outcome of the review, which means local authorities currently have no indication as to what their 2020/21 funding levels will be.

10.6. This makes forecasting future budget requirements wholly dependent on assumptions. These assumptions are discussed in section 11 of this report. The table below shows the forecast SFA over the next four years (assuming a 20% reduction in rolled in RSG).

Table 2: Make-up of Lewisham's 2019/20 and Estimated Settlement Funding Assessment, 2019/20 to 2020/21 to 2023/24

Settlement Funding Assessment	2019/20 Actual	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
	£m	£m	£m	£m	£m
Retained Business Rates	31.5				
Business Rate Top up	89.7				
Baseline Funding Level (BFL)		116.60	113.14	110.60	108.70
Total SFA	**121.2**	**116.60**	**113.14**	**110.60**	**108.70**

Business rates income

10.7. In 2018/19, the government devolved 100% of Business Rates to local authorities via the pilot pool. In 2019/20, the level of devolved Business Rates was changed to 75%. In London, this will be shared between Local Authorities and the GLA. This means LAs will retain 48% of Business Rates and the GLA 27%. The RSG has been 'rolled-in' at this stage thereby phasing it out.

10.8. Changes to Business Rates retention were intended to be fiscally neutral by allowing the main local government grant (e.g. Revenue Support Grant) to be phased out and additional responsibilities devolved to local authorities or regions, matching the additional funding from business rates.

10.9. It is not certain if existing pilots will continue in 2020/21. The local share of Business Rates could continue as 75%. The government is expected to complete the next Comprehensive Spending Review in 2019 to replace the four-year funding settlement which ends in 2019/20. For this reason, any assumption beyond 2020 at this stage are officer assumptions, pending confirmation from government on funding allocations to authorities.

The Fair Funding Review

10.10. Central government funding for local authorities is based on an assessment of relative needs and resources. The overarching methodology that determines how much funding each authority receives annually was introduced over ten years ago and has not been updated since funding baselines were set at the start of the 50 per cent business rates retention scheme in 2013/14.

10.11. The government is therefore undertaking the Fair Funding Review to update the needs formula and set new funding baselines for the start of the new 75% business rates retention scheme, from April 2020.

10.12. The government is proposing to simplify the funding formula based on a small number of key cost drivers such as population, deprivation, rurality/density, and area costs. The government has so far undertaken two consultation exercises. The consultation identified key areas that require a more detailed assessment of needs such as adult social care, children's services, highways and public transport, waste collection and disposal. It was anticipated that the government would move to finalise the structure for needs and resource assessments by summer 2019 to support the CSR. No indication of this has been made, therefore it can also be assumed that the government will issue a one year funding settlement and move the Fair Funding Review start to April 2021. This is because of the effect of the Brexit negotiations are having on most of the government's major business decisions.

Council Tax income

10.13. In considering savings proposals and the level of Council Tax, Members make political judgements balancing these with their specific legal responsibilities to set a balanced budget and their general responsibilities to stewardship of the Council's finances over the medium term.

10.14. For 2019/20, the government extended the 2.99% referendum trigger for another year. The Social Care Precept is in addition to this. The Social Care precept introduced by the government from 2016/17 to 2019/20 ends this year. Local authorities had the flexibility to raise council tax in their area by up to 6% over the three year period 2017/18 to 2019/20, above the existing referendum threshold for council tax of 1.99% (2.99% in 2018/19 to 2019/20). The government's assumptions for allocating resources in the provisional local government financial settlement to 2019/20 included the raising of both Council Tax and the Social Care Precept (SCP) in each and every year to meet the recognised funding pressures faced by the sector.

10.15. As these measures ended in 2019/20, the assumptions for increase in Council Tax are focused on the local decisions to be made by the Council, limiting any increase to 1.99% (the referendum threshold).

10.16. Council Tax income is also affected by growth in the number of properties in the borough, the rate of Council Tax collection, as well as decisions about the level of Council Tax.

10.17. In 2019/20, Council Tax was raised by 4.99% in total, i.e. a 2.99% core increase and the 2% social care precept increase as set out above. This generated additional funding of £4m.

10.18. For 2020/21, the MTFS main case assumes a 1.99% increase in core Council Tax and 1.99% in each year thereafter. This reflects the assumption that the Council will apply the maximum increase allowed without a referendum in 2020/21 and beyond. In addition, the MTFS assumes a 1.08% increase in the Council Tax base, based on Planning Service's housing trajectory. In total over

the period this will add approximately £12m to the Council Tax income base over the four year period to 2023/24.

10.19. Forecast Council Tax income from 2020/21 to 2023/24 is set out in Table 4 using the assumptions in Appendix 2. The amounts collected here are after allowing for the cost of the Council Tax Reduction Scheme and any uncollected debts.

Table 4: Council Tax Income Future Year Projections

	2020/21 projection	2021/22 projection	2022/23 projection	2023/24 projection
	£m	**£m**	**£m**	**£m**
Optimistic	117.38	123.31	129.54	136.08
Main	**115.40**	**118.97**	**123.64**	**127.70**
Pessimistic	113.94	116.79	119.71	122.70

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% was agreed by the Greater London Provincial Council for 2019/20, with a better than 2% increase for lower paid staff also agreed. The main model has assumed a similar 2% pay award for 2020/21 and assumed that pay awards will remain at 2% in future years.

General price inflation assumptions

11.3. 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 2020/21 has been estimated at 2.5%.

General fees and charges assumptions

11.4. 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

11.5. 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 General Fund property based services such as refuse collection and waste disposal; highways, footpaths and street lighting; and more school places and additional health and care needs.
- **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.
- **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 more acute services including children at risk, children involved in crime, adults with drug and alcohol problems, adults in residential accommodation and so on; and
- **Regulations and standards** – as the national negotiations progress to withdraw the UK from the European Union institutions, with new responsibilities for local government through anticipated funding changes, and as councils respond to recent community incidents standards and ways of working are expected to change.

11.6. 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

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

11.8. Recognising these pressures and risks in flexible way as they come to bear the Council annually provides £6.5m corporately for growth from demand and other unavoidable pressures in the budget. The model assumes this will continue for future years.

Specific grant assumptions

11.9. The following assumptions have been made in the projections on specific grants which fund services. The general point is that within the Council's devolved budget management arrangements the funding position is noted and it is for the service to ensure that their spending is managed within the available grant. The main specific grants include:

- **Public Health** – this grant is £23.69 in 2019/20, a reduction of £624k. Proposals for this reduction were agreed by M&C, except for £196k in respect of Health Visitors which was deferred for reconsideration of the impact on staffing resources for this service. The Lewisham and Greenwich Trust have agreed that at present the cut will be taken from the overall health visitor budget but not put against health visitor establishment. The Trust however are planning a discussion with the Save Lewisham Hospital campaign to give further consideration to health visitor ratios and the role of the health visitor assistant. This reduction, and any future year changes to the public health budgets once announced, will need to be the subject of further officer proposals to ensure expenditure on services matches the available grant. The Trust also welcome an opportunity to contribute to the planned strategic early help review during the coming year.

- **Better Care Fund** (BCF) – this funding increased to £22.6m in 2019/20. The Council receives approximately £9m of this funding to support Council led services.

- **Improved Better Care Fund (iBCF)** – In 2019/20, the iBCF increases to £13.1m. This is intended to fund adult social care activity. Plans for its use, which have not yet been finalised, will also require the agreement of local CCG. The grant is likely to be spent in substantially the same way as in 2018/19 with the increase being used to fund the balance in fee increases plus transition and other demographic pressures.

- **Other grants** – the Council receives a number of other grants but most are relatively small or directly related to specific projects. A number of these come from the Greater London Authority; for example, funding we receive from the London Mayor's Office for Policing and Crime (MOPAC) to support crime reduction work. As the Mayor for London sets his priorities, 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 Council's overall budget gap.

Other Income and Expenditure Items

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

<u>Capital financing charges</u>

11.11. Capital financing costs include 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, Lewisham Homes, and interest on the Council's investment balances.

11.12. 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.

11.13. Changes to interest rates should not affect borrowing costs as the Council borrows long term (typically 30 plus years) at fixed rates. It also assumes that cash balances remain at their current level in the immediate future. If interest rates rise the Council receives more interest on balances invested. However, the projections have not built in any assumptions about changes to interest rates as their scale is likely to be limited and the timing remains uncertain.

Levies

11.14. These cover the London Pension Fund Authority, the Environment Agency and Lee Valley. It is assumed these will stay at similar levels for future years.

Added years pension costs

11.15. 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.

Other known future years' budget adjustments

11.16. There are two further adjustments that are included within the budget projections for future years, funded from the £6.5m provision stated in para 11.8 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. 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 £0.35m 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.
- **Budget Growth** – the 2019/20 budget approval included four areas of growth totalling £1m identified in the financial monitoring report to M&C in October

2018. It was agreed to funds these through once-off reserves in 2019/20, and then include in the base budget from 2020/21.

- **Vehicle Replacement Programme** – There is currently a programme in place for replacing all the Council's refuse and fleet vehicles from 2018/19 to 2019/20. It is anticipated that these vehicles will again require replacement in 10 years time and it is therefore prudent to set aside an annual provision to fund this future purchase. The 2020/21 budget report will recommended that a budget of £800k be set aside for a period of 10 years from 2020/21 to build this reserve.

New Homes Bonus

11.17. The New Homes Bonus (NHB) is a grant paid by central government to local councils for increasing the number of homes in use. Growth in the number of properties in Lewisham in line with the London Housing plan has funded the New Homes Bonus although this has been offset from 2017/18 onwards as funding for properties for which New Homes Bonus was allocated in earlier years of the system dropped out of the calculation.

11.18. The government has indicated that 2019/20 is the last year of the NHB in its current format. A new incentive for growth in homes in use is yet to be announced.

11.19. Over the past few years part of the NHB has been used to bridge the budget gap as a temporary measure. This has only moved the gap forward, not eliminated it. The ceasing of this funding stream will mean the Council will need to address the previous year's unachieved savings in the very near future to avoid the depletion of the historical build-up of this funding pot.

GENERAL FUND BUDGET GAP

11.20. Using the medium term resource envelope and revenue expenditure projections stated above the resulting overall forecast position for the authority is shown in Table 5 below:

Table 5: Summary of Projected Financial Position

	Optimistic Case				Main Case				Pessimistic Case			
	2020/21	**2021/22**	**2022/23**	**2023/24**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Business Rates Baseline Funding Level	118.915	117.313	116.276	115.726	**116.602**	**113.140**	**110.569**	**108.713**	**114.756**	**110.062**	**106.661**	**104.231**
BR S31 Grant and Pool Growth	7.500	4.000	1.000	1.000	**7.500**	**4.000**	**1.000**	**1.000**	7.500	4.000	1.000	1.000
Ctax	117.380	123.31	129.54	136.08	**115.40**	**118.97**	**123.64**	**127.70**	113.94	116.79	119.71	122.70
Ctax Collection Fund	2.884	2.200	2.200	2.200	**1.684**	**1.200**	**1.200**	**1.200**	1.684	1.200	1.200	1.200
Total Resources	246.681	246.822	249.011	255.002	**241.184**	**237.306**	**236.408**	**238.613**	237.882	232.052	228.571	229.133
Total Revenue Expenditure	263.044	258.161	258..577	261.071	**261.844**	**253.865**	**249.061**	**248.467**	263.044	250.563	243.807	240.630
Budget Gap	16.364	11.340	9.566	6.069	**20.660**	**16.559**	**12.653**	**9.854**	23.692	18.511	15.236	11.497
Approved Savings	8.934	0.00	0.00	0.00	**8.934**	**0.000**	**0.000**	**0.000**	8.934	0.00	0.00	0.00
Additional Annual Savings Required	7.430	11.340	9.566	6.069	**11.726**	**16.559**	**12.653**	**9.854**	16.228	18.511	15.236	11.497
Cumulative Savings Required	7.430	18.770	28.335	34.404	**11.726**	**28.286**	**40.939**	**50.793**	16.228	34.739	49.975	61.472

11.21. Taking the main case scenario as the expected position, the MTFS shows the annual measures required to bridge the budget gap from 2020/21 to 2023/24 as £11.7m, £16.6m, £12.6m, £9.8m, respectively in each year. A total of £51m over the four years to 2023/24. This is a substantial budget gap for the Council, especially as savings agreed to date have totalled £183m and the financial monitoring in 2018/19 identified difficulty and delay in implementing agreed savings as a contributory cause to the reported overspend position.

11.22. The optimistic 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 203/24 reduces by approximately £16m to £34.4m. This is based on lower predicted cuts to baseline funding and higher increase in the Council Tax base.

11.23. The pessimistic case scenario is the most unlikely scenario projected. The cumulative budget gap to 2023/24 increases by approximately £11m to £61m. This scenario demonstrates the difficulty the Council could potentially face if the very worst happens and the funding cuts are higher and Council Tax base and collection rates are lower than expected.

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

12. ADDRESSING THE BUDGET GAP

12.1. In the meantime officers are reviewing and challenging in-year on the existing pressures carried over from 2018/19. These are identified and discussed more fully in the financial outturn and financial monitoring reported to Mayor & Cabinet separately.

12.2. For the future budget gap, officers have started work on identifying possible cuts proposals to meet the 2020/21 budget gap forecast in this MTFS of £12m. Star Chamber review sessions have taken place with the Acting Chief Finance Officer, the Executive Directors and the Directors with the aim of scrutinising the budget and determining possible areas for further cuts.

12.3. Detailed proposals for those cuts identified to be progressed will then be completed over the summer for scrutiny by Members in the autumn. All services are part of this process.

12.4. In addition, officers with the support of Cabinet are running sessions for all members on the Council's financial arrangements, budget pressures, and cuts gap in July 2019. The intention being to ensure: 1) that a full set of proposals to meet the budget gap are presented to members; and 2) that members have had inpuit to and are equipped and confident to scrutinise these cuts proposals ahead of them being put to Mayor & Cabinet for decision.

Table 6: Budget Timetable – Key Dates

Month	Key Stage
September / October 2019	Scrutiny of Revenue Budget Savings / Autumn Budget statement

November 2019	Chancellor's Autumn Budget
December 2019	Provisional Local Government Finance Settlement
	Savings report to M&C
January 2020	Final Local Government Finance Settlement
	PASC - the 2020/21 Budget Report
	Council Tax Base agreed by M&C and then Council
	National Non Domestic Rates consultation session
February 2020	Greater London Authority sets their Precept for 2020/21
	Notification of Precepts and Levies
	Mayor & Cabinet agrees the Budget & Council Tax 2020
	Council approves Budget & Council Tax for 2020/21

13. HOUSING REVENUE ACCOUNT

13.1. The Housing Revenue Account (HRA) is a statutory account which sets the Landlord costs and income for the housing stock.

13.2. 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. 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, and future developments.

13.3. The plan also recognises certain risks. For example; the impact of government policy changes in respect of types of tenancy, rent levels, right to buy, and treatment of voids. Recently the main challenge for the HRA has been to bring forward development of new homes given the pressure on available social housing stock. There may now also be costs for the refurbishment of buildings depending on the lessons learnt from the Grenfell tower fire in June 2017.

14. DEDICATED SCHOOLS GRANT

14.1. The Dedicated Schools Grants 2019/20 for Lewisham was set by the Department for Education (DfE) at £290.880m (£258.638m after Academy Recoupment), although this could change during the year to reflect updated pupil numbers (and the finalisation of the Early Years Block).

Redundancy and cost pressures

14.2. Under the current Lewisham Schools Scheme of Delegation redundancy costs are met by the school. There has been a judicial review of this instigated. Ministers are also reviewing the position. It is uncertain whether in the future any costs will fall on Local Authorities or any decision will be retrospective.

14.3. Presently, there is a potential liability around redundancy costs of circa £500k (based on 2018/19 figures). The liability could be significantly higher if it is

backdated to include previous years. These costs arise from schools implementing management action to reduce staffing in order to balance their budgets.

14.4. Across London, authorities are reporting pressure on their DSG high needs block spending which, if not managed, adds to DSG pressures or, worse, becomes a further pressure for the General Fund for services that it is not intended to meet.

Deficit Recovery Plans

14.5. Historically like most Local Authorities Lewisham operated a system to provide schools with a loan to cover budget deficits. Regulations supporting this process have now changed. This means that in addition potential redundancy costs, the Local Authority could incur liabilities arising from School Deficits.

15. CAPITAL PROGRAMME

Capital Programme Schemes and Resources 2019/20 to 2021/22

15.1. The estimated resources available and the budgeted expenditure within the 2019/20 to 2021/22 Committed Capital Programme are set out in Table 9 below:

Table 9: Capital Programme Resources and Forecast Expenditure 2019/20 to 2021/22 (as at May 2019)

	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
SCHEMES				
General Fund	47.0	16.2	9.5	72.7
HRA	95.2	113.4	63.4	272.0
	142.2	**129.6**	**72.9**	**344.7**
RESOURCES				
Prudential Borrowing	16.4	19.7	26.1	62.2
Grants & Contributions	38.2	18.9	7.8	64.9
General (capital receipt, reserves, revenue)	87.6	91	39	217.6
	142.2	**129.6**	**72.9**	**344.7**

15.2. The 2019/20 to 2021/22 Capital Programme totals £344.7m and brings together all capital projects across the Council. It sets out the key priorities for the Council over the next three years and is the subject of regular review.

15.3. Over the next three 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 or can be afforded through

long term borrowing. For this reason, any new projects or programmes will need to clearly demonstrate a sound business case for investment.

SUMMMARY AND IMPLICATIONS

16. CONCLUSION

16.1. The Medium Term Financial Strategy sets out initial estimates of the scale of financial challenge the Council will face over the medium term to 2023/24. It presents the outturn for 2018/19, summarises the current financial position for 2019/20, and looks forward to 2020/21 and later years.

16.2. 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, Local Government Finance Settlement, and clarity on the government's policy agenda as it impacts local government. This, in turn, will inform the Council's development of the saving proposals required to balance the Council's budget.

16.3. The Council will have to make further difficult decisions to prepare for future shortfalls. 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 be responsible for and look like in future.

17. FINANCIAL IMPLICATIONS

17.1. 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.

18. LEGAL IMPLICATIONS

18.1. 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.

18.2. 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.

18.3. 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.

19. EQUALITIES IMPLICATIONS

19.1. 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.

20. ENVIRONMENTAL IMPLICATIONS

20.1. There are no environmental implications directly arising from the report.

21. CRIME & DISORDER IMPLICATIONS

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

22. BACKGROUND PAPERS

Title of Document	Date	File Location	Contact Officer
Budget Report 2019/20	27 February 2019 (Full Council)	1st Floor Laurence House, Corporate Resources	David Austin
Final Revenue and Capital Outturn 2018/19		1st Floor Laurence House, Financial Services	Selwyn Thompson
2019/20 Budget Monitoring Report		5th Floor Laurence House, Financial Services	Selwyn Thompson

APPENDICES

Appendix 1 – Summary of MTFS Assumptions

Appendix 2 – Glossary of Terms

For further information on this report please contact

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APPENDIX 2 - SUMMARY OF ASSUMPTIONS

	Optimistic Case	Main case	Pessimistic case
RESOURCE ENVELOPE			
Notional Revenue Support Grant	• 2020 to 2024 15% reduction assumed each year	• 2020 to 23/24 20% reduction assumed per year	• 2020 to 2024 25% reduction assumed each year
Business Rates	• 2% real terms increase each year from 2020/21 from growth in rateable value base and top-up • £1m S31 grant from 2020/21 onwards	• 1% real terms increase each year from 2020/21 from growth in rateable value base and top-up • £1m S31 grant from 2020/21 onwards	• 0.5% real terms increase each year from 2020/21 from growth in rateable value base and top-up • £1m S31 grant from 2020/21 onwards
Council Tax income	• From 2020/21 1.99% change in Council Tax level (No Social Care precept) • 3% increase each year in Council Tax base from 2020/21 onwards • CT collection rate of 97% each year from 2020/21 onwards • CTRS remains the same at 25%	• From 2020/21 1.99% change in Council Tax level (No Social Care precept) • Increase in base aligned with Planning's New Housing trajectory increases approx. 1.3% in 20/21 • CT collection rate of 97% each year from 2020/21 onwards • CTRS remains at 25%	• From 2020/21 1.99% change in Council Tax level (No Social Care precept) • 0.5 % increase each year in Council Tax base from 2020/21 onwards • CT collection rate of 96.5% each year from 2020/21 onwards • CTRS reduces to 20% in 2020/21 and for future years
Surpluses/deficits on Collection Fund	• £2.8m estimated in 2020/21, £1.2m in each year after.	• £1.7 estimated in 2020/21, £1.2m in each year after.	£1.7m estimated in 2020/21, £1.2m in each year after.

	Optimistic Case	Main case	Pessimistic case
EXPENDITURE			
Pay awards	• 2% in 2020/21 and 2% each year afterwards	• 2% in 2020/21 and 2% each year afterwards	• 2% in 2020/21 and 2% each year afterwards
General price inflation (incl. fees and charges)	• 2.5% increase each year in non-pay budgets	• 2.5% increase each year in non-pay budgets	• 2.5% increase each year in non-pay budgets
Pressures and risks	• £6.5m growth each year	• £6.5m growth each year	• £6.5m growth each year
New legislation	• Nothing allowed	• Nothing allowed	• Nothing allowed
2018/19 budget pressures and risks	• All used and allocated to service spend	• All used and allocated to service spend	• All used and allocated to service spend
NB the MTFS assumes that any overspending is addressed in-year or met from reserves			

APPENDIX 2 – 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)

Business Rates Baseline

The business rates baseline is equal to the amount of business rates generated locally in a specific year.

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.