



## Mayor and Cabinet

### Medium Term Financial Strategy

**Date:** 6 July 2022

**Key decision:** No

**Class:** Part 1

**Ward(s) affected:** All

**Contributors:** Executive Director for Corporate Resources, Director for Finance and Head of Strategic Finance, Planning and Commercial

### Outline and recommendations

The 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, as well as the likely levels of budget reductions which will be required to present a balanced budget.

Mayor and Cabinet is recommended to:

- Note the risks with regards to current year budget reduction measures, the long term impact of Covid and the uncertainty of future government funding; and the potential for this to impact negatively on the budget reduction levels required for 2023/24;
- Agree the 2023/24 to 2026/27 Medium Term Financial Strategy (MTFS) and outline approach being taken to identify budget reduction proposals required to meet the remaining estimated budget gap of £36m over the next four years; and
- Agree the timetable for bringing forward budget reduction proposals and building the 2023/24 budget to Full Council in February/March 2023.

## **Timeline of engagement and decision-making**

2 March 2022 – Budget report to Council

15 June 2022 – Financial Outturn for 2021/22 – report to Mayor & Cabinet (M&C)

30 June 2022 – Medium Term Financial Strategy – report to Public Accounts Select Committee

6 July 2022 – First 2022/23 financial monitoring report to M&C

### **1. EXECUTIVE SUMMARY**

- 1.1. The Council is required to annually set a balanced budget and prepare a sustainable medium term financial plan. Due to the sustained levels of economic and fiscal uncertainty this continues to be as challenging as in recent years. This following a decade of austerity which the Council has successfully navigated but only by significantly reducing its use of resources.
- 1.2. The Covid-19 pandemic drove the country into recession in 2020/2021 and according to the Office of National Statistics, over the year as a whole, Gross Domestic Product (GDP) contracted by 9.9% in 2020, marking the largest annual fall in UK GDP on record.
- 1.3. Whilst the economy returned to pre-Covid levels by November 2021 the Russian invasion of the Ukraine has since driven energy and utility prices up sharply and severely tightened supply chains globally. By June 2022 the level of national inflation reached 40 year highs and triggered concerns for the impact of a cost of living crisis. Against this economic backdrop, despite the Comprehensive Spending Review in 2021 which set out three year Department spending levels, there is little clarity on what this will mean for local government finances as the government continues to change the policy framework, tweak grant arrangements, and rely on the sector to administer new burdens at short notice.
- 1.4. Despite four years with limited action, it remains the Government's stated intention to implement new funding baselines for all local authorities. The new baselines will be based on a review of local needs and resources (the Fair Funding Review) and a review of the national business rates tax. The last time the 'needs based assessment' was updated was for the 2013/14 settlement using the 2011 census. However, due to other government priorities such as the national response to inflationary pressures, it is expected that these changes will be further delayed.
- 1.5. Alongside unprecedented levels of economic and fiscal uncertainty in 2022/23 the Council is committed to adjusting to levels of spending without the £26m of Covid grant support used in 2021/22, prior year undelivered savings carried forward, and additional significant budget reductions for 2022/23. These must be delivered in full as planned as any shortfall adds to the funding gap, requiring more cuts to be identified to set a balanced budget.
- 1.6. The Council is setting its medium term financial plan in the recovery period of a global pandemic without the clarity or certainty on the levels of funding it can expect beyond March 2023 at this time. For this reason the assumptions, as set out in the report, will need to be tested and reviewed as future funding announcements and

general economic forecasts are themselves revised and updated.

- 1.7. The current base case assumptions produce an assumed budget gap of £36m over the four year period of 2023/24 to 2026/27, with a profile of £10m, £10m, £8m, and £7m in each year. The report also presents the assumptions for an optimistic and pessimistic case which, given the number of variables, moves the four year budget gap down by £19m or up by £17m from the base case of £36m.
- 1.8. For the future budget gap, officers have started work on a number of initiatives, firstly in reviewing and confirming that the £11.8m cuts for 2022/23 and £3.6m for 2023/24 offered in 2021/22 remain deliverable. Where there are risks to delivery officers will need to identify and bring forward alternative cuts proposals.
- 1.9. Executive Management Team (EMT) have reviewed the assumptions used and confirmed their intention to continue to use the targeted key service led approach and to seek efficiencies as set out in the report to developing future budget reduction proposals. This will involve EMT and Senior Leadership Team (SLT) working to develop draft officer proposals to be put to Members for scrutiny in November and decision in December. All services are part of this process.
- 1.10. The timetable to deliver the Budget for 2023/24 is as set out in Table 1 below.

Month	Key Stage
June / July 2022	Officers develop proposals and plans for the agreed Service Target Areas and Priority Areas for General Efficiencies
July / August 2022	EMT engagement with cabinet members individually to test proposals
September / October 2022	Engagement with Mayor, Member for Finance & Resources and Cabinet. Chancellor's Autumn Budget
October / November 2022	Draft Officer proposals presented for scrutiny and decision Provisional Local Government Finance Settlement
December 2022	Mayor & Cabinet decision
January 2023	Council Tax Base agreed by Council Draft Council Budget for 2023/24 prepared
February 2022	Greater London Authority sets their Precept for 2023/24 Council approves Budget & Council Tax for 2023/24

## 2. RECOMMENDATIONS

- 2.1. Mayor and Cabinet are recommended to:
- 2.2. Note the risks with regards to current year budget reduction measures, the long term impact of Covid and the uncertainty of future government funding; and the potential for this to impact negatively on the budget reduction levels required for 2023/24;
- 2.3. Agree the 2023/24 to 2026/27 Medium Term Financial Strategy (MTFS) and outline

approach being taken to identify budget reduction proposals required to meet the remaining estimated budget gap of £36m over the next four years; and

- 2.4. Agree the timetable for bringing forward budget reduction proposals and building the 2023/24 budget to Full Council in February/March 2023.

### **3. POLICY CONTEXT**

- 3.1. 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. Through the work on Covid recovery these are also supported by the four Future Lewisham themes.

- 3.2. In setting out 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.

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

Open Lewisham - Lewisham is a welcoming place of safety for all where we celebrate the diversity that strengthens us.

Tackling the housing crisis - Everyone has a decent home that is secure and affordable.

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.

Building an inclusive local economy - Everyone can access high quality job opportunities, with decent pay and security in our thriving and inclusive local economy.

Delivering & defending: Health, Social Care and Support - Ensuring everyone receives the health, mental health, social care and support services they need.

Making Lewisham greener - Everyone enjoys our green spaces and benefits from a healthy environment as we work to protect and improve our local environment.

Building safer communities - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

- 3.4. As the Council seeks to support the borough and its businesses and residents through the pandemic and beyond, this recovery is based on the four key themes of Future Lewisham, these are:

- A Greener Lewisham;
- A healthy and well future;
- An economically sound future; and
- A future we all have a part in.

- 3.5. The Medium Term Financial Strategy will directly support the theme of an economically sound future for the borough and its residents.
- 3.6. The Council is in the process of preparing its new corporate strategy and the Council's budgets will be aligned to this via the regular financial monitoring, the building up of the 2023/24 budget, and the current refresh and re-profiling of the capital programme.

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

- 4.1. The Report is structured as follows:
  1. Executive Summary
  2. Recommendations
  3. Policy Context
  4. Structure of the report
  5. Economic Context
  6. MTFS Assumptions
  7. Revenue Expenditure Assumptions
  8. General Fund Budget Gap
  9. Addressing the Budget Gap and Timetable
  10. Risks
  11. Conclusion
  12. Financial Implications
  13. Legal Implications
  14. Equalities Implications
  15. Environmental Implications
  16. Crime & Disorder Implications
  17. Background Papers
  18. Appendices

#### **5. ECONOMIC CONTEXT**

- 5.1. The Medium Term Financial Strategy (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 2023/24 will be presented to Mayor and Cabinet and full Council in February/March 2023.
- 5.2. The key objectives of the four year strategic approach continue to be:
  - plan the Council's finances over a four year period to take account of local and national economic considerations and priorities;
  - ensure that the Council's corporate priorities continue to drive its financial strategy and resource allocation;
  - assist the alignment of service and financial planning processes;

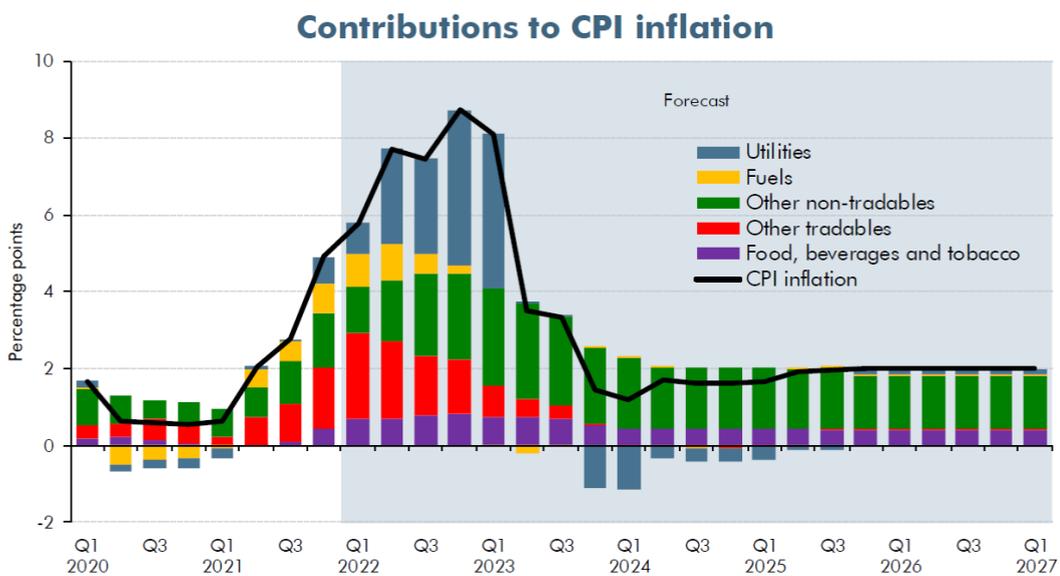
- ensure that the plan takes account of: stakeholder and partner consultation; external drivers; capital investment; budget risk assessments; and expected developments in services;
  - ensure that the MTFs is linked to other internal strategies and plans; and
  - that the final agreed 2023/24 Budget reflects all these considerations.
- 5.3. The financial outlook for the Council and the public sector as a whole remains extremely challenging. The priorities for public finances are not certain and the resources available for local services continue to be adjusted as a result of post Brexit trading conditions, life and work changes following the Covid pandemic, and other global economic drivers impacting the cost of goods and services.
- 5.4. In the continuing absence of a multi-year local government finance settlement and knowing that the current high levels of inflation will take at least 18 months to return to long term target levels of 2%, during which time the impact will be disproportionately on areas with higher inequality, it is expected that the Council's finances will remain under continued severe financial strain in the coming years. Faced with higher costs, more demands, and lower anticipated income the Council needs to prepare to make further budget reductions in order to be able to set a balanced budget for 2023/24 and future years in line with its statutory obligation to do so.
- 5.5. The focus of the MTFs is the Council's General Fund budget. Whilst it is very important, particularly at a time of prolonged 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 continuing 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.

### **National Economic Context**

- 5.6. The UK economy recovered to its pre-pandemic level around the end of last year with real GDP having regained its February 2020 level by November 2021, with GDP growth of 7.5% for the year. However, the Russian invasion of the Ukraine in early 2022 and further Covid lock downs in China have resulted in new global supply chain pressures and rising inflation alongside stagnant growth. The March statement from the Office for Budget Responsibility (OBR) forecast that GDP growth will fall to 3.8% in 2022 and be 1.8% in 2023 and 2.1% in 2024.
- 5.7. The Plan for Jobs has supported the strong recovery in the labour market, with the total number of payrolled employees in February 2022 2.3% above pre-pandemic levels. Unemployment has fallen steadily for twelve consecutive months to below its pre-pandemic rate (three months to February 2020) at 3.9% in the three months to January 2022. The OBR highlights that the Coronavirus Job Retention Scheme "looks to have exceeded all predictions, including ours, regarding its likely success in avoiding the persistent high unemployment that has followed other recessions." With vacancies at record highs, the unemployment to vacancy ratio is at a record low. Nominal wage growth was 4.8% in the three months to January 2022 and the OBR expects nominal wage growth to average 3.3% across the forecast period.
- 5.8. However the Consumer Prices Index (CPI) inflation has risen to a 30-year high in recent months. This has primarily been driven by global factors outside the government's control, including continued disruption to global supply chains and higher global energy and commodity prices. The OBR forecasts inflation to remain elevated through 2022 and 2023, peaking at 8.7% in Q4 2022. On an annual basis, inflation is forecast to be 7.4% in 2022, before decreasing to 4.0% in 2023 and 1.5%

in 2024. Inflation is then forecast to be 1.9% in 2025 and 2.0% in 2026. The Bank of England is responsible for controlling inflation and took the steps of raising interest rates from the historic low of 0.1% to 0.5% in February, then 0.75% in March and has now increased rates to 1% in May 2022.

- 5.9. The Office of National Statistics (ONS) and the OBR have produced the chart below which separates out the constituent elements of CPI and which demonstrates that the main drivers of the current 30 year high level of inflation are utilities (blue) and supply chain disruption (red – other tradables). Wage inflation is broadly represented by the green (other non-tradables) bar and this is expected to hold reasonably steady during the period. The overall rate of CPI is therefore expected to return to the long term forecast of 2% by Q1 of 2024.



Source: ONS, OBR

- 5.10. Despite the relatively short term nature expected of the current 30 year high levels of inflation, the impact in 2022 and 2023, when coupled with the economic drag following the pandemic has meant that the UK as a whole is facing a cost of living crisis which will make the role of local government simultaneously more vital for its residents and even more financially challenging.

### Local Government

#### Local Government funding reform

- 5.11. It remains the Government's intention to implement new funding baselines for all local authorities. The new baselines to reflect updated assessments of local needs and resources (the Fair Funding Review), the approach to business rates retention, and resetting business rate baselines. The last time the 'needs based assessment' was updated was for the 2013/14 settlement.
- 5.12. Confirmation of the timing for these changes has not been provided. The later in the year any changes are made, up to the local government settlement in November / December, the harder planning the allocation of resources to set a balanced budget for 2023/24 becomes.
- 5.13. On business rates, London continued the business rate pool for 2020/21. The Covid-19 pandemic negatively impacted all boroughs tax bases through the period

of disruption and for many the recovery of the tax base has been slow, this resulted in the requirement for the Council to contribute £2.1m to the pool for 2020/21. London ceased pooling for 2021/22, although 8 boroughs formed a local pool, but with no decision for another pan-London pool for future years at present.

- 5.14. The other elements of the impact of rolling over spending decisions pending the funding reform has been the rise in annual grants for specific services (e.g. better care fund, social care grant, homelessness grant), policy changes resulting in the introduction of new grants (e.g. market sustainability grant, lower tier grant) and discontinuation of others (e.g. new homes bonus), as well as new once-off funding such as the Services Grant. This limits the Council's ability to plan with any certainty and constrains local decision making on how to allocate resources. Over the same period councils have been expected to continue to implement above inflationary council tax rises with council tax now providing 50% of the Council's General Fund.

## 6. MTF5 ASSUMPTIONS

- 6.1. 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)

- 6.2. 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).
- 6.3. The table below shows the forecast SFA over the next four years.

**Table 2: Make-up of Lewisham's 2022/23 and Estimated Settlement Funding Assessment, 2022/23 to 2023/24 to 2026/27**

Settlement Funding Assessment	2022/23 Actual	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Main case	£m	£m	£m	£m	£m
Retained Business Rates	29.02				
Business Rate Top-up	95.15				
Baseline Funding Level (BFL)		123.22	117.42	113.72	110.95
<b>Total SFA</b>	<b>124.17</b>	<b>123.22</b>	<b>117.42</b>	<b>113.72</b>	<b>110.95</b>

### Business rates income

- 6.4. In 2018/19, the government devolved 100% of Business Rates to London Local Authorities (LA) via the pilot pool. In 2019/20, the level of devolved Business Rates was changed to 75%. In London, this was shared between Local Authorities and the GLA with 48% to local authorities and 27% to the GLA. In the 2019 Spending Round the government announced that other than the established Combined Authorities all sponsored pilots would end and revert to the original business rates

system of distribution. At the end of 2020/21 the London pool was suspended by mutual agreement of London Boroughs. Therefore, Lewisham returned to the business rates shares as at 2017-18, which means the LA retains 30% of Business Rates and the GLA 37%. The RSG has been 'rolled-in' at this stage thereby phasing it out.

- 6.5. 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.
- 6.6. Through Covid-19 the national business rates system has been and continues to be significantly impacted. Given the level of reliefs and other uncertainties, in particular in relation to possible changing rateable valuations and tax collection levels, as the economy resets and recovers from Covid-19 the income assumptions for the Council's budget remain uncertain but the model assumes government interventions will hold an assumed broadly stable position for this tax base for councils in 2023/24.
- 6.7. The forecast now assumes the reforms and the business rates reset will be implemented from 2024/25 although this has still to be confirmed. This is assumed to include the return to the phased reduction of RSG. The government also operates a safety net for business rates with Lewisham's currently set at £88m, £7m below the £95m expected shown above. This means any loss of collection up to £7m is borne by the Council directly before becoming a burden on the national pool. The pandemic has impacted the collection rate for the borough and this is reflected in the assumed annual contribution required in the MTFS model, which decreases over the four year period as the collection rate is expected to return to pre-pandemic levels, and not near the safety net level.
- 6.8. As the London pool has been stopped for 2021/22 no assumptions are made in this MTFS on any risks or benefits should it be re-started.

### **The Fair Funding Review**

- 6.9. 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.
- 6.10. The government is undertaking the Fair Funding Review to update the needs formula and set new funding baselines. 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.
- 6.11. The MTFS assumes any impact will now be for the start of 2024/25 by when the 2021 Census results will be available to provide a better baseline for the formula.

### **Council Tax income**

- 6.12. 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.

- 6.13. As well as decisions about the level of Council Tax, Council Tax income is also affected by growth in the number of properties in the borough, the rate of Council Tax collection, and the Local Council Tax Reduction Scheme (LCTRS).
- 6.14. The government sets annually the limit by which council tax can be increased locally without triggering the requirement to hold a referendum. Exceptionally this was set at 3% for the two year period 2018/19 and 2019/20. The level then reverted and was set at 2% for 2020/21, 2021/22 and 2022/23. Lewisham agreed increases for this element of the Council Tax of 1.99% for each of these years (2020/21 – 2022/23). While recognising that Council Tax is a regressive tax, the MTFS main case assumes this arrangement continues over the next four years.
- 6.15. The Social Care Precept is in addition to this. The Social Care precept was introduced by the government from 2016/17, and the percentages available to levy annually have varied over the six year period. In 2021/22 government gave Local Authorities the option of levying a 3% Social Care Precept over two years. This was agreed by the Council and the 3% included in the 2021/22 budget. A further 1% precept was included in the 2022/23 budget. Given the delay in the long awaited government proposals for the sustainable long-term funding of adult social care services it remains unclear whether and how the government's solution to the longer term funding of social care will include contributions via local authority taxation or grant. As it's not expected that this will be in place for 2023/24 a 1% precept has been assumed for 2023/24, but none in the latter years of the MTFS.
- 6.16. In 2022/23 Council Tax was raised by 2.99% in total, the 1.99% core increase and the 1% social care precept increase as set out above. This generated additional funding of £3.7m.
- 6.17. For 2023/24 the MTFS main case assumes a 2.99% increase from 1% precept and 1.99% in core Council Tax and then 1.99% in each year thereafter. This reflects the assumption that the Council will apply the maximum increase allowed without a referendum in 2023/24 and beyond. In addition, the MTFS assumes a 0.5% average increase in the Council Tax base for the years 2023/24 and 2024/25, increasing to 1% for 2025/26 and 2026/27, based on Planning Service's housing trajectory. In total over the period this will add approximately £13m to the Council Tax income base over the four year period to 2026/27. However, this remains below the London target for housing supply in the borough. The MTFS also acknowledges the impact on collection rates from Covid-19 which dropped significantly. For each year from 2023/24 onwards the MTFS assumes life time collection rates will continue to recover and then match the pre-pandemic levels as follows: 96%, 97%, 97% and 97% respectively. Given that Council Tax makes up more than 50% of the net general fund revenue income for the Council, it is critical that we can and do collect from those able to pay, and that we can increase the collection rates to that assumed in the MTFS model. The Council is drawing on experience and best practice of high performing councils to ensure that our performance can improve to those levels forecast.
- 6.18. Forecast Council Tax income from 2023/24 to 2026/27 is set out in Table 3 using the assumptions in Appendix 1. The amounts collected here are after allowing for the cost of the Council Tax Reduction Scheme and any uncollected debts.

**Table 3: Council Tax Income Future Year Projections**

	2023/24 projection	2024/25 projection	2025/26 projection	2026/27 projection
	£m	£m	£m	£m
Optimistic	134.106	139.581	145.984	151.867
<b>Main</b>	<b>132.159</b>	<b>136.874</b>	<b>140.993</b>	<b>145.237</b>
Pessimistic	127.511	132.089	136.817	140.935

**7. REVENUE EXPENDITURE ASSUMPTIONS**

7.1. 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, including legacy pressures from the Covid-19 pandemic and temporary pressures from energy and inflation. This section of the report considers the effect such pressures will have on the future years' revenue expenditure.

**Pay**

7.2. A pay award of 1.5% - 1.75% was agreed by the Greater London Provincial Council for 2021/22. There is no current offer for 2022/23 although 2% has been budgeted for. In light of the current inflation levels, and despite the constraints on public finances, the main model has assumed a 3% pay award for 2023/24 and 2024/25 but assumed that pay awards will return to match long term inflation of 2% in 2025/26 and 2026/27.

**General price inflation assumptions**

7.3. 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. As set out in section 5 above, current level of inflation is at a 40 year high, however, the Office for Budget Responsibility forecasts this returning to the Bank of England long term forecast of 2% by Q1 of 2024. Therefore the MTFS assumes that price inflation will be 2.5% in 2023/24 and 2024/25 and 2% in 2025/26 and 2026/27. Whilst not building the current record levels of inflation into the MTFS base model, the Council is recognising the temporary impact in 2022/23 and has allowed for additional pressures funding of £2.7m which is equivalent to a further 3% uplift on net non-salary budgets.

**General fees and charges assumptions**

7.4. The Council's approach in the past has been to expect fees and charges it levies 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**

7.5. Forecasting the impact of demand changes is the most difficult aspect of the MTFS. However, the MTFS needs to make allowance for the potential impact of these

through the allocation of an amount for risks and pressures. 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. With deep and long lasting implications for the level and impact of poverty as set out in the 2019 United Nations report on the impact of austerity in the UK since 2010, further evidenced through the impact of Covid on local communities in 2020/21 and 2021/22 which further highlighted the current levels of inequality in society, and now the disproportionate impact of high inflation on lower income households.
- **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** – following the Covid pandemic, with new responsibilities for local government through anticipated funding changes and as councils respond to changes in community need; standards and ways of working are expected to change.

7.6. The Council is actively trying to address these demand pressures and seeks to ensure, wherever possible, that the changes it has to make to services help residents and the community become more resilient and by that means reduce rather than increase demand.

7.7. 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.

7.8. To enable the Council to recognise these pressures and risks in a flexible way as they come to bear, the MTFs includes an annual provision corporately for growth from demand and other unavoidable pressures in the budget. The model assumes this will continue for future years, but that there is the slow reduction in this funding from the current level of £5.5m assumed for 2023/24 down to £4.5m in 2024/25.

7.9. Whilst all Covid-19 restrictions have been removed, the borough’s economy has not returned to pre-pandemic levels and there remains additional demand pressure on a number of services, including adults’ and children’s social care. In 2021/22 the

direct cost of Covid-19 for the Council was £26m, with £4m of once off Covid-19 funding carried forward and available for 2022/23. At present government has removed almost all of its funding for residents and businesses and it is not expected that additional funding will be made available to meet local government's direct cost pressures. The Council has therefore made a £2.3m allowance to enable the Council to accept some of the new ways of working costs or increased permanent demand into service budgets where new targeted funding does not arise.

- 7.10. Whilst simultaneously working to protect our most vulnerable residents and businesses throughout the pandemic, the Council had also committed to reducing its annual budget by over £30m across 2020/21 and 2021/22. Given the scale and nature of the reductions many of these required significant service transformation which was unable to be done in the timescales expected. There remains £5m of undelivered budget reduction initiatives from these years and it's therefore proposed that this be put back into the budget in 2023/24.

### **Specific grant assumptions**

- 7.11. 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 £26.06m in 2022/23, an increase of £0.66m from 2021/22. 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.
- **Better Care Fund (BCF)** – this grant is £25.97 in 2022/23. The Council receives approximately £10.4m of this funding via the local Clinical Commissioning Group (CCG) to support Council-led services.
- **Improved Better Care Fund (iBCF)** – In 2022/23, the iBCF increased by £0.4m to £14.9m in 2022/23 from the £14.5m in 2021/22. This grant is for funding adult health and social care activity. Plans for its use, which have not yet been finalised, will also require the agreement of the CCG. The grant is likely to be spent in substantially the same way as in 2022/23.
- **Social Care grant** - the provisional Local Government finance settlement in December 2022 committed £636m more for Social Care grant nationally for 2022/23. This has increased Lewisham's final grant from £10.773m in 2021/22 to £14.622m (a 35.7% increase) with the discretion to spend this on both adults and children social care. In the 2022/23 budget £1.95m of the £3.85m increase was taken into base budget and the remaining £1.9m was utilised to support once off pressures within these services. It is assumed in the MTFs that in 2023/24 this £1.9m be taken into base budget.
- **Other grants** – the Council receives a number of other revenue grants, the most recent and significant being the £6.56m of once off 'Services Grant received in 2022/23. Pending a full financial settlement for local government these have increased in recent years, in number and scale, and therefore pose a greater risk to the Council's budget as they are only annual. These include recent s31 grants which supplement business rates, social care, and special education needs as well as some other relatively small or directly related to specific projects.

A number of the smaller ones 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.

Any changes to these 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**

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

#### Capital financing charges

- 7.13. 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.
- 7.14. The main factors that affect the forecasting of capital financing costs are the level of additional 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 (including S106 and CIL), be charged direct to revenue or borrowing.
- 7.15. Short term changes to interest rates should not materially 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 pending a pick-up in the delivery of the capital programme. 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

- 7.16. 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

- 7.17. 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**

- 7.18. There are further adjustments that are included within the budget projections for future years, funded from the £5.5m corporate provision stated in para 7.8 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, levels of usage, and changes to the basis for allocation of costs between boroughs. The projections now assume an annual increase of £0.5m for the period 2024/25 to 2026/27. This was decreased in

2021/22 and held flat in 2022/23 to reflect the impact of Covid on public transport usage, but this is expected to return to previous levels and require additional funding.

- **Pension Fund Contributions** – It is anticipated that, due to recent court rulings impacting all local government pension schemes and the continuing maturing of the Lewisham fund with fewer members contributing, additional contributions will be required into the Council's pension fund in coming years. It is assumed that up to a further £1m per annum will be needed from the next valuation.
- **Service investments** – these range across a number of areas and are being monitored as the Future Lewisham plans evolve. They include: cost of market changes in areas such as social care and leisure services, demand for housing and temporary accommodation in particular, the need to develop stronger economy and partnership relationships across the Borough, and other changes due to government policy and funding.

## **8. GENERAL FUND BUDGET GAP**

- 8.1. Using the medium term resource envelope and revenue expenditure projections stated above, the resulting overall forecast position for the authority is shown in Table 4 below:

**Table 4: Summary of Projected Financial Position**

	Optimistic Case				Main Case				Pessimistic Case			
	2023/24	2024/25	2025/26	2026/27	2023/24	2024/25	2025/26	2026/27	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Business Rates Baseline Funding Level	124.171	125.122	120.280	117.578	<b>123.219</b>	<b>117.416</b>	<b>113.715</b>	<b>110.952</b>	116.464	110.889	107.175	104.203
BR S31 Grant (RPI to CPI adjustment)	6.000	6.000	6.000	6.000	<b>6.000</b>	<b>6.000</b>	<b>6.000</b>	<b>6.000</b>	6.000	6.000	6.000	6.000
Business Rates Collection Fund losses	(2.000)	(1.000)	(1.000)	0.000	<b>(4.000)</b>	<b>(3.000)</b>	<b>(2.000)</b>	<b>(1.000)</b>	(6.000)	(5.000)	(4.000)	(2.000)
Council Tax raised	134.106	139.581	145.984	151.867	<b>132.159</b>	<b>136.874</b>	<b>140.993</b>	<b>145.237</b>	127.511	132.089	136.817	140.935
Council Tax Collection Fund losses	(1.000)	(1.000)	0.000	0.000	<b>(2.000)</b>	<b>(1.000)</b>	<b>(1.000)</b>	<b>(1.000)</b>	(4.000)	(3.000)	(2.000)	(1.000)
Total Resources	261.276	268.703	271.264	275.445	<b>255.378</b>	<b>256.289</b>	<b>257.708</b>	<b>260.189</b>	239.975	240.991	243.991	248.138
Total Revenue Expenditure	267.568	270.748	278.275	280.377	<b>268.950</b>	<b>266.839</b>	<b>265.928</b>	<b>267.450</b>	271.369	252.047	251.797	254.393
Budget Gap	6.291	2.045	7.011	4.932	<b>13.572</b>	<b>10.550</b>	<b>8.220</b>	<b>7.260</b>	31.393	11.069	7.805	6.255
Approved Savings	(3.611)	(0.195)	0.000	0.000	(3.611)	(0.195)	0.000	0.000	(3.611)	(0.195)	0.000	0.000
Additional Annual Savings Required	<b>2.680</b>	<b>1.850</b>	<b>7.011</b>	<b>4.932</b>	<b>9.961</b>	<b>10.355</b>	<b>8.220</b>	<b>7.260</b>	<b>27.782</b>	<b>10.874</b>	<b>7.805</b>	<b>6.255</b>
Cumulative Savings Required	<b>2.680</b>	<b>4.530</b>	<b>11.541</b>	<b>16.473</b>	<b>9.961</b>	<b>20.316</b>	<b>28.535</b>	<b>35.796</b>	<b>27.782</b>	<b>38.656</b>	<b>46.461</b>	<b>52.717</b>

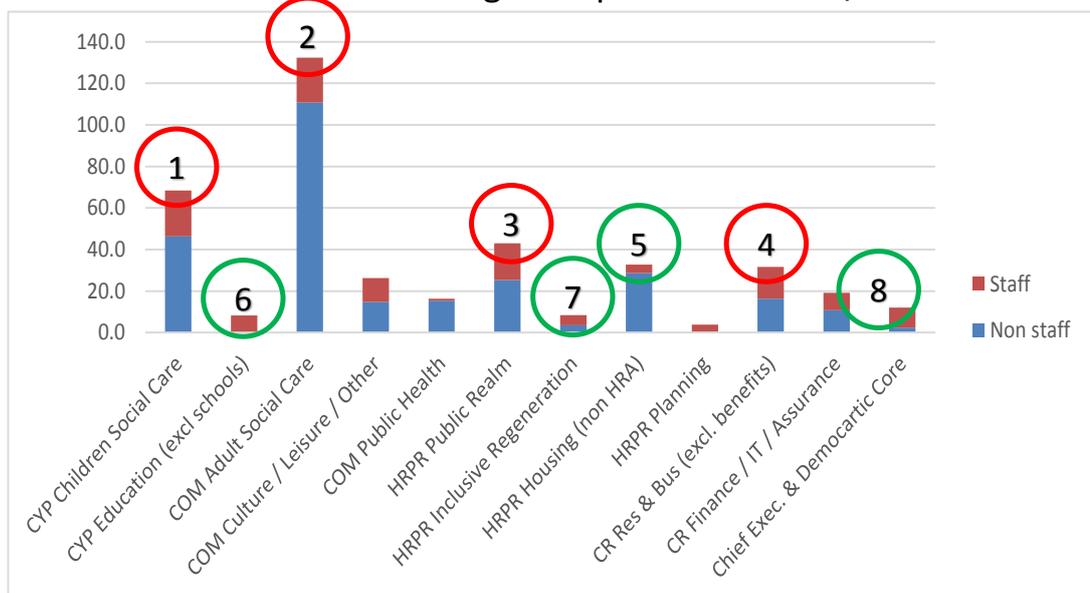
- 8.2. Taking the main case scenario as the expected position, the MTFS shows the annual measures required to bridge the budget gap from 2023/24 to 2026/27 as £9.961, £10.355, £8.220 and £7.260, respectively in each year. A total of £36m over the four years to 2026/27.
- 8.3. It is important to note two things. Firstly, any of the pressures not addressed in service spending through 2022/23 will add to the cuts target for 2023/24. Secondly, the cuts offered up in 2020/21 for 23/24 and 24/25, £3.611m and £0.195m respectively, are included within these MTFS figures. If these are not delivered then the budget gap increases proportionately.
- 8.4. 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 2026/27 reduces by approximately £19m to £16m. This is based on lower predicted cuts to baseline funding and higher increase in the Council Tax base.
- 8.5. The pessimistic case scenario reflects the impact of certain risks having a more severe impact. The cumulative budget gap to 2026/27 increases by approximately £17m to £53m. This scenario demonstrates the difficulty the Council could potentially face if the impact of funding cuts are higher and Council Tax base and collection rates are lower than expected.
- 8.6. The Council has considered how it will manage the longer term financial impact of the Covid pandemic and made some allowance for this in the base case scenario to ensure that there is not unrealistic reliance assumed on Government.
- 8.7. The next section of this report looks at how the Council continues to address the gap in order to produce a balance budget.

## **9. ADDRESSING THE BUDGET GAP AND TIMETABLE**

- 9.1. Officers continue to work on implementing delayed savings not implemented due to the impact of Covid 19, the £11.835m of new budget reductions taken into the budget for 2022/23, while also managing the recovery from Covid-19 and reliance on additional grant support. This work is discussed more fully in the quarter one financial monitoring reported to Mayor & Cabinet on the 6 July 2022.
- 9.2. Given the scale of the budget gap for 2023/24 a budget reduction process is required and the timetable below sets out the process to ensure that robust and deliverable proposals can be put forward by officers and scrutinised by Members before the budget is prepared for 2023/24.
- 9.3. The initial work by officers will be to review the 2022/23 pressures and delivery of plans to ascertain whether these remain fully deliverable. If they are, officers will consider refining and further developing them as necessary to update proposals for pre-scrutiny ahead of Mayor and Cabinet as per the timetable. Where strategic work streams are not sufficient to deliver the level of savings required officers will also continue to work on alternatives.
- 9.4. In 2020/21 and 2021/22 the Council adopted a collaborative thematic approach centred round the Council's recovery from Covid, Future Lewisham, and transition to delivering future services within the available financial resources on a secure and sustainable basis.
- 9.5. This approach enabled services to work together as One Council across themes to develop cross cutting proposals that sought to ensure that reductions were sustainable and did not cause cost shunt into either other service areas or the wider local government and health systems. It moved away from potential 'salami slicing' of budgets.

- 9.6. For 2023/23, the proposal is to approach the budget reduction process by simultaneously targeting key services whilst driving increasing efficiency from all services where feasible. The targeting of certain key areas of spend will enable a clearer focus on service design, both from a cost and income perspective. This will enable resources to focus on initiatives which are of greater financial scale and impact and which may form larger programmes, rather than spreading resources to seek to identify numerous smaller savings and potentially ‘salami slicing’ service budgets. However, all services will be expected to look for deliverable efficiencies.
- 9.7. The concentration on key services reflects where the Council’s budgets of scale are committed and will be easier to support for innovation and lead on, allowing for more opportunities of scale to be achieved. There is a risk that the concentration on certain services concentrates the non-delivery risk but the investment in the Programme Management Office approach to support will seek to mitigate this.
- 9.8. The services which will be focused on are those with both the greatest spend and the most opportunity to drive reductions from. These are:
- Children social care – both demand management and commissioning approaches;
  - Adult social care – the continued and successful adoption of the new preventative delivery model alongside the requirements of the Health and Social Care Act;
  - Public Realm – to manage demand whilst reducing costs and maximising income;
  - Resident and Business Services – to ensure that those that can pay for services do so in full, whilst supporting those that can’t.
- 9.9. In addition to targeting key services, the Council will look across all services to continue to drive increased efficiency from its delivery. This will include certain areas of persistent overspend such as SEN transport costs, the pace and efficiency of the capital programme delivery and better management more generally of inflationary pressures, both pay and non-pay.
- 9.10. The table below shows the alignment of this approach and the areas of focus for 2023/24 relative to the respective gross service budgets as the starting point.

Lewisham Gross Service Budgets Expenditure 2022/23 - £m



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#### Service led target areas

1. Children Social Care – demand & commissioning
2. Adult Social Care – deliver Newton and care act
3. Public Realm – demand; costs & income
4. Resident & Business Services – income

#### Efficiencies

5. Housing – governance, supply & costs
6. Special Education Needs & Transport – costs
7. Capital programme delivery – time & value
8. Pay (incl. pension) and non-pay inflation - cost

- 9.11. Existing governance arrangements will be utilised where appropriate to ensure that there is rigorous oversight of the programmes that are brought forward to support these reduction measures and where necessary new governance will be introduced under the leadership of EMT.

#### TIMETABLE

- 9.12. The timetable to deliver the necessary cuts and Budget for 2023/24 is as set out below.

Date / Month	Key Stage
May 2022	Budget recap to SLT emphasised risks of not delivering approved cuts and to introduce the new approach and potential scale of reductions required. Formal process launched.
June 2022	MTFS overview presented to EMT Check points as to development of the process and proposals
30 June 2022	MTFS presented to PASC
06 July 2022	MTFS presented to M&C
18 July 2022	EMT engagement with cabinet members individually to test proposals
15 August 2022	Draft proposals with outline plan and implications for delivery (including equalities considerations)
05 September 2022	Engagement with Mayor and Member for Finance & Resources
19 September 2022	Engagement with Cabinet
September / October 2022	Medium term financial planning and monitoring. Chancellor's Autumn Budget
26 September	Final proposals for submission to scrutiny

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Date / Month	Key Stage
2022	
October 2022	All Member briefings
October – November 2022	Pre-scrutiny process
7 December 2022	Budget Reduction proposals to M&C
November / December 2022	Provisional Local Government Finance Settlement
January 2023	Council Tax Base agreed by Council Draft Council Budget for 2023/24 prepared Business rate payers consultation launched
January 2023	Draft Council Budget 2023/24 to PASC
February 2023	Budget 2023/24 to M&C
February 2023	Greater London Authority sets their Precept for 2023/24
February/March 2023	Council approves Budget & Council Tax for 2023/24 (NB this may be pushed back a week depending on the GLA timetable)

- 9.13. Once the in-year service monitoring position is more certain and the Chancellor's Autumn Budget announced, it may be necessary to bring an updated MTFS forward to refresh the assumptions and plans outlined in this report.

## 10. Risks

- 10.1. There are a number of risks facing the Council in setting its MTFS for the period 2023/24 to 2026/27. The key issues are discussed below.
- 10.2. The long term impact of Covid, and our ability to unwind the pressures within 2022/23 is still yet to be known, both in terms of the financial impact on the Council and its residents, but also in terms of the boroughs residents and its economy and the cost of living crisis that has emerged. The regular financial monitoring will be critical in ensuring that this is reported and action taken in a timely manner. We are assuming that there will be no further Covid funding received and that the remaining grants held will be fully utilised and that an additional £2.3m will be required and included in the 2023/24 MTFS to support any permanent or semi-permanent changes to underlying services.
- 10.3. Funding uncertainty and risk. The Fair Funding review has been delayed previously and is now long overdue, however it is unlikely that Government will be publishing this in 2022 given the continuing distraction of the pandemic and the cost of living crisis. Whilst we can assume that a roll forward in funding from 2022/23 into 2023/24 is likely it can be assumed that Local Government funding will be reduced for the remaining three years and beyond. This will place even greater dependence on Council Tax and local income or cost reduction measures at a time when all of the Government support measures for residents have ended.
- 10.4. The scale of the budget reductions taken in 2021/22 and 2022/23, coupled with the budget reductions which have not been fully achieved, has meant that £5m has been put back into the 2023/24 budget although the resultant gap could increase if the current budget cannot be delivered in full. A number of the measures were

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ambitious and required transformation and resources to deliver, much of which had been diverted into our Council's response to, and recovery from, the pandemic.

- 10.5. The progress and outcomes of the capital strategy and programme review work reporting to M&C in July are not yet known. If the capital strategy and its associated risks (given the scale and pace of delivery) put more pressure on the revenue budget (e.g. through abortive costs, overspends, new or extended projects, etc.) this will add to the cuts targets required.

## **11. CONCLUSION**

- 11.1. The Medium Term Financial Strategy sets out initial estimates based on uncertain assumptions for the funding of local government to prudently anticipate the scale of financial challenge the Council will face over the medium term to 2026/27.
- 11.2. 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 and timing of these.
- 11.3. The MTFS identifies that the Council may have to make up to £36m of budget reductions over the next four years, on top of the £3.6m and £0.9m already put forward in 2021/22 for 2023/24 and 2024/25.
- 11.4. Given the high level of uncertainty and risk of making cuts which may then have to be reversed if the assumptions used are wrong, the recommended focus now is to ensure that those cuts previously offered remain deliverable, returning to Mayor & Cabinet in good time to make further difficult decisions if necessary. The timetable in section 9 above allows for this process to be undertaken.
- 11.5. 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 if funding levels are cut further, what services local government may be responsible for in future, and how services are expected to transform and change to support the borough and its residents post Covid-19 and in the longer term.

## **12. FINANCIAL IMPLICATIONS**

- 12.1. 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.

## **13. LEGAL IMPLICATIONS**

- 13.1. The purpose of this report is to develop a medium term approach in support of better service and financial planning and an update of in-year financial pressures. Members are reminded that the legal requirements are centred on annual budget production, and that indicative decisions made for future years are not binding.
- 13.2. 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

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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.

- 13.3. 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.

## **14. EQUALITIES IMPLICATIONS**

- 14.1. The Council has a public sector equality duty (the equality duty or the duty - The Equality Act 2010, or the Act). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. In summary, the Council must, in the exercise of its functions, have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
  - advance equality of opportunity between people who share a protected characteristic and those who do not.
  - foster good relations between people who share a protected characteristic and those who do not.
- 14.2. It is not an absolute requirement to eliminate unlawful discrimination, harassment, victimisation or other prohibited conduct, or to promote equality of opportunity or foster good relations between persons who share a protected characteristic and those who do not. It is a duty to have due regard to the need to achieve the goals listed above. The weight to be attached to the duty will be dependent on the nature of the decision and the circumstances in which it is made. This is a matter for Mayor and Cabinet, bearing in mind the issues of relevance and proportionality. Mayor and Cabinet must understand the impact or likely impact of the decision on those with protected characteristics who are potentially affected by the decision. The extent of the duty will necessarily vary from case to case and due regard is such regard as is appropriate in all the circumstances.
- 14.3. The Equality and Human Rights Commission (EHRC) has issued Technical Guidance on the Public Sector Equality Duty and statutory guidance. The Council must have regard to the statutory code in so far as it relates to the duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found on the EHRC website.
- 14.4. The EHRC has issued five guides for public authorities in England giving advice on the equality duty. The 'Essential' guide provides an overview of the equality duty requirements including the general equality duty, the specific duties and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good

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practice.

## 15. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

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

## 16. CRIME AND DISORDER IMPLICATIONS

16.1. There are no crime and disorder implications directly arising from the report.

## 17. HEALTH AND WELLBEING IMPLICATIONS

17.1. There are no health and wellbeing implications directly arising from the report.

## 18. BACKGROUND PAPERS

- 18.1. Budget Report 2021/22 – Full Council 3 March 2021  
<https://councilmeetings.lewisham.gov.uk/documents/s77544/Council%20Budget%202021-2022.pdf>
- 18.2. Financial Results 2020/21 – Mayor & Cabinet 9 June 2021  
<https://councilmeetings.lewisham.gov.uk/documents/s81077/Financial%20Results%202020-21.pdf>

## 19. GLOSSARY

Term	Definition
<b>Actuarial Valuation</b>	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.
<b>Baseline Funding Level</b>	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.
<b>Budget Requirement</b>	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)
<b>Business Rates Baseline</b>	The business rates baseline is equal to the amount of business rates generated locally in a specific year.
<b>Capital Expenditure</b>	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.

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Term	Definition
<b>Capital Programme</b>	The Council's plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.
<b>Capital Receipts</b>	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.
<b>Capping</b>	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.
<b>CIPFA</b>	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.
<b>Clinical Commissioning Group (CCG)</b>	Clinical Commissioning Groups ( <b>CCGs</b> ) were created following the Health and Social Care Act in 2012, and replaced Primary Care Trusts on 1 April 2013. They are clinically-led statutory NHS bodies responsible for the planning and commissioning of health care services for their local area.
<b>Collection fund</b>	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.
<b>Collection Fund surplus (or deficit)</b>	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.
<b>Contingency</b>	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.

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Term	Definition
<b>Council Tax Base</b>	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.
<b>CPI and RPI</b>	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.
<b>Dedicated schools grant (DSG)</b>	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.
<b>Financial Regulations</b>	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.
<b>Financial Year</b>	The local authority financial year commences on 1st April and finishes on the following 31 March.
<b>General Fund</b>	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).
<b>Gross Domestic Product (GDP)</b>	GDP is defined as the value of all goods and services produced within the overall economy.
<b>Gross Expenditure</b>	The total cost of providing the Council's services, before deducting income from government grants, or fees and charges for services.
<b>Housing Revenue Account (HRA)</b>	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.
<b>Individual authority business rates baseline</b>	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.

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Term	Definition
<b>Levies</b>	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.
<b>Local share</b>	This is the percentage share of locally collected business rates that will be retained by local government, currently 50%.
<b>Net Expenditure</b>	This is gross expenditure less services income, but before deduction of government grant.
<b>New Homes Bonus</b>	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.
<b>Prudential Borrowing</b>	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.
<b>Revenue Expenditure</b>	The day-to-day running expenses on services provided by Council.
<b>Revenue Support Grant (RSG)</b>	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.
<b>Section 151 officer</b>	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.
<b>Settlement Funding Assessment (SFA)</b>	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.
<b>Specific Grants</b>	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.

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**20. REPORT AUTHOR AND CONTACT**

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## APPENDIX 1 – SUMMARY OF MTFs ASSUMPTIONS

RESOURCE ENVELOPE			
	Main case	Pessimistic case	Optimistic Case
Notional Revenue Support Grant	<ul style="list-style-type: none"> <li>□ 2023/24 0% change to 2022/23 levels, thereafter 20% reduction assumed each year</li> </ul>	<ul style="list-style-type: none"> <li>□ 2023/24 -20% change to 2022/23 levels, and thereafter 20% reduction assumed each year</li> </ul>	<ul style="list-style-type: none"> <li>□ 2023/24 and 2024/25 0% change to 2022/23 levels, thereafter 20% reduction assumed each year</li> </ul>
Business Rates	<ul style="list-style-type: none"> <li>□ 1% real terms decrease in 2023/24, then 0% change in 2024/25, 1% increase in 2025/26 and then 1% increase in 2026/27 on the rateable value base and top-up</li> <li>□ £6m S31 grant in each year</li> </ul>	<ul style="list-style-type: none"> <li>□ 2% real terms decrease in 2023/24, 1% decrease in 2024/25, then 0% change in 2025/26, and 1% increase in 2026/27 on the rateable value base and top-up</li> <li>□ £6m S31 grant in each year</li> </ul>	<ul style="list-style-type: none"> <li>□ 0% real terms decrease in 2023/24, then 1% increase in 2024/25, 1% increase in 2025/26 and then 2% increase in 2026/27 on the rateable value base and top-up</li> <li>□ £6m S31 grant in each year</li> </ul>
Council Tax income	<ul style="list-style-type: none"> <li>□ From 2023/24 1.99% change in Council Tax level and 1% Social Care precept)</li> <li>□ % increase each year in Council Tax base from 2022/23 onwards is: 0.5%, 0.5%, 1% and 1%</li> <li>□ CT collection rate each year from 2022/23 onwards is: 96%, 97%, 97% and 97%</li> <li>□ CTRS changes increase the cost of the scheme by the following</li> </ul>	<ul style="list-style-type: none"> <li>□ From 2022/23 1.99% change in Council Tax level (No Social Care precept)</li> <li>□ % increase each year in Council Tax base from 2022/23 onwards is: 0%, 0.5%, 0.5% and 1.0%</li> <li>□ CT collection rate each year from 2022/23 onwards is: 94%, 95%, 96% and 96%</li> <li>□ CTRS changes increase the cost of the scheme by the following each year from 2022/23: £4m, £3m, £2m, £1m</li> </ul>	<ul style="list-style-type: none"> <li>□ From 2022/23 1.99% change in Council Tax level, 1% inflation uplift and 1% Social Care precept</li> <li>□ % increase each year in Council Tax base from 2022/23 onwards is: 1%, 1%, 1.5% and 2%</li> <li>□ CT collection rate each year from 2022/23 onwards is: 96%, 97%, 98% and 98%</li> <li>□ CTRS changes increase the cost of the scheme by the following each year from 2022/23: £1m, £1m, £0m, £0m</li> </ul>

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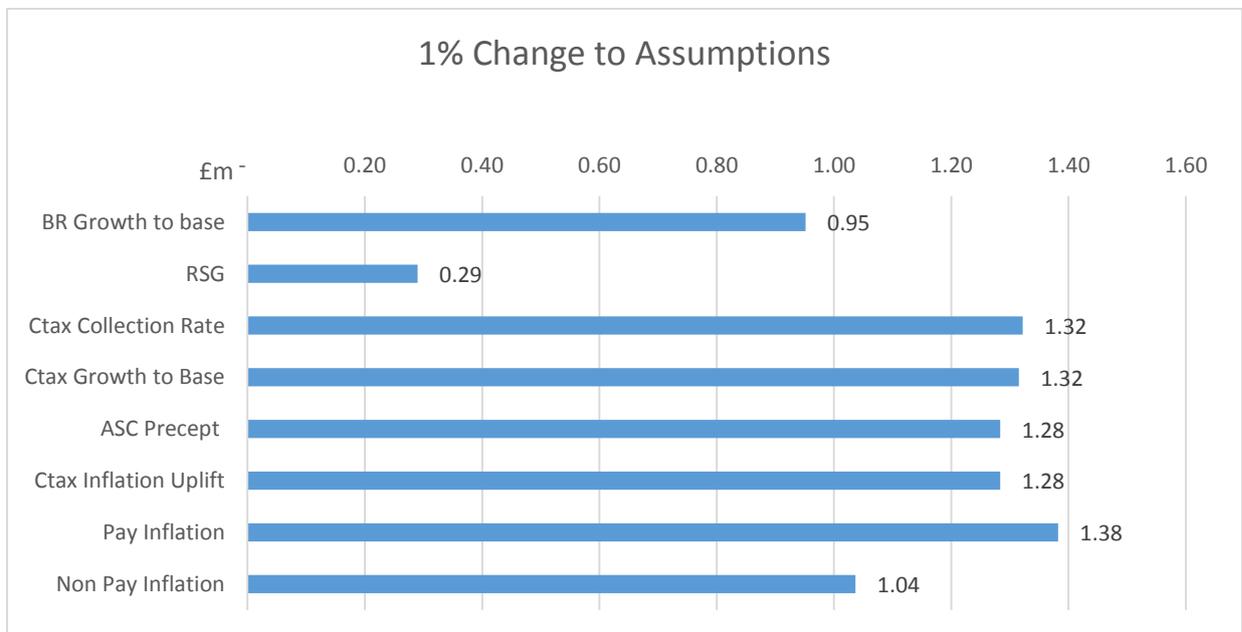
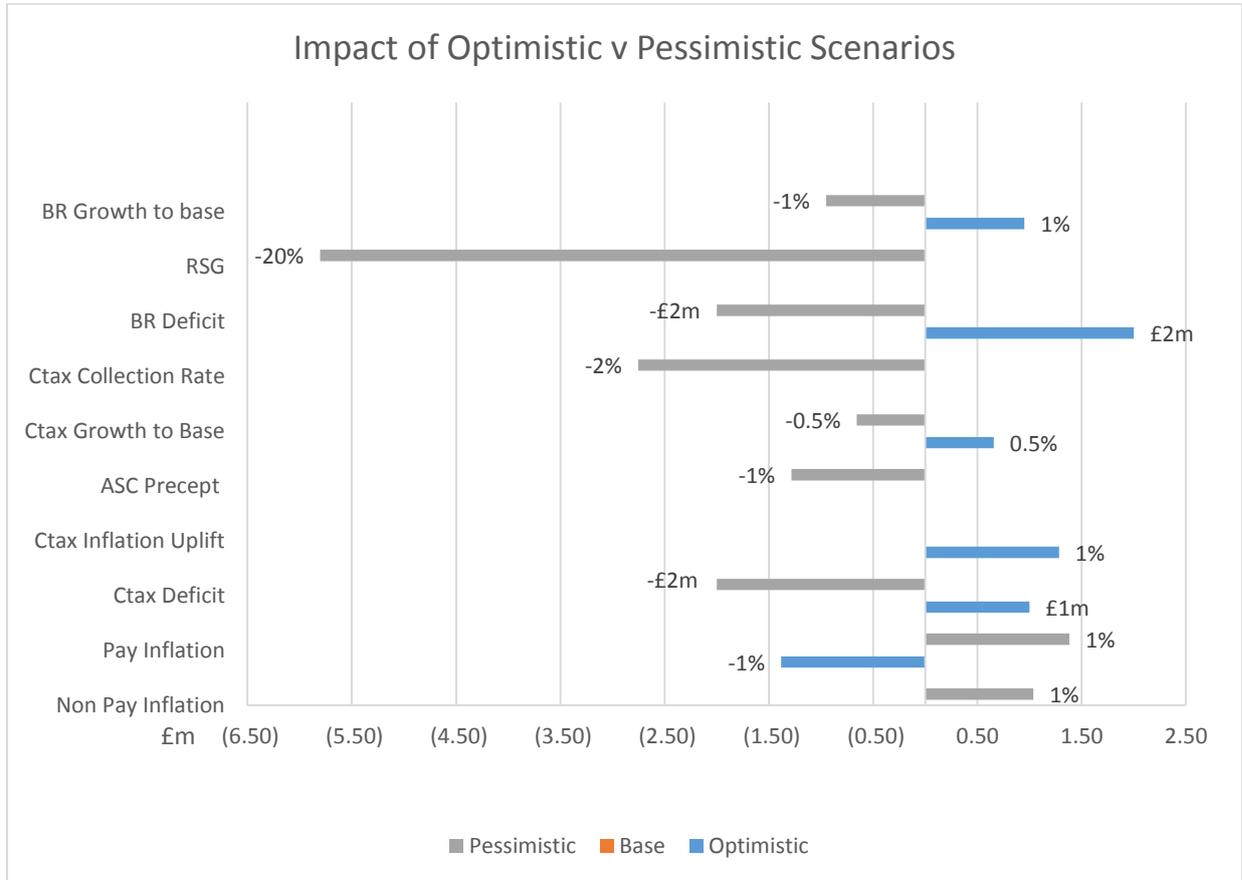
<b>RESOURCE ENVELOPE</b>			
	<b>Main case</b>	<b>Pessimistic case</b>	<b>Optimistic Case</b>
	each year from 2022/23: £2m, £1m, £1m, £1m		
Surpluses/deficits on Collection Fund	<input type="checkbox"/> The collection fund shortfall to be collected over 3 years is assumed to be from 2022/23: £4m, £3m, £2m, and £1m	<input type="checkbox"/> The collection fund shortfall to be collected over 3 years is assumed to be from 2022/23: £6m, £5m, £4m, and £2m	<input type="checkbox"/> The collection fund shortfall to be collected over 3 years is assumed to be from 2022/23: £2m, £1m, £1m, and £0m
<b>EXPENDITURE</b>			
	<b>Main case</b>	<b>Pessimistic case</b>	<b>Optimistic Case</b>
Pay awards	<input type="checkbox"/> 3% in 2023/24 and 2024/25 and 2% each year afterwards	<input type="checkbox"/> 4% in 2023/24, 3% in 2024/25 and 2% each year afterwards	<input type="checkbox"/> 2% in each of the years 2023/24 – 2026/27
General price inflation (incl. fees and charges)	<input type="checkbox"/> % increase each year in non-pay budgets from 2022/23 is: 2.5%, 2.5%, 2% and 2%	<input type="checkbox"/> % increase each year in non-pay budgets from 2022/23 is: 3.5%, 3%, 3% and 2.5%	<input type="checkbox"/> % increase each year in non-pay budgets from 2022/23 is: 2.5%, 2%, 2% and 1.5%
Pressures and risks	<input type="checkbox"/> £5.5m growth in 2023/24, and £4.5m in 2024/25 - 2026/27	<input type="checkbox"/> £5.5m growth in 2023/24, and £4.5m in 2024/25 - 2026/27	<input type="checkbox"/> £5.5m growth in 2023/24, and £4.5m in 2024/25 - 2026/27
New legislation	<input type="checkbox"/> Nothing allowed	<input type="checkbox"/> Nothing allowed	<input type="checkbox"/> Nothing allowed
<b>NB</b> the MTFs assumes that any overspending is addressed in-year or met from reserves			

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**APPENDIX 2 – IMPACT OF EACH ASSUMPTION IN PESSIMISTIC V OPTIMISTIC SCENARIO AND 1% CHANGE TO ASSUMPTION FROM BASE**



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