Mayor and Cabinet

Medium Term Financial Strategy

Date: 19 July 2023

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 over the next four years to present a balanced budget each year.

Mayor and Cabinet is recommended to:

- Note the risks with regards to current year budget reduction measures, the persistent overspends and the uncertainty of future government funding; and the potential for this to impact negatively on the forecast balanced budget position for 2024/25; and
- Agree the 2024/25 to 2027/28 Medium Term Financial Strategy (MTFS) and outline approach being taken to identify budget reduction proposals required to meet the remaining estimated budget gap of £15m over the next four years

Timeline of engagement and decision-making
1 March 2023 – Budget report to Council
21 June 2023 – Financial Outturn for 2022/23 – report to Mayor & Cabinet (M&C)
28 June 2023 – Medium Term Financial Strategy – report to Public Accounts Select Committee
19 July 2023 – First 2023/24 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. Whilst the level of GDP has almost returned to pre-pandemic levels the level of inflation in the UK is not falling as quickly as in the US and Europe. 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 six 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 introduced in 2025/26 or 2026/27 at the earliest.

1.5. Alongside unprecedented levels of economic and fiscal uncertainty in 2023/24 the Council is grappling with persistent overspends from 2022/23 into 2023/24 in certain services (exacerbated by the cost of living crisis, Covid 'lag' and inflationary pressures), as well as prior year undelivered savings carried forward, and additional significant budget reductions for 2023/24. 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 whilst the country seeks to avoid a further recession and grapples with inflation without the clarity or certainty on the levels of funding it can expect beyond March 2024 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 £15m over the four year period of 2024/25 to 2027/28, with a profile of £0m, £5m, £5m, and £5m 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 £13m or up by £15m from the base case of £15m.

1.8. Executive Management Team (EMT) have reviewed the assumptions used and confirmed their intention that officers seek to stabilise the budget over 2023/24, bringing forward over £20m of savings proposals towards the end of the year. Members will then be able to scrutinise the savings options, make strategic choices based on corporate priorities, and agree these in 2024/25. These savings can then be implemented well in advance of the start of 2025/26, ensuring that they can be implemented in a considered and robust way, the full year effect achieved and any prior investment required is available.

2. RECOMMENDATIONS

2.1. Mayor and Cabinet are recommended to:

2.2. Note the risks with regards to current year budget reduction measures, the persistent overspends and the uncertainty of future government funding; and the potential for this to impact negatively on the forecast balanced budget position for 2024/25; and

2.3. Agree the 2024/25 to 2027/28 Medium Term Financial Strategy (MTFS) and outline approach being taken to identify budget reduction proposals required to meet the remaining estimated budget gap of £15m over the next four years.

3. POLICY CONTEXT

3.1. The Council's 2022 to 2026 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.

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:

Cleaner and greener

A strong local economy

Quality Housing

Children and Young People

Safer Communities

Open Lewisham

Health and Wellbeing

3.4. The Medium Term Financial Strategy directly supports the achievement of the Council's corporate priorities by ensuring that the Council remains financially sustainable and stable over the medium term.

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 2024/25 will be presented to Mayor and Cabinet and full Council in February/March 2024.

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 2024/25 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, notable the current high levels of inflation.

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 12 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 will need to make further budget reductions over the next four year period in order to be able to set a balanced budget for each of the respective years in line with its statutory obligation to do so.

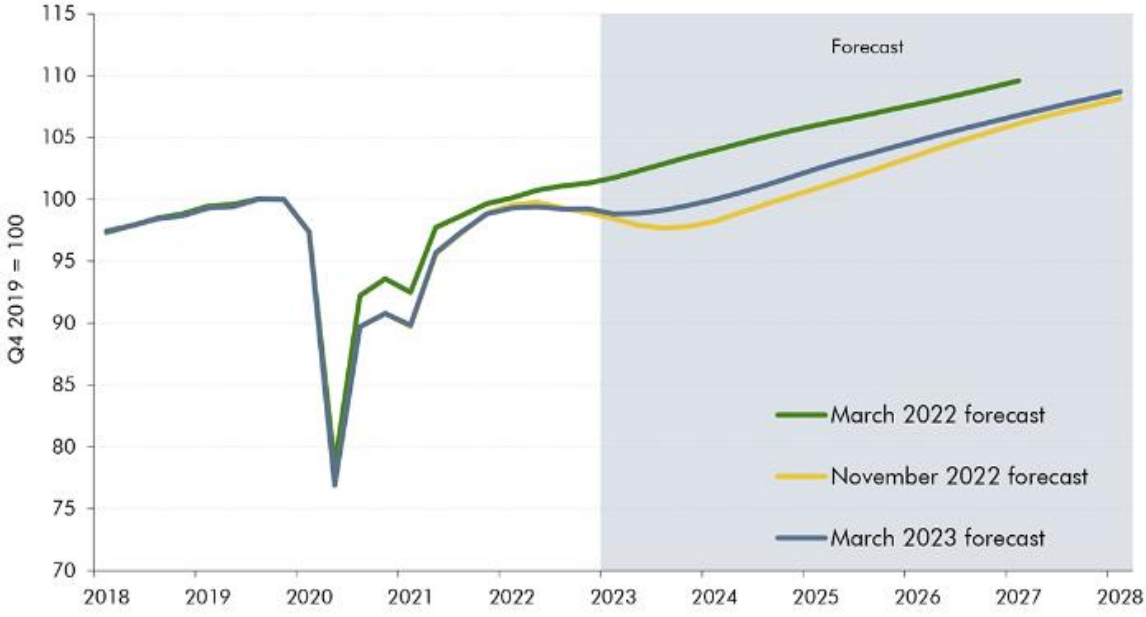
5.5. The focus of the MTFS is the Council's General Fund budget. Whilst it is very important, particularly at a time of prolonged financial constraint, to identify ways in which all services can be delivered more effectively across traditional organisational and financial boundaries, the nature of the 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 and Fiscal Context

5.6. In March 2023 the Office for Budget Responsibility (OBR) published its Economic and Fiscal Outlook, which by and large was more positive than its November 2022 outlook, however the economy still faces significant structural challenges.

5.7. The OBR states that the economy narrowly avoided a technical recession in the second half of 2022 as real GDP fell by 0.2 per cent in the third quarter, but was flat in the fourth quarter. Their forecast it that the economy contracts again in the first quarter of 2023 by 0.4 per cent and GDP is flat in the second quarter as the rise in interest rates, the elevated cost of energy, and an additional bank holiday for the Coronation in May depress output. Growth returns in the second half of 2023 due to the bounce back in activity from the bank holiday and as household energy bills fall. In 2023 as a whole, real GDP falls 0.2 per cent, with private consumption, business investment and net trade all dragging on growth, offset by growth in government consumption. Output regains its pre-pandemic peak in the middle of 2024, six months earlier than expected in November, but more than four years after the start of the pandemic.

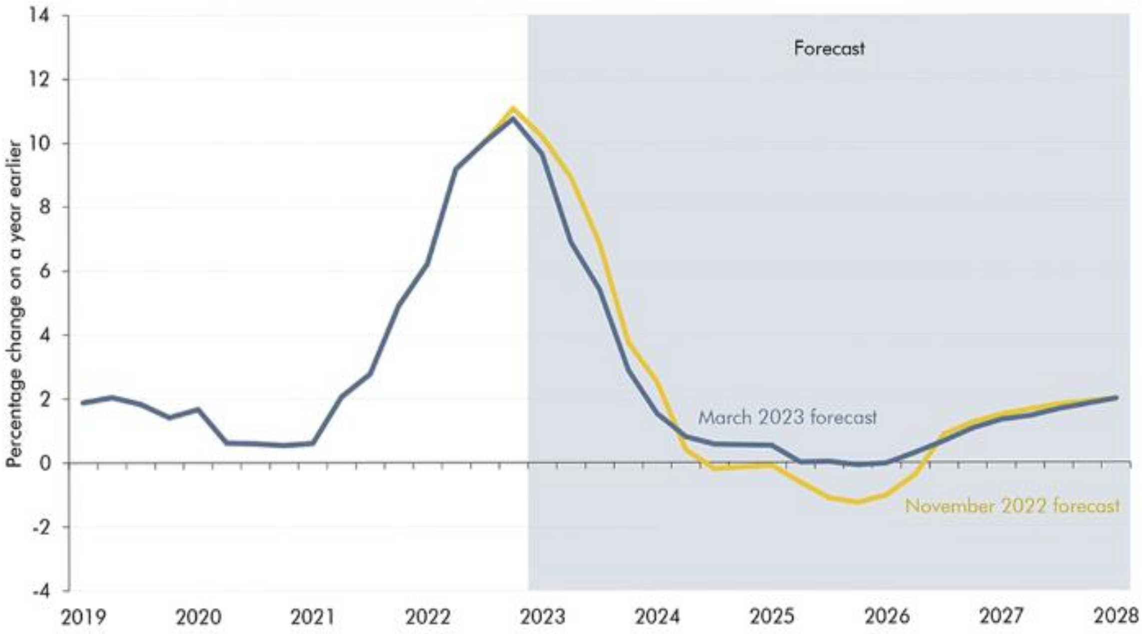
Chart 1.2: Real GDP



Source: ONS, OBR

5.8. CPI inflation peaked at 11.1 per cent in October and is expected to fall sharply to 2.9 per cent by the end of 2023, a more rapid decline than the OBR expected in November. The drop in wholesale gas prices also means that household energy bills are expected to fall below the energy price guarantee limit from July and to £2,200 by the end of the year. Stronger domestically generated inflation means that inflation oscillates around zero in the middle of the decade rather than falling meaningfully into negative territory as was forecast in November. Inflation returns to target in early 2028.

Chart 1.1: CPI inflation



Source: ONS, OBR

5.9. Despite more positive economic news since November, structural weaknesses remain that have been exacerbated by recent shocks:

5.10. **Business investment** has stagnated since 2016, with uncertainty surrounding the UK's future trading relationship with the EU, the pandemic, the energy crisis, and rises in the post-tax cost of capital all weighing on investment decisions since then.

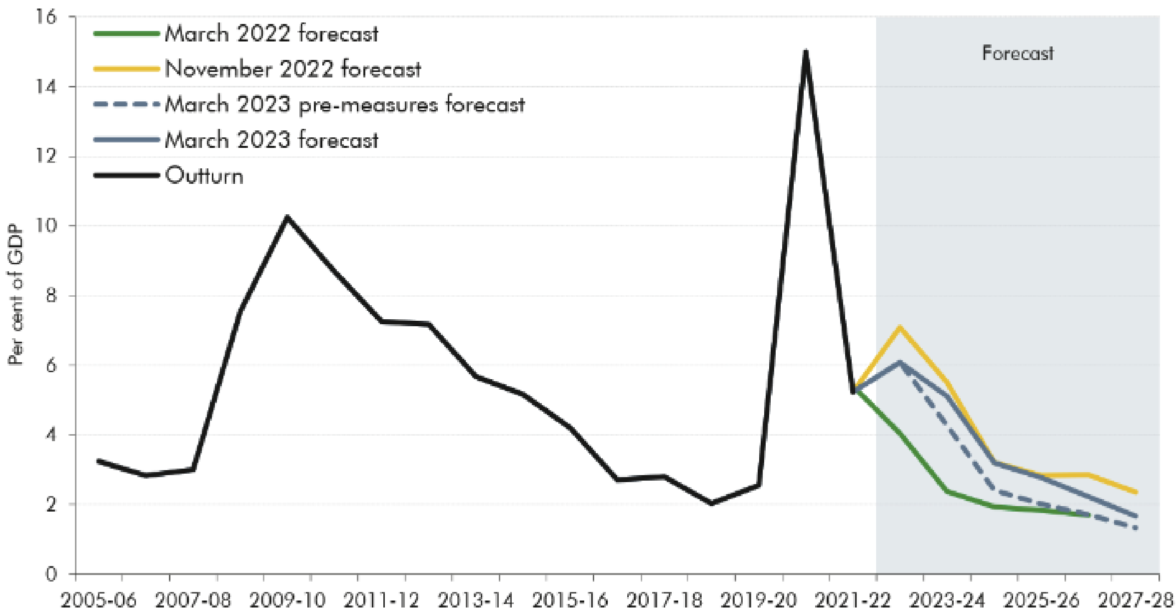
5.11. **Labour market participation**, having risen since 2010 (despite the ageing of the population), has fallen dramatically in the wake of the pandemic, especially among older workers. This has left the total labour force 520,000 people smaller than we expected prior to the pandemic. And population ageing continues to weigh on participation over the forecast period.

5.12. **Productivity** has grown at less than half its pre-financial crisis rate since 2010 and has been disrupted more recently by the pandemic and higher cost of energy. This reflects both the stagnation in business investment and weak growth in total factor productivity.

5.13. The modest improvement in economic prospects between November 2022 and March 2023 has flowed through to a somewhat brighter outlook for the public finances. Public sector net borrowing in 2022-23 is expected to be £152.4 billion, or 6.1 per cent of GDP. This is down £24.7 billion (14 per cent) relative to the November forecast. Headline public sector net debt is expected to finish the year at 100.6 per cent of GDP, 1.2 per cent of GDP lower than forecast in November.

5.14. The latest OBR forecast continues to see the tax burden (the ratio of National Accounts taxes to GDP) reach a post-war high of 37.7 per cent of GDP at the forecast horizon in 2027-28, including the highest ratio of corporation tax receipts to GDP since the tax was introduced in 1965. We also still expect the ratio of public spending to GDP to settle at 43.4 per cent, its highest sustained level since the 1970s.

Chart 1.5: Public sector net borrowing



Source: ONS, OBR

5.15. The OBR states that it is now harder for this Chancellor to deliver a falling path for the debt-to-GDP ratio in the medium term than it has been for any of his predecessors since the OBR was established in 2010. This is due to the combination of: (i) subdued medium-term growth prospects, reflecting post-financial crisis weakness in productivity growth exacerbated by a series of further shocks in the form of the pandemic and rise in energy prices; (ii) a stock of debt that has been pushed to a 60-year high, largely as a result of those shocks; and (iii) interest rates on that higher stock of debt, which have tripled over the past year to their highest level in over a decade.

5.16. It all adds up to a situation in which for any given debt-to-GDP ratio, less can be borrowed without that ratio rising; and for any given level of borrowing, more must be spent on debt interest, leaving less scope to finance other priorities.

Local Government

Local Government funding reform

5.17. 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.

5.18. The final Local Government Finance Settlement for 2023/24 was received in February 2023. This was another one year only settlement pending the Fair Funding Review. However, this also covered some announcements for 2024/25 which were included in the policy statement published on 12th December 2022. With 2023/24 effectively being another roll forward year with some additional grants, the Government has deferred the fundamental review of the way local government is financed until at least 2025/26 financial year, but potentially later, making the planning for a four year period even more challenging.

5.19. 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.

5.20. 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. MTFS 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.
- S31 Grants

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, 2023/24 to 2024/25 to 2027/28

Settlement Funding Assessment	2023/24 Actual	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Main case	**£m**	**£m**	**£m**	**£m**	**£m**
Retained Business Rates	32.39				
Business Rate Top-up	98.71				
Baseline Funding Level (BFL)		134.12	119.83	119.88	119.99
Total SFA	**131.11**	**134.12**	**119.83**	**119.88**	**119.99**

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. The Valuation Office Agency (VOA) updated the rateable values and the most recent revaluation came into effect in England and Wales on the 1 April 2023, and the impact of this, as well as the transitional protection reliefs associated with this formed part of the 2023/24 baseline funding.

6.7. The forecast now assumes that the reforms and the business rates reset will be implemented from 2025/26, which is the earliest date that this could be introduced. 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, £10.71m below the £98m allocated for 2023/24. This means any loss of collection up to £10.71m is borne by the Council directly before becoming a burden on the national pool. The pandemic impacted the collection rate for the borough and whilst this is improving it has not yet returned to pre-pandemic levels and so the model assumes that in three of the four years there is the need to make a contribution to deficits within the collection fund, although 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 work required to fully reform approach to funding is such that the earliest that this could be introduced is 2025/26, or even 2026/27, and therefore the MTFS assumes any impact will now be for the start of 2025/26, although the timing and outcome of the next general election is likely to impact this.

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. Due to exceptionally high levels of inflation, in the Autumn Budget in 2022, Government again lifted the limit to 2.99% in 2023/24 and 2024/25. While recognising that Council Tax is a regressive tax, the MTFS main case assumes that the Council increases council tax levels by 2.99% in 2024/25 and then back at the 1.99% for the remaining three 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. In light of the high cost of care driven by general inflation, and the longer term impact of the pandemic, the Autumn Budget in 2022 allowed local councils to levy a 2% Social Care Precept in 2023/24 and 2024/25, and its has been assumed that a 1% precept will be available in 2025/26. 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. Therefore it may be that the precept falls away once the Social Care Reforms are introduced, which further increases the uncertainty with regards to the ability to forecast the Council's funding envelope post 2024/25.

6.16. In 2023/24 Council Tax was raised by 4.99% in total, the 2.99% core increase and the 2% social care precept increase as set out above. This generated additional funding of £6.5m.

6.17. For 2024/25 the MTFS main case assumes a 4.99% increase again from 2% precept and 2.99% in core Council Tax and then 1.99% in each year thereafter, with a 1% precept in 2025/26 only. This reflects the assumption that the Council will apply the maximum increase allowed without a referendum in 2024/25 and beyond. In addition, the MTFS assumes a 0.5% average increase in the Council Tax base for 2024/25, increasing to 0.75%, 1.25% and 1% for the years 2025/26 - 2027/28, based on Planning Service's housing trajectory. In total over the period this will add approximately £17m to the Council Tax income base over the four year period to 2027/28. The MTFS also acknowledges the impact on collection rates from Covid-19 which dropped significantly. For 2024/25 the MTFS assumes that the rate moves up from the current levels ad achieves 95%, increasing and remaining at 96% for the remaining three years. Given that Council Tax currently makes up circa 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 2024/25 to 2027/28 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

	2024/25 projection	2025/26 projection	2026/27 projection	2027/28 projection
	£m	**£m**	**£m**	**£m**
Optimistic	141.373	148.236	154.577	160.791
Main	**141.373**	**146.797**	**151.590**	**156.152**
Pessimistic	139.885	145.268	150.011	156.152

S31 Multiplier Grant

6.19. For 2016/17 to 2023/24 a Section 31 grant has been provided by Government to compensate local authorities for under-indexation of the business rates multiplier in 2014/15, 2015/16, for the switch to Consumer Price Index (from the Retail Price Index), for the purposes of uprating the multiplier from 2018/19 onwards, and the freezing of the multiplier for 2021/22. In 2023/24 the under-indexation grant has been calculated to increase in line with the change in Consumer Price Index between September 2021 and September 2022, which given the extraordinary levels of inflation have increased this grant in magnitude, to the level where it can be formally incorporated (in arrears) into the annual budget setting process.

6.20. Previously, this grant was at the level where it was utilised primarily to balance any pressures on the collection fund. It is assumed that £10m is available in 2024/25 and £15m for each of the three years thereafter. Any funding reforms leading to the removal of this funding will further increase the budget gap in future years.

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, namely sustained higher than average inflation, including legacy pressures from the Covid-19 pandemic, demand pressures in children's and adults social care and temporary accommodation, and the increase in the contribution to the levy for concessionary fares. This section of the report considers the effect such pressures will have on the future years' revenue expenditure.

Pay

7.2. The pay award for 2022/23 was a flat rate of £1,925 per person (uplifted for the London Weighting allowance) for officers on all JNC pay points 1 and above. This equated to an average of a 5% pay uplift across the Council's staffing and salary bands. The 2023/24 budget assumed the same level of uplift and provided on this basis. The MTFS model assumes a pay award in 2024/25 of 2.5%, 1% in 2025/26 and 2% for 2026/27 and 2027/28, these assumptions match the long term inflation forecasts from the Bank of England.

7.3. The 2023/24 pay offer that has been rejected by the Unions was equivalent to what was offered and accepted for 2022/23 and formed the basis of the budget in 2023/24, officers therefore consider it prudent to assume that the final pay award will be higher than the budget and an allowance of an additional £2m for 2023/24 has been made, this will cause a pressure that requires funding in 2024/25.

General price inflation assumptions

7.4. 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 levels of inflation remain stubbornly high, however, the Office for Budget Responsibility forecasts this returning to the Bank of England long term forecast of 2% by Q1 of 2024, and dropping to 0% in 2025/26. To reflect the lag between actual inflation and the levels contained within the Council's supply chains, the MTFS assumes that price inflation will be 2.5% in 2024/25, dropping to 1% in 2025/26, and then returning to 2% in 2026/27 and 2027/28. Whilst not building the current stubborn levels of inflation into the MTFS base model, the Council is recognising the temporary impact in 2024/25 and has allowed for additional pressures funding of £2m which is equivalent to a further ~2% uplift on net non-salary budgets.

General fees and charges assumptions

7.5. 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

7.6. 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.

7.7. 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.

7.8. 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.

7.9. 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, with £4.5m set aside for 2025/26 – 2027/28.

7.10. Whilst only a single year settlement was provided for 2023/24, the Autumn Budget in 2022 provided some clarity on the expected levels of Government funding for 2023/24 and 2024/25, this has meant that there is some confidence in the level of funding for 2024/25, but it signalled strongly that this growth would be funded via significant reductions from 2025/26 onwards. The confidence in the level of S31 grants expected, the ability to increase council tax levels by 4.99%, and additional expected social care grant (taken in arrears) has meant that the Council can look to fund specific persistent pressures and growth in 2024/25 above the £4.5m allocation.

7.11. This will enable the Council to ensure that it achieves all previously committed savings and removes the persistent overspends which have resulted in an overspend position at outturn. The stabilising of the budget will ensure that the Council services are in a robust position, delivering balanced budget spend in anticipation of the funding reforms and expected resultant reduction in funding assumed in 2025/26 and ensure that the £4.5m of pressures funding allocated in 2025/26 onwards is more likely to be sufficient.

7.12. The table below sets out the pressures which have been allowed for within the MTFS model.

Table 4: Pressures Identified

	2024-25	2025-26	2026-27	2027-28	2028-29
Pressures	£'m	£'m	£'m	£'m	£'m
Concessionary fares increase	4.00	2.50	0.50	0.50	0.50
Corporate Resources persistent pressures	1.09	0.00	0.00	0.00	0.00
CYP persistent pressures	6.40	0.00	0.00	0.00	0.00
ASC persistent pressures	1.50	0.00	0.00	0.00	0.00
Temporary Accommodation persistent pressure	2.00	0.00	0.00	0.00	0.00
Revenue cost of capital delivery	1.00	0.00	0.00	0.00	0.00
Future years unidentified	0.00	2.00	4.00	4.00	4.00
Pressures Funded	**15.99**	**4.5**	**4.5**	**4.5**	**4.5**

Note: * this assumes that the insourcing of Lewisham Homes will be cost neutral for the general fund as covered in the HRA.

7.13. The Council has been notified by TfL that the level of travel of those eligible for concessionary fares has increased and is on target to return to and exceed pre-Covid levels, this has been forecast by TfL and will create an ongoing budget pressure, which is most acute in 2024/25 and 2025/26.

7.14. The 2022/23 budget monitoring has consistently reported persistent overspends in certain services, mainly CSC, ASC and temporary accommodation, it is considered prudent to fund these in 2024/25 given that Government has indicated that funding levels, particularly funding for social care, will increase in 2024/25. The 2022/23 outturn forecast an overspend of circa £25m, offset in the main through corporate resources and remaining Covid grants, which will not be available in 2024/25.

7.15. Therefore the funding of these persistent overspends is required in part to fund the Covid drag where demand has been unable to be taken out of the system, and partly to reflect the impact of this on the achievement of savings. Mayor and Cabinet should note though the requirement remains that agreed savings are delivered in full.

7.16. The current cost of borrowing, coupled with the high levels of inflation, and the wider aims of regeneration mean that not all capital schemes planned for delivery will be able to self-finance, or that some schemes will be delayed, therefore an allowance of £1m has been made to reflect a combination of the cost of increased borrowing on the Council’s balance sheet or the write off of capital costs to revenue for delays.

Specific grant assumptions

7.17. 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 £26.91m in 2023/24, an increase of £0.85m from 2022/23. 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. The 2023/24 funding is yet to be finalised.
- **Improved Better Care Fund (iBCF)** – In 2023/24, the iBCF remained flat at £14.9m, the same as in 2022/23. 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 ICB. The grant is likely to be spent in substantially the same way as in 2022/23.
- **Social Care grant** - the final Local Government finance settlement in February 2023 committed £1,506m more for Social Care grant nationally for 2023/24. This has increased Lewisham's final grant from £14.622m in 2022/23 to £23.402m in 2023/24 (a 60% increase) with the discretion to spend this on both adults and children social care. There was also an uplift of £3.85m in the previous year, and in the 2022/23 budget £1.95m 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 2024/25 this £1.9m be taken into base budget. Given the scale of the Social Care grant the decision was taken in the 2023/24 budget to build this into the base funding for services, meaning that the Council is now more reliant on its continuation at at least the level of 2023/24. There is a risk that the delayed Social Care Reforms may reduce this when eventually implemented, although it is assumed that this funding will be rolled up into the new funding allocations. Whilst the Autumn Budget in 2022 signalled that there would be further growth in Social Care funding in 2024/25, it is not considered prudent to build into the MTFS model.
- **Other grants –** the Council receives a number of other revenue grants, the most recent and significant being the £3.85m Services Grant first received in 2022/23 at £6.56m, however this is labelled as 'once off' and so is not built into any future budget models. 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

7.18. 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>

7.19. 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.

7.20. 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 usually 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. However, as set out in paragraph [7.16] above, the scale of the capital programme ambition, or the impact of further delay due to inflation, means that it is assumed that a further £1m will be required for either new borrowing costs or revenue costs not able to be capitalised.

7.21. 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.

<u>Levies</u>

7.22. 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.

<u>Added years pension costs</u>

7.23. 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.

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 5 below:

Table 5: Summary of Projected Financial Position

	Optimistic Case				Main Case				Pessimistic Case			
	2024/25	**2025/26**	**2026/27**	**2027/28**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Business Rates Baseline Funding Level	134.490	129.526	130.169	130.921	**134.490**	**119.832**	**119.882**	**120.154**	133.503	116.109	112.630	109.847
BR S31 Grant (RPI to CPI adjustment)	10.000	15.000	15.000	15.000	**10.000**	**15.000**	**15.000**	**15.000**	10.000	15.000	15.000	15.000
Business Rates Collection Fund losses	(0.000)	(0.000)	(0.000)	(0.000)	**(0.000)**	**(1.000)**	**(1.000)**	**(1.000)**	(0.000)	(1.000)	(2.000)	(2.000)
Council Tax raised	141.373	148.236	154.577	160.791	**141.373**	**146.797**	**151.590**	**156.152**	139.885	145.268	150.011	156.152
Council Tax Collection Fund losses	(0.000)	(1.000)	(1.000)	(1.000)	**(0.000)**	**(1.000)**	**(1.000)**	**(1.000)**	(0.000)	(1.000)	(1.000)	(1.000)
Total Resources	285.863	291.763	298.746	305.712	**285.863**	**279.629**	**284.472**	**289.143**	283.388	274.376	274.640	277.999
Total Revenue Expenditure	286.101	285.668	301.551	308.640	**288.101**	**285.668**	**289.418**	**294.366**	287.378	284.521	285.552	285.983
Budget Gap	0.238	(6.094)	2.806	2.928	**2.238**	**6.039**	**4.946**	**5.223**	3.990	10.145	10.912	7.984
Approved Savings	(2.315)	(0.850)	0.000	0.000	(2.315)	(0.850)	0.000	0.000	(2.315)	(0.850)	0.000	0.000
Additional Annual Savings Required	**(2.077)**	**(6.944)**	**2.806**	**2.928**	**(0.077)**	**5.189**	**4.946**	**5.223**	**1.675**	**9.295**	**10.912**	**7.984**
Cumulative Savings Required	**(2.077)**	**(9.021)**	**(6.944)**	**2.924**	**(0.077)**	**5.112**	**10.058**	**15.281**	**1.675**	**10.970**	**21.882**	**29.866**

8.2. Taking the main case scenario as the expected position, the MTFS shows the annual measures required to bridge the budget gap from 2024/25 to 2027/28 as (£0.077m), £5.189m, £4.946m and £5.223m, respectively in each year. A total of £15.281m over the four years to 2027/28.

8.3. It is important to note two things. Firstly, any of the pressures not addressed in service spending through 2023/24, or funded through the growth allocated in 2024/25 will result in a cuts target for 2024/25 rather than the balanced budget forecast. Secondly, the cuts offered up in 2021/22 and 2022/23 for 2024/25 and 2025/26, £2.315mm and £0.850m 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 2027/28 reduces by approximately £13m to £3m. This is based on lower predicted cuts to baseline funding and higher increase in the Council Tax collection rates.

8.5. The pessimistic case scenario reflects the impact of certain risks having a more severe impact. The cumulative budget gap to 2027/28 increases by approximately £15m to £30m. This scenario demonstrates the difficulty the Council could potentially face if the impact of funding cuts are higher and Council Tax 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 £12.5m of new budget reductions taken into the budget for 2023/24, while also managing the challenges of continued high inflation and demand pressures. This work is discussed more fully in the P2 financial monitoring reported to Mayor & Cabinet on the 19 July 2023.

9.2. Given that the base case model for 2024/25 indicates a balanced budget for 2024/25 a budget reduction process is not required for that year. However, the proposal is that during 2023/24 officers undertake a targeted internal budget process focusing on high volume / high value services, including benchmarking activity data to review current levels of expenditure to ensure that the 2023/24 budget can be stabilised and remain balanced in 2024/25.

9.3. During the latter part of the year, the savings process will commence, including Member engagement, with the aim of identifying at least £20m of savings for the period 2025/26 – 2027/28. The level of savings targeted is greater than the forecast required £15m to enable Members to be able to make choices in terms of which items to approve for implementation.

9.4. This will be a targeted approach to developing savings from strategic service changes over more than one year. The process will not be one of seeking blanket savings, setting targets nor taking a themed approach.

9.5. These options will be scrutinised and agreed in 2024/25, so that officers can begin the work of implementing these in advance of the start of 2025/26 to ensure that the full year effect can be achieved and enabling any necessary prior investment for those items which may be invest-to-save schemes.

9.6. If more savings than required are taken then this will enable greater funding of new pressures arising, beyond the funding of inflation assumed in the MTFS.

9.7. The progress of the budget stabilisation and savings identification will be robustly monitored and reported via the regular financial monitoring. A further specific update may be brought forward depending on both internal progress and any announcements by Government in either the Chancellor's Autumn Budget or the provisional Local Government Finance Settlement.

9.8. 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.

10. RISKS

10.1. There are a number of risks facing the Council in setting its MTFS for the period 2024/25 to 2027/28. The key issues are discussed below.

10.2. As set out above, whilst the Autumn Budget made certain commitments for the current spending round (ending in 2025/26) Government provided only a one year settlement for 2023/24. Furthermore the Budget suggested that the growth provided in the current spending round would be funded via reductions in spending in future spending rounds. **Therefore officers are reasonably confident in the forecasting for 2024/25, but have had to make assumptions for the remaining four year period in the MTFS, and therefore the modelling for 2025/26 – 2027/28 is heavily caveated and uncertain.**

10.3. The UK levels of inflation are not decreasing as quickly as the US and Europe, and there is generally a lag between actual CPI and both public sector pay and contract costs, whilst some allowance has been made for this there remains real risk associated with these economic factors.

10.4. The Funding Reforms to Business Rates and the Social Care funding reforms have been further delayed and are not expected until 2025/26 at the earliest which introduces further risk and uncertainty. The scale of social care funding is increasing and Local Government grows ever more reliant on both local taxes and the various social care grants (iBCF, BCF, PH, SCG, market sustainability) to support services.

10.5. There also remains the significant risk that the general fund may be required to support both the HRA and schools budget. The housing repairs and maintenance costs required to meet the decent homes standard may be unable to be accommodated within the HRA budgets, and the SEN and transport costs may similarly fall to the general fund. The statutory override (which ringfences the current circa £11m schools deficit to schools reserve) may be lifted, meaning that the general fund reserves will be required to fund this.

10.6. 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 2027/28.

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 £15m of budget reductions over the next four years, on top of the £2.315mm and £0.85m already put forward in 2021/22 and 2022/23 for 2024/25 and 2025/26.

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, and that the persistent budget overspends arising in 2022/23 and continuing into 2024/25 are reduced and managed to stabilise the Council back to a balanced budget outturn.

11.5. The Council will then start preparing savings for the latter three years in the Autumn, adjusted as necessary as Government produces its Autumn Budget and provisional Local Government Finance Settlement, and bring these forward for scrutiny and decision making well in advance of 2025/26 to ensure that there is both choice in which saving to take as well as sufficient time for robust and careful implementation. The timetable in section 9 above allows for this process to be undertaken.

11.6. 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 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 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 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 2023/24 – Full Council 1 March 2023

Lewisham Council - Agenda for Council on Wednesday, 1st March, 2023, 7.30 pm

18.2. Financial Results 2022/23 – Mayor & Cabinet 21 June 2023

Lewisham Council - Agenda for Mayor and Cabinet on Wednesday, 21st June, 2023, 6.00 pm

19. GLOSSARY

Term	Definition
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.

Term	Definition
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.
Clinical Commissioning Group (CCG)	Clinical Commissioning Groups (**CCGs**) 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.
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.

Term	Definition
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 31 March.
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.

Term	Definition
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.

20. REPORT AUTHOR AND CONTACT

20.1. For more information please contact David Austin, Director for Finance, 1st Floor Laurence House, 020 8314 9114, David.Austin@lewisham.gov.uk.

20.2. Katharine Nidd, Head of Strategic Finance, Planning and Commercial, 4th Floor Laurence House, 020 8314 6651, Katharine.Nidd@lewisham.gov.uk.

APPENDIX 1 – SUMMARY OF MTFS ASSUMPTIONS

RESOURCE ENVELOPE			
	Main case	**Pessimistic case**	**Optimistic Case**
Notional Revenue Support Grant	□ 2024/25 7.4% inflation change to 2023/24 levels, 45% reduction in 2025/26, thereafter further 5% reduction assumed each year	□ 2024/25 0% inflation change to 2023/24 levels, 50% reduction in 2025/26, thereafter further 20% reduction assumed each year	□ 2024/25 7.4% inflation change to 2023/24 levels, 20% reduction in 2025/26, thereafter further 5% reduction assumed each year
Business Rates	□ 1% real terms increase in 2024/25, and then 1% increase for each further year on the rateable value base and top-up □ £10m S31 grant in 2024/25 and £15m S31 grant in each year thereafter	□ 0% real terms increase in 2024/25, and then 0% increase for each further year on the rateable value base and top-up □ £10m S31 grant in 2024/25 and £15m S31 grant in each year thereafter	□ 1% real terms increase in 2024/25, and then 2% increase for each further year on the rateable value base and top-up □ £10m S31 grant in 2024/25 and £15m S31 grant in each year thereafter
Council Tax income	□ In 2024/25 2.99% change in Council Tax level and 2% Social Care precept), thereafter a 1.99% change in the CTax level each year and a 1% ASC precept	□ In 2024/25 1.99% change in Council Tax level and 2% Social Care precept), thereafter a 1.99% change in the CTax level each year. □ % increase each year in Council Tax base from 2023/24	□ In 2024/25 2.99% change in Council Tax level and 2% Social Care precept), thereafter a 1.99% change in the CTax level each year and a 1% ASC precept in every year after. □ % increase each

RESOURCE ENVELOPE			
	Main case	**Pessimistic case**	**Optimistic Case**
	in 2025/26 only. % increase each year in Council Tax base from 2023/24 onwards is: 0.5%, 0.75%, 1.25%, 1% and 1% CT collection rate each year from 2023/24 onwards is: 95%, 96%, 96%, 96% and 97% CTRS changes do not increase nor decrease the cost of the scheme in any year	onwards is: 0.5%, 0.75%, 1.25%, 1% and 1% CT collection rate each year from 2023/24 onwards is: 94%, 95%, 95%, 96% and 96% CTRS changes do not increase nor decrease the cost of the scheme in any year	year in Council Tax base from 2023/24 onwards is: 0.5%, 0.75%, 1.25%, 1% and 1% CT collection rate each year from 2023/24 onwards is: 95%, 96%, 96%, 96% and 97% CTRS changes do not increase nor decrease the cost of the scheme in any year
Surpluses/deficits on Collection Fund	The collection fund shortfall to be collected over 3 years is assumed to be from 2023/24: £0m, £2m, £2m, £2m and £2m	The collection fund shortfall to be collected over 3 years is assumed to be from 2023/24: £0m, £2m, £3m, £3m and £2m	The collection fund shortfall to be collected over 3 years is assumed to be from 2023/24: £0m, £1m, £1m, £1m and £0m
Grants: - Improved Better Care Fund - Social Care Grant - Better Care Fund - Public Health - Market Sustainability and Discharge	Total circa £80m – assumes it stays flat £14.9m £23.4m £10m £26.6m £5.3m Assuming DSG self funds	Change in RNF basis for distribution - £8m loss Assuming DSG self funds	Inflation at half of CPI 1.25% in 2024/25, 0.5% in 2025/26 and 1% each year afterwards Assuming DSG self funds
EXPENDITURE			

RESOURCE ENVELOPE			
	Main case	**Pessimistic case**	**Optimistic Case**
	Main case	**Pessimistic case**	**Optimistic Case**
Pay awards	2.5% in 2024/25, 1% in 2025/26 and 2% each year afterwards £2m for unfunded 2023/24 pay award in 2024/25	3% in 2024/25, 1.5% in 2025/26 and 2.5% each year afterwards £2m for unfunded 2023/24 pay award in 2024/25	2.5% in 2024/25, 1% in 2025/26 and 2% each year afterwards £2m for unfunded 2023/24 pay award in 2024/25
General price inflation (incl. fees and charges)	% increase each year in non-pay budgets from 2023/24 is: 2.5% in 2024/25, 1% in 2025/26 and 2% each year afterwards	% increase each year in non-pay budgets from 2023/24 is: 3% in 2024/25, 1.5% in 2025/26 and 2.5% each year afterwards	% increase each year in non-pay budgets from 2023/24 is: 2.5% in 2024/25, 1% in 2025/26 and 2% each year afterwards
Pressures and risks	£16m in 2024/25 and £4.5m in 2025/26 – 2028/29	£16m in 2024/25 and £4.5m in 2025/26 – 2028/29	£16m in 2024/25 and £4.5m in 2025/26 – 2028/29
New legislation	Nothing allowed	Nothing allowed	Nothing allowed
Demographic Change	Nothing allowed	Nothing allowed	Nothing allowed
NB the MTFS assumes that any overspending is addressed in-year or met from reserves			

Is this report easy to understand?
Please give us feedback so we can improve.
Go to https://lewisham.gov.uk/contact-us/send-us-feedback-on-our-reports