



Public Accounts Committee

Medium Term Financial Strategy Update

Date: 30 November 2023

Key decision: No

Class: Part 1

Ward(s) affected: All

Contributors: Acting Executive Director for Corporate Resources, Acting Director of Finance

Outline and recommendations

The purpose of this report is an update of the medium term financial position for the Council over the next four years. The Medium Term Financial Strategy was agreed by Mayor and Cabinet on the 19 July 2023, and has now been updated in terms of 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.

Public Accounts Committee is recommended to:

- Note the risks with regards to current year budget reduction measures, the work by officers to reduce the persistent overspends, the uncertainty of future government funding; and the potential for this to impact negatively on the Council's ability to set a balanced budget position for 2024/25; and
- Note the updated 2024/25 to 2027/28 Medium Term Financial Strategy (MTFS) and that the estimated budget gap has increased from £15m to £25m over the years 2026/27 to 2028/29.

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

19 July 2023 - Medium Term Financial Strategy to M&C

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 2026/27 at the earliest.
- 1.5. Alongside unprecedented levels of economic and fiscal uncertainty in 2023/24 the Council continues to grapple with persistent overspends from 2022/23 into 2023/24 in certain services (exacerbated by the cost of living crisis and inflationary pressures), as well as 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 has set its medium term financial plan whilst the country seeks to

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avoid a further recession 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 continue to be tested and reviewed as future funding announcements and general economic forecasts are themselves revised and updated. This is the purpose of this review In November 2023.

- 1.7. The current base case assumptions produce an assumed budget gap of £25m over the three year period of 2026/27 to 2028/29, which has increased from the estimated £15m in July for the same period, and which reprofiles this with the largest savings of circa £16m in 2026/27.
- 1.8. Executive Management Team (EMT) have reviewed the assumptions used in July and the updates now made to these and are working to implement both in year reductions and reductions for 2024/25 to ensure that the growth allocated via the MTFS will be sufficient and enable the setting of a balanced budget. The MTFS assumes that any in year overspends are reduced, and officers continue to work on this, however the scale of the service changes needed to ensure that these are permanent but sustainable measures means that it may be necessary to use reserves to set a balance budget in 2024/25 as an interim measure.

RECOMMENDATIONS

- 2.1. The Public Accounts Select Committee are recommended to:
- 2.2. Note the risks with regards to current year budget reduction measures, the work by officers to reduce the persistent overspends, the uncertainty of future government funding; and the potential for this to impact negatively impact on the Council's ability to set a balanced budget position for 2024/25; and
- 2.3. Note the updated 2024/25 to 2027/28 Medium Term Financial Strategy (MTFS) and that the estimated budget gap has increased from £15m to £25m over the years 2026/27 to 2028/29.

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

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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.

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

ECONOMIC CONTEXT

- 5.1. 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

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- that the final agreed 2024/25 Budget reflects all these considerations.
- 5.2. 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 global economic drivers impacting the cost of goods and services, notable the continuing current high levels of inflation which are only just starting to reduce and now at 4.6%.
- 5.3. 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 as shown in the continuing pressures on Adult social care, Children's care and temporary accommodation for the homeless. Faced with higher costs, more demands, and lower anticipated income the Council continues to have 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.
- 5.4. 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.

Local Government

Local Government funding reform

- 5.5. 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.
- 5.6. 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 with this not now expected before 2026/27 making the planning for a four year period even more challenging.
- 5.7. On business rates, the Non Domestic Rating Act 2023 of October 2023 sets out some key changes from 1 April 2024, the most notable being the separation of the small business and standard multipliers and the ability for government to make changes to each of these independently. At the time of writing it is not known what the impact of this will be as government has not announced what the multipliers will be and how this will impact on the baseline funding levels or whether there will be any transitional relief.

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- 5.8. 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.

MTFS ASSUMPTIONS

- 6.1. Included in Appendix 1 is the table showing the changes to the July MTFS base case assumptions to update them in October, this covers both assumptions for the resource envelope available and revenue expenditure.
- 6.2. The table below sets out the forecast main case resource envelope for the MTFS period and how this has changed from July 2023 to October 2023.

	2024-25	2025-26	2026-27	2027-28	2028-29
	£'m	£'m	£'m	£'m	£'m
Resource Envelope – July 2023					
SFA - roll over of RSG with inflation uplift in 24/25	134.49	119.83	119.88	119.99	120.15
S31 Grant contribution	10.00	15.00	15.00	15.00	15.00
Council Tax raised	141.37	146.80	151.59	156.15	162.53
Collection Fund Deficits	0.00	-2.00	-2.00	-2.00	-2.00
ASC Precept (incl in above)	2.83	1.50	0.00	0.00	0.00
Social Care Grant uplift taken into base	1.95	4.05	0.00	0.00	0.00
Total Resources	287.81	283.68	284.47	289.14	295.68

	2024-25	2025-26	2026-27	2027-28	2028-29
	£'m	£'m	£'m	£'m	£'m
Resource Envelope – October 2023					
SFA - roll over of RSG with inflation uplift in 24/25	134.26	135.26	120.71	120.78	120.90
S31 Grant contribution	15.00	15.00	15.00	15.00	15.00
Council Tax raised	141.64	148.51	153.37	157.98	164.43
Collection Fund Deficits	0.00	-2.00	-2.00	-2.00	-2.00
ASC Precept (incl in above)	2.83	1.50	0.00	0.00	0.00
Social Care Grant uplift taken into base	1.95	4.05	0.00	0.00	0.00
Total Resources	292.85	300.82	287.08	291.76	298.33
Change: increase/(decrease)	5.04	17.14	2.61	2.62	2.65

- 6.3. Unlike prior years where S31 grant has only been included in the budget to balance the pressures on the collection fund, this is now being used to fund base service budgets, and the contribution in 2024/25 has been increased by a further £5m since July. Any funding reforms leading to the removal of this funding will further increase the budget gap in future years. The known uplift in Social Care grant has also been taken into the budget a year in arrears.
- 6.4. A further key change from the July MTFS is the further one year delay to the

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introduction of the Fair Funding Review, which effectively pushes the assumed sharp drop in government funding back to 2026/27.

REVENUE EXPENDITURE ASSUMPTIONS

- 7.1. In addition to the reduction in the level of resources available over the next four years, the Council continues to face a number of budget pressures which add to the overall revenue expenditure, including demand pressures in children's and adults social care and temporary accommodation. This section of the report considers the effect such pressures will have on the future years' revenue expenditure.

Pay

The pay award for 2023/24 was a flat rate of £2,325 per person (including the Inner London Weighting allowance) for officers on all JNC pay points 1 and above up to scale point 50 with 3.88% for officers on scale points above scale point 50. The allowance made in the MTFS in July of an additional £2m for 2024/25 is sufficient to fund the pressure of the 2023/24 pay award in 2024/25. The MTFS model has been modified and assumes a pay award in 2024/25 of 4.0%, an increase from the 2.5% assumed in July due to the scale of the current award and the slower than expected decline in inflation.

General price inflation assumptions

- 7.2. 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. The July MTFS assumed 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. In addition, to reflect the lag in inflation through the Council's supply chain a further £2m was allowed for in 2024/25. This approach has been adjusted in the latest MTFS assumptions, to increase the allowance to 4.0% in 2024/25, dropping to 2% in each of the following years, again to reflect the slower than expected decrease in inflation, but has removed the £2m additionality.

General fees and charges assumptions

- 7.3. 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

- 7.4. 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.
- 7.5. 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.
- 7.6. 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.

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- 7.7. To enable the Council to recognise these pressures and risks in a flexible way as they arise, 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 funds set aside for 2025/26 – 2027/28.
- 7.8. For 2024/25, in the July MTFS allowance was made for those areas with persistent demand pressures which were nationally agreed to be in large part outside of any one individual local authority's control, as well as specific pressures which required additional budget. During the course of the year these areas have continued to overspend to a level where it has been deemed prudent to seek to increase the pressures funding allocation, as well as start a corporate process to identify savings as mitigations.
- 7.9. The table below sets out the pressures which have been allowed for within the MTFS model and how they have changed from July to October.

Table 4: Pressures Identified July

	2024-25	2025-26	2026-27	2027-28	2028-29
Pressures	£'m	£'m	£'m	£'m	£'m
Pay Inflation - current year*	3.64	1.49	3.01	3.07	3.13
Non-pay inflation	2.75	1.13	2.28	2.32	2.37
Pay inflation of more than 5% for 2023/24	2.00	0.00	0.00	0.00	0.00
Non-pay inflation and energy pressure lag	2.00	0.00	0.00	0.00	0.00
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
CSC 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
Reverse energy	0.00	-3.27	0.00	0.00	0.00
Pressures Funded	26.37	3.85	9.79	9.89	10.00

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

October 2023	2024-25	2025-26	2026-27	2027-28	2028-29
Pressures	£'m	£'m	£'m	£'m	£'m
Pay Inflation - current year*	5.82	3.03	3.09	3.15	3.21
Non-pay inflation	4.40	2.29	2.33	2.38	2.43
Pay inflation of more than 5% for 2023/24	2.00	0.00	0.00	0.00	0.00
Non-pay inflation and energy pressure lag	0.00	0.00	0.00	0.00	0.00
Concessionary fares increase	2.50	2.00	1.70	0.50	0.50
Corporate Resources persistent pressures	1.09	0.00	0.00	0.00	0.00

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CEX legal pressures	1.00	0.00	0.00	0.00	0.00
CSC 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	5.30	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	2.50	2.80	4.00	4.00
Reverse energy	0.00	-3.27	0.00	0.00	0.00
Pressures Funded	31.01	6.54	9.92	10.03	10.14

- 7.10. Since July the Council has been notified by TfL that the level of travel of those eligible for concessionary fares will increase and is on target to return to and exceed pre-Covid levels, but not at the pace previously forecast and so the profiling of this pressure has been amended in the above table.
- 7.11. The 2023/24 budget monitoring has reported persistent pressures in certain services, mainly CSC, ASC and temporary accommodation, it was considered prudent to fund these as pressures in 2024/25. However, since July these overspends have continued to increase and are in excess of the funding allocation for next year, and so EMT have agreed that the revised MTFS would seek to increase these. However, the overspend forecasts exceed the revised increases in pressures funding, therefore (based on current forecast outturn) the Council will need to either permanently reduce these pressures or identify new savings of £13.5m to ensure that the Council can stay within the resource envelope for 2024/25 and therefore set a balanced budget.
- 7.12. 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, therefore an allowance has been made to reflect the cost of increased borrowing on the Council's balance sheet.
- 7.13. For future years beyond 2024/25, only pay and non-pay inflation has been specifically modelled, with an envelope of £4.5m provided to fund the concessionary fares and other as yet unidentified pressures.
- 7.14. The £3.27m of increased budget for energy costs has been removed from base budget in 2025/26.
- 7.15. For 2023/24 there are £12.6m of savings budgeted for, plus the £2.3m of savings offered up and budgeted for in 2024/25, collectively totalling £14.9 which the MTFS assumes to be delivered in full.
- 7.16. Any non-achievement of the cumulative savings of £14.9m, or the new savings identified, will mean that the budget gap in 2024/25 and future years will increase.

GENERAL FUND BUDGET GAP

- 8.1. Utilising the 2023/24 budget as the starting point of the financial modelling, and then applying the original and updated resource and pressures funding, and savings already committed, the annual budget gap (or surplus) is set out in the table below for both the position in July 2023 and the latest position.

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Table 4: Future Year Budget Gap Projections – (surplus) / deficit

	2024/25 projection	2025/26 projection	2026/27 projection	2027/28 projection
	£m	£m	£m	£m
July 2023	(0.077)	5.189	4.946	5.223
October 2023	(0.487)	(0.957)	16.350	5.345
Difference	(0.410)	(6.146)	11.404	0.122

- 8.2. The forecast in July was for a small surplus in 2024/25, but that for all future years there remains a budget gap (and therefore savings target) of circa £5m per annum. The change to the delay in the FFR has now changed this to increase the shortfall in 2026/27, and due to the increase in pressures funding in 2024/25 has meant that the total gap is now circa £25m over the four year period instead of £15m.
- 8.3. It is important to note two things. Firstly, the current level of overspend pressures are not funded in full through the growth allocated in 2024/25, and therefore the Council will need to identify reductions to offset this and if not this 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, £2.315m and £0.850m respectively, are included within these MTFS figures. If these are not delivered then the budget gap increases proportionately.
- 8.4. The next section of this report looks at how the Council continues to address the gap in order to produce a balance budget.

ADDRESSING THE BUDGET GAP AND TIMETABLE

- 9.1. Officers continue to work on implementing the £12.5m of budget reductions taken into the budget for 2023/24, while also managing the challenges of continued high inflation and demand pressures.
- 9.2. The initial MTFS was predicated on the assumption that the growth in 2024/25 would be sufficient to meet the persistent pressures in ASC, CSC and temporary accommodation. However, the current forecast outturn demonstrates that the levels of funding would not be sufficient, this has led to EMT commencing an in year process to identify and implement £13.5m of savings or growth reductions.
- 9.3. The response has been positive and officers have identified measures to close more than half of the gap for 2024/25. However, there is further work required which officers continue with, and given the scale of the challenge and the trend of increasing overspend forecast, it is necessary that this is a targeted approach to developing savings from strategic service changes over more than one year and possibly requiring prior investment for those items which may be invest-to-save schemes linked to the transformation of service delivery as opposed to budget and service reductions.
- 9.4. 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.
- 9.5. Given that this may require longer lead in times to identify and implement savings measures that are both permanent and sustainable, it may be necessary to use reserves to set a balance budget in 2024/25 as an interim measure.

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RISKS

- 10.1. There are a number of risks facing the Council in updating its MTFS for the period 2024/25 to 2027/28. The key issues are discussed below.
- 10.2. As set out above, the previous Autumn Budget made certain commitments for the current spending round (ending in 2025/26) Government provided only a one year settlement for 2023/24. Although it is expected that 2024/25 will again be another rollover year due to the delay in the Fair Funding Reform and therefore not much is anticipated to change in the next Autumn Statement on 22 November 2023. 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 – 2028/29 is heavily caveated and uncertain.**
- 10.3. Based on the previous Autumn Statement it has been assumed that the Council Tax increase limit will again be lifted from 1.99% to 2.99% to reflect the stubborn levels of inflation in the UK. In addition to this it is also anticipated that Council's will have the ability to levy an Adult Social Care precept, at an assumed rate of 2%. This is expected to be confirmed in the 2023 Autumn Statement on 22 November. It is assumed that the GLA will raise its precept by more than inflation as done in previous years.
- 10.4. The Funding Reforms to Business Rates and the Social Care funding reforms have been further delayed and are not expected until 2026/27 which introduces further risk and uncertainty. However the new Non-Domestic Ratings Act introduced passed in October 2023 and effective from 1 April 2024 provides for separator multipliers to be applied to the small and standard rates, and that these can be independently changed and increased. Government's intentions for these are not yet known and therefore there is uncertainty as to what the impact will be on the Baseline Funding Level for individual Councils and how this will flow through to the Settlement Funding Assessment provided by Government. The impact of this will not be known until later in the year or early 2024.
- 10.5. 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.
- 10.6. 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 hence the request for budget savings of at least 10% on the HRA budget, and the SEN and transport costs may similarly fall to the general fund. The statutory override (which ringfences the current circa £13m schools deficit to schools reserve) may be lifted, meaning that the general fund reserves will be required to fund this. It is assumed that rents will be raised in line with CPI plus 1% (7.7%) although Government may again choose to cap this at 7%.
- 10.7. The MTFS assumes that the Council will increase its sales fees and charges levels by CPI inflation, and that this will lead to an increase in income to in part support inflationary growth in expenditure budgets.

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CONCLUSION

- 11.1. The Medium Term Financial Strategy set 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. These assumptions have been refined based on developments both internal and external to the Council and the MTFS updated.
- 11.3. The budget gap over the four year period has increased from £15m to £25m, assuming the delivery of the previously agreed savings and the permanent removal of the current overspend via in year budget reductions. The biggest change has been that £16m of these savings now fall in 2026/27.
- 11.4. The current year overspend forecast has continued to increase throughout the year to the point where this exceeds even the increased growth funding in 2024/25 and officers have identified measures to close more than half of the gap for 2024/25. However, there is further work required which officers continue with, and given the scale of the challenge it is necessary that this is a targeted approach to developing savings from strategic service changes over more than one year and possibly requiring prior investment for those items which may be invest-to-save schemes linked to the transformation of service delivery as opposed to budget and service reductions.
- 11.5. Given that this may require longer lead in times to identify and implement savings measures that are both permanent and sustainable, it may be necessary to use reserves to set a balance budget in 2024/25 as an interim measure.

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.

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.

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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.

CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

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

CRIME AND DISORDER IMPLICATIONS

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

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HEALTH AND WELLBEING IMPLICATIONS

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

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](#)
- 18.3. Medium Term Financial Strategy – Mayor & Cabinet 19 July 2023
[Lewisham Council - Agenda for Mayor and Cabinet on Wednesday, 19th July, 2023, 6.00 pm](#)

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.
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.

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Term	Definition
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.
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.

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Term	Definition
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.
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%.

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Term	Definition
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.

REPORT AUTHOR AND CONTACT

- 20.1. For more information please contact David Austin, Acting Executive Director of Corporate Resources, 1st Floor Laurence House, 020 8314 9114, David.Austin@lewisham.gov.uk.
- 20.2. Katharine Nidd, Acting Director of Finance, 4th Floor Laurence House, 020 8314 6651, Katharine.Nidd@lewisham.gov.uk.

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APPENDIX 1 – SUMMARY OF MTF5 ASSUMPTIONS

RESOURCE ENVELOPE			
	July Main case	November update	Impact and commentary
Notional Revenue Support Grant	<p>☐ 2024/25 7.4% inflation change to 2023/24 levels, 45% reduction in 2025/26, thereafter further 5% reduction assumed each year</p>	<p>☐ 2024/25 6.7% inflation change to 2023/24 levels, 0% reduction in 2025/26, 45% reduction in 2026/27, thereafter further 5% reduction assumed each year</p>	<p>SFA updated for published CPI and the FFR delayed by a further year.</p> <p>Reduction of SFA of £0.227m in 2024/25 increase of SFA of £15.428m in 2025/26, £0.832 in 2026/27, £0.79m in 2027/28, £0.751m in 2028/29</p>
Business Rates	<p>☐ 1% real terms increase in 2024/25, and then 1% increase for each further year on the rateable value base and top-up</p> <p>☐ £10m S31 grant in 2024/25 and 15m each year after</p>	<p>☐ 1% real terms increase in 2024/25, and then 1% increase for each further year on the rateable value base and top-up</p> <p>☐ £15m S31 grant in each year</p>	<p>£5m increase in section 31 grant in 2024/25 to fund additional pressures – more risk that this is removed and not replaced when the FFR is introduced.</p>
Council Tax income	<p>☐ 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 2025/26 only.</p> <p>☐ % increase each year in Council Tax base from 2023/24 onwards is: 0.5%, 0.75%, 1.25%, 1% and 1%</p> <p>☐ CT collection rate each year from</p>	<p>☐ 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 2025/26 only. .</p> <p>☐ % increase each year in Council Tax base from 2023/24 onwards is: 0.5%, 0.75%, 1.25%, 1% and 1%</p> <p>☐ CT collection rate each year from</p>	<p>Number of Band D equivalent homes updated for actuals.</p> <p>Increase in income of £0.268m in 2024/25, £1.721m in 2025/26, £1.777m in 2026/27, £1.83m in 2027/28, £1.905m in 2028/29</p>

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	2023/24 onwards is: 95%, 96%, 96%, 96% and 97%	2023/24 onwards is: 95%, 96%, 96%, 96% and 97%	
	<input type="checkbox"/> CTRS changes do not increase nor decrease the cost of the scheme in any year	<input type="checkbox"/> CTRS changes do not increase nor decrease the cost of the scheme in any year	
Surpluses/deficits on Collection Fund	<input type="checkbox"/> The collection fund shortfall to be collected over 3 years is assumed to be from 2023/24: £0m, £2m, £2m, £2m and £2m	<input type="checkbox"/> The collection fund shortfall to be collected over 3 years is assumed to be from 2023/24: £0m, £2m, £2m, £2m and £2m	No change
Grants: - Improved Better Care Fund - Social Care Grant - Better Care Fund - Public Health - Market Sustainability and Discharge	<input type="checkbox"/> Total circa £80m – assumes it stays flat £14.9m £23.4m £10m £26.6m £5.3m <input type="checkbox"/> Assuming DSG self funds	<input type="checkbox"/> Total circa £80m – assumes it stays flat £14.9m £23.4m £10m £26.6m £5.3m <input type="checkbox"/> Assuming DSG self funds	No Change The known uplift in Social Care grant has been taken into base budget a year in arrears.
EXPENDITURE			
	July Main case	November update	Impact and commentary
Pay awards	<input type="checkbox"/> 2.5% in 2024/25, 1% in 2025/26 and 2% each year afterwards <input type="checkbox"/> £2m for unfunded 2023/24 pay award in 2024/25	<input type="checkbox"/> 4.0% in 2024/25, 2% in 2025/26 and 2% each year afterwards <input type="checkbox"/> £0.5m for unfunded 2023/24 pay award in 2024/25	Increase in allowance of £2.181m in 2024/25, £1.534m in 2025/26 and £0.08m per year after this. Salary award slightly lower than originally assumed, balance can

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			be used to fund pressures or reduce savings target.
General price inflation (incl. fees and charges)	<input type="checkbox"/> % 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	<input type="checkbox"/> % increase each year in non-pay budgets from 2023/24 is: 4.0% in 2024/25, 2% on wards	Increase in allowance of £1.65m in 2024/25, £1.16m in 2025/26 and £0.06m per year after this
Pressures and risks	<input type="checkbox"/> £4.5m in 2024/25 – 2028/29	<input type="checkbox"/> £4.5m in 2024/25 – 2028/29	
New legislation	<input type="checkbox"/> Nothing allowed	<input type="checkbox"/> Nothing allowed	<input type="checkbox"/> Nothing allowed
Demographic Change	<input type="checkbox"/> Nothing allowed	<input type="checkbox"/> Nothing allowed	<input type="checkbox"/> Nothing allowed
NB the MTFS assumes that any overspending is addressed in-year or met from reserves			

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