Mayor and Cabinet

Medium Term Financial Strategy

Date: 10 July 2024

Key decision: No

Class: Part 1

Ward(s) affected: All

Contributors: Executive Director for Corporate Resources and Director for Finance

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 2025/26;
- Agree the 2025/26 to 2028/29 Medium Term Financial Strategy (MTFS) and outline approach being taken to identify £20m of budget reduction proposals required to meet the remaining estimated budget gap over the next four years;
- Agree the 2024/25 Climate Budget for the Council and to note that the 2025/26 Budget will come forward as part of the budget setting process in February 2025; and
- Agree the Council's Productivity Plan appended to this report which is required to be submitted to the Department for Levelling Up, Housing and Communities by the 19 July 2024.

Timeline of engagement and decision-making

28 February 2024 – Budget Report to Council

12 June 2024 – Financial Outturn for 2023/24 – report to Mayor & Cabinet (M&C)

9 July 2024 – Medium Term Financial Strategy – report to Public Accounts Select Committee

10 July 2024 – First 2024/25 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. Alongside severe economic and fiscal uncertainty for the future the Council is grappling with forecast overspends in 2024/25 in those services whose budgets were stabilised via significant pressures funding of £36m. This funding was made on the basis that future pressures funding would not be required or available and so the Council must manage these pressures down in order to avoid increasing the savings gap any further. It is also managing increasing pressures outside of its general fund, notably in the schools budgets and its housing revenue account.

1.3. The Council is setting its medium term financial plan in a vacuum of uncertainty as to how or when the Government will finally implement the long overdue reforms of both business rates and social care funding, or what the next comprehensive spending review will look like. For these reasons 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.

1.4. The current base case assumptions produce an assumed budget gap of £16m over the four year period of 2025/26 to 2028/29, with a profile of £3m, £7m, £4m, and £2m 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 £5m or up by £50m from the base case of £16m.

1.5. Executive Management Team (EMT) have reviewed the assumptions used and confirmed their intention that officers seek to identify and bring forward a total of £20m of cuts in 2024/25 for implementation in 2025/26 and 2026/27. 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 in 2025/26, ensuring that they can be implemented in a considered and robust way, the full year effect achieved and any upfront investment required is available.

1.6. The MTFS does not allow for those services with forecast overspends in 2024/25 to have these pressures funded. There was £36m of base budget pressures funding provided in 2024/25 on the premise that this stabilised (and effectively 'reset') the Council's budget. Therefore in addition to the identification of cuts proposals totalling £20m, EMT have agreed that services use the work of the service deep dive exercises, and other transformation projects, to identify and implement overspend reduction measures to manage down current overspends. If this is not done the level of overspending not being forecast for 2024/25 will need to be added onto the savings target, increasing it by approximately £30m.

1.7. The Council has developed its first Climate Budget for 2024/25, this supports the Council's ambition for the borough to be net zero carbon by 2030 and the Climate Action Plan as published this year. The budget assesses the total cost of full decarbonisation of both its corporate and housing assets as being circa £648m, which is currently not funded via the agreed capital programme, and which accounts for only ~7% of the boroughs carbon emissions. The revenue costs of delivering the Council's Climate Emergency Action Plan are contained within existing budgets for two-thirds of the actions. With the remaining one-third of actions work is underway but additional resources may be needed to complete the work over the lifetime of the action. The Climate Budget is not securing funding. Investment to fund climate budget actions will be done via the established and existing processes of agreeing revenue and capital budgets. Going forward the Climate Budget for 2025/26 and following years will be brought forward as part of the budget setting process for scrutiny and agreement in February of each year, in order to align them.

1.8. In addition to the MTFS it is a requirement from the Department that all local authorities submit a Productivity Plan by the 19 July 2024. The Lewisham Productivity Plan is appended to this report for approval prior to submission.

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 2025/26;

2.3. Agree the 2025/26 to 2028/29 Medium Term Financial Strategy (MTFS) and outline approach being taken to identify £20m of budget reduction proposals required to meet the remaining estimated budget gap over the next four years;

2.4. Agree the 2024/25 Climate Budget for the Council and to note that the 2025/26 Budget will come forward as part of the budget setting process in February 2025; and

2.5. Agree the Council's Productivity Plan appended to this report which is required to be submitted to the Department for Levelling Up, Housing and by the 19 July 2024.

3. POLICY CONTEXT

3.1. The Council's Corporate Strategy, launched in 2022, identifies seven corporate priorities and five 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. Values are critical to the Council's role as an employer, regulator, securer of services and steward of public funds. The Council's values shape interactions and behaviours across the organisational hierarchy, between officers and members, between the council and partners and between the council and citizens. In taking forward the Council's Budget Strategy, we are guided by the Council's five core values:

- Ambitious;

- Inclusive;
- Collaborative;
- Accountable; and
- Trustworthy.

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; and
- 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. 2024/25 Climate Budget
13. Productivity Plan
14. Financial Implications
15. Legal Implications
16. Equalities Implications
17. Environmental Implications
18. Crime & Disorder Implications

19. Health and Wellbeing Implications

20. Background Papers

21. Appendices

22. Glossary

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 2025/26 will be presented to Mayor and Cabinet and full Council in February/March 2025.

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 2025/26 Budget reflects all these considerations.

5.3. The financial outlook for the Council and the public sector as a whole remains extremely challenging.

5.4. Inflation reached the Bank of England's long term target of 2% in May 2024 after a prolonged period of extremely high levels. Bearing in mind the delay this will have in feeding into local authority funding plus the continuing absence of a multi-year local government finance settlement 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. However, 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. Therefore whilst specific budget reduction targets are being set for the Council's General Fund services, the key risks to its other key budget areas, being the schools (Dedicated Schools Grant (DSG)) and Housing Revenue Account (HRA) are set out and discussed in section 10. 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 2024 the Office for Budget Responsibility (OBR) published its Economic and Fiscal Outlook, which highlighted stronger near-term growth prospects than in the November 2023 outlook, but also emphasised the significant challenges still facing the economy in the medium-term.

5.7. The key fiscal metrics are:

- Gross Domestic Product (GDP) to grow by only 1.3% over 2024;
- Inflation now at the Bank of England long term target of 2% and forecast to be below 2% in 2025 and 2026 but back to target by 2028;
- Business investment expected to contract in the near term;
- Labour market participation yet to reach pre-pandemic peak and expected to fall further by 2028;
- Borrowing in cash terms has improved, but there remains significant uncertainty over this, and in order to reach the Government target of borrowing to be below 3% of GDP in the fifth year this is predicated on reduced departmental spending

5.8. Appendix 1 contains a more detailed analysis of this.

Local Government

Local Government Funding Reform

5.9. Prior to the July 2024 election it remains the Government's intention to implement new funding baselines for all local authorities. The new baselines are 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.

5.10. The final Local Government Finance Settlement for 2024/25 was received in February 2024. This was another one year only settlement pending the Fair Funding Review. With 2024/25 effectively being another roll forward year with some additional grants, and a general election in July 2024, it is expected that the fundamental review of the way local government is financed could not be undertaken and implemented for at least two years. Further the complexity of this process means that planning and forecasting of the resource envelope likely to be available to the Council over the next four-year period is even more challenging.

5.11. On business rates, London continued the business rate 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.

5.12. 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, new homes bonus, services grant), policy changes resulting in the introduction or amendments to new grants (e.g. market sustainability and improvement grant) and discontinuation of others (e.g. new homes bonus). In particular the social care grant has increased significantly over the previous three years, but with no certainty as to its future funding levels. This increases the Council's reliance on these grants and simultaneously limits our 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 council tax rises above the referendum limit of 2% and adult social care precepts with council tax now providing 48% 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, business rate top-up, and Revenue Support Grant (RSG)
- 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 consists of the Baseline Funding Level and a Revenue Support Grant (RSG).

6.3. The Baseline Funding Level represents the share of local business rates an authority will retain which combines:

- The business rates baseline – the amount each authority is able to raise through business rates; and
- The tariff or top-up – the amount each authority will either pay or receive to adjust its business rates baseline to its funding baseline.

6.4. Revenue Support Grant is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the local government finance settlement.

6.5. The table below shows the forecast SFA over the next four years.

Table 1: Make-up of Lewisham's 2024/25 SFA and Estimated SFA, 2025/26 to 2028/29

Settlement Funding Assessment	2024/25 Actual	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Main case	£m	£m	£m	£m	£m
Revenue Support Grant (RSG)	34.537	35.228	35.933	36.651	37.384
Baseline Funding Level (BFL)	102.660	103.687	104.723	105.771	106.828
Total SFA	**137.197**	**138.915**	**140.656**	**142.422**	**144.213**

Business rates income

6.6. Under current arrangements 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.

6.7. The Valuation Office Agency (VOA) updates the rateable values and the most recent revaluation came into effect in England and Wales on the 1 April 2023. The impact of this, as well as the transitional protection reliefs associated with this formed part of the 2023/24 and 2024/25 baseline funding.

6.8. The government also operates a safety net for business rates to limit losses when actual business rates funding falls below the funding baseline. In 2024/25 the safety net remains at 92.5% of the baseline funding level, being £95.0m. This means loss of collection in 2024/25 up to £7.7m is borne by the Council directly before becoming a burden on the national pool.

6.9. As the London pool has been stopped since 2021/22 no assumptions are made in this MTFS on any risks or benefits should it be re-started.

The Fair Funding Review

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

6.11. The government originally intended to implement the Fair Funding Review in 2016 to update the needs formula and set new funding baselines. The proposal is 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.

6.12. Given the scale and complexity of the changes, the eight year delay in this coming forward, and the general election in July 2024, the MTFS has not attempted to forecast/predict when the reforms and the business rates reset will be implemented, nor what the financial impact of this will be due to the scale and complexity of this. This is discussed in more detail in the risks section 10.

Council Tax income

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

6.14. 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).

6.15. The government annually sets 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. Nothing was confirmed in the Autumn Statement in 2023 in terms of the limit for 2025/26. Given the May CPI inflation rate is at 2% (being the Bank of England long term target), and while recognising that Council Tax is a regressive tax, the MTFS main case assumes that the Council will increase Council Tax levels by 1.99% in 2025/26 and for the three years thereafter.

6.16. The Adult Social Care Precept is in addition to this. The Adult 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. More recently, in light of the high cost of care driven by general inflation, settlements allowed local councils to levy a 2% Social Care Precept in 2023/24 and 2024/25. Given the continued pressures of both demand and inflation (often above CPI and linked to the Living Wage uplifts) it has been assumed that a 1% precept will be available in 2025/26, although this has not yet been confirmed. Given the delay for a 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. This further increases the uncertainty with regards to the ability to forecast the Council's funding envelope post 2025/26.

6.17. For 2024/25, Council Tax has been raised by 4.99% in total, the 2.99% core increase and the 2% social care precept increase as set out above. This has increased the Band D amount by £74.45 and is expected to result in additional funding of £9.1m when combined with an assumed 0.5% increase in council tax base, and a 1% increase in collection rate.

6.18. For 2025/26, the MTFS main case assumes a 2.99% increase in total council tax based on a 1% increase in social care precept and a 1.99% increase in core council tax. Each year thereafter it assumes a 1.99% increase in core council tax only. This reflects the assumption that the Council will apply the maximum increase allowed without a referendum in 2025/26 and beyond. In addition, the MTFS assumes a 0.75% average increase in the council tax base for 2025/26, followed by a 1.25% increase in 2027/28, and a 1% increase thereafter, based on the Planning Service's housing trajectory. For 2025/26 to 2027/28 it is assumed that the collection rate will increase to 96% compared to 95% in 2024/25. It is then assumed that it will increase by a further 1% in 2028/29. Over the four-year period from 2025/26 to 2028/29, these changes would add approximately £22.8m to the annual Council Tax income base compared to if the figures remained the same as for 2024/25. Given that Council Tax currently makes up approximately 48% 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.

6.19. Forecast Council Tax income from 2025/26 to 2028/29 is set out in Table 2 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 2: Council Tax Income Future Year Projections

	2025/26 projection	2026/27 projection	2027/28 projection	2028/29 projection
	£m	£m	£m	£m
Optimistic	148.885	153.746	160.024	164.840
Main	**148.517**	**153.366**	**157.982**	**164.432**
Pessimistic	145.182	149.551	153.672	159.567

S31 Multiplier Grant

6.20. From 2016/17 to 2024/25 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 2024/25 the under-indexation grant has been calculated to increase in line with the change in Consumer Price Index between September 2023.

6.21. Previously, this grant was at the level where it was utilised primarily to balance any pressures on the collection fund. In 2024/25, £15m of the grant was used as part of the general fund budget requirement and it is assumed that this amount will increase by 2% (the assumed level of CPI) for 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 risks of major change and reduction to 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. Although the high levels of inflation faced over the past years have reduced, with CPI at 2% as at May 2024, there is a lag between the rate of general inflation, and the inflationary pressures faced by Local Government. This is either through current uplifts in contracts based on prior CPI levels, increases in the London Living Wage being above inflation (or retrospectively matching CPI), and delays to agreement of Local Government salary uplifts.

Pay

The pay award for 2023/24 was the higher of £2,352 or 3.88% per person (uplifted for the London Weighting allowance) for officers on pay points 1 to 65. The pay award for 2023/24 for chief officers on JNC pay points 1 and above was 3.5%. This equated to an average of a 5.5% pay uplift across the Council's staffing and salary bands. The MTFS model assumes a pay award in 2025/26 of 3.0%, 2.5% in 2026/27 and 2.0% for 2027/28 and 2028/29, as these assumptions seek to, over time, align with long-term inflation forecasts from the Bank of England. These are also in part reflective of the current negotiation processes for agreeing the 2024/25 pay award as set out below.

The 2024/25 pay award allowance is £5.816m, and was considered to be broadly equivalent to a circa 4% pay increase. The current Employers final pay offer of the higher of £1,575 and 2.5% for pay points 1 to 65 equates to a weighted average of circa 4% but has been rejected by the Unions. Whilst an agreed position is still yet to be reached, the 2024/25 budget is at the very floor of the current offer point and therefore it is considered prudent to allow a further £1.25m of funding to ensure that if the agreed settlement is above the current (rejected) offer, that this does not create an unexpected pressure in 2025/26.

General price inflation assumptions

7.2. General price inflation is calculated on net 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 and/or the London Living Wage increase but in many cases the Council is in a position to re-negotiate increases. The MTFS assumes that price inflation will be 3% in 2025/26, dropping to 2.5% in 2026/27, and then to 2% in 2027/28 and 2028/29. As discussed above, whilst CPI is at 2% currently, some contracts uplift current prices based on retrospective levels of CPI, and the London Living Wage generally experiences a lag in uplifts.

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. The key challenges that impact on the demand for Council services are as follows:

- **Population changes** – 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, and now the cost of living crisis of 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** – 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.

7.5. 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.

7.7. 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 annually for 2025/26 – 2028/29.

7.8. The approach to budget setting for 2024/25 was to stabilise the Council's budget in that the S31 grant was brought into base budget, utilised in full to provide over £36m of permanent budget growth (£40m including once off funding). This effectively addressed the areas of persistent overspend in 2023/24, being childrens social care, temporary accommodation and (to a lesser extent) adult social care. The stabilising of the budget was done to 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 when more clarity was known on this.

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

Table 3: Inflation and Pressures Identified

	2025/26	2026/27	2027/28	2028/29
Pressures	**£m**	**£m**	**£m**	**£m**
2025/26 pay inflation	5.36	4.60	3.77	3.85
2025/26 non-pay inflation	3.25	2.79	2.29	2.33
2024/25 pay award shortfall	1.25	0.00	0.00	0.00
Concessionary fares increase	0.75	1.00	1.25	0.50
Future years unidentified	2.50	3.50	3.25	4.00
Inflation and Pressures Funded	**13.11**	**11.89**	**10.56**	**10.68**

7.10. 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 will create an ongoing budget pressure, which has been modelled above based on the most recent April data from TfL.

Specific grant assumptions

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

- **Public Health** – this grant is £27.56m in 2024/25, an increase of £0.64m from 20234/24. 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) – the full grant is £52.74m in 2024/25, an increase of £4.3m from 2023/24. The Council receives approximately £11.9m of this funding via the local Integrated Care Board (ICB) to support Council-led services, increased from £11.4m in 2023/24.
- **Improved Better Care Fund (iBCF)** – In 2024/25, the iBCF remained flat at £14.94m, the same as in 2023/24. 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 2023/24.
- **Social Care grant** - the final Local Government finance settlement for 2024/25 confirmed that the social care grant would increase to £30.79m in 2024/25, an increase of £7.38m from the £23.40m allocation in 2023/24, with the discretion to spend this on both adult's and children's social care. There was also an uplift in 2023/24 of £8.78m from that allocated in 2022/23. In 2024/25, most of the uplift has been taken into base budget, whilst £2.16m has been allocated to support once-off pressures within children's social care specifically and a remaining £1.61m has been reserved to support once-off pressures within any of the services under pressure. Given the scale of the Social Care grant the decision

was taken in the 2023/24 budget, and then the 2024/25 budget, to build this into the base funding for services, meaning that the Council is now more reliant on its continuation at least at the level of 2024/25. 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. At £30.79m, this is equivalent to more than 10% of the Council's net budget in 2024/25, meaning that there is heavy reliance on its continuation or replacement at the same or greater level.

- **ASC Market Sustainability and Improvement Grant** – the MSIF grant was introduced in 2023/24 at £3.20m and increased in 2024/25 to £5.98m, this grant is specifically focused on improving and increasing adult social care provision with a particular focus on workforce pay and capacity within the sector.
- **Other grants** – one of the most significant changes to other revenue grants in 2024/25 is the reduction of the Service Grant from £3.85m in 2023/24 to £0.66m in 2024/25. This continues to be treated as once-off funding so to ensure it is not built into any future models as it is expected to be removed or significantly further reduced in 2025/26. The New Homes Bonus Grant has seen an increase from £0.11m in 2023/24 to £1.99m in 2024/25, but also continues to be labelled as once-off and will be utilised to support the pressures within temporary accommodation. The Household Support Fund looks set to end in September 2024, reducing the amount of local authority support to the community in particular.

7.12. There is also an increase in specific grants within Children and Young People, including the Delivering Better Value grant, the Families first for children pathfinder grant and the Family Hub grants, again, these are generally time bound and once off and its critical that the Council ensure that it can deliver the expected results within the grant period and does not become permanently reliant on this funding in its base budgets.

7.13. 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.

7.14. 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. Which poses a particular pressure for the nascent CYP preventative services unless other spending reduces to replace the lost grant to allow these services to continue.

Other Income and Expenditure Items

7.15. 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>

7.16. 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, and interest on the Council's investment balances.

7.17. 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.

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

Levies

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

Added years pension costs

7.20. 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 4 below:

Table 4: Summary of Projected Financial Position

	Optimistic Case				Main Case				Pessimistic Case			
	2025/26	**2026/27**	**2027/28**	**2028/29**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Business Rates Baseline Funding Level	140.287	142.045	143.829	145.637	**138.915**	**140.656**	**142.422**	**144.213**	137.197	102.660	102.660	102.660
BR S31 Grant (RPI to CPI adjustment)	15.450	15.759	16.074	16.396	**15.300**	**15.606**	**15.918**	**16.236**	15.000	15.000	15.000	15.000
Business Rates 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
Council Tax raised	148.885	153.746	160.024	164.840	**148.517**	**153.366**	**157.982**	**164.432**	145.182	149.551	153.672	159.567
Council Tax 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
Total Resources	304.622	310.551	318.926	325.873	**302.732**	**307.628**	**314.322**	**322.881**	297.379	265.211	268.332	274.227
Total Revenue Expenditure	306.947	315.033	321.080	329.577	**306.947**	**314.621**	**318.187**	**325.002**	306.947	310.746	277.322	279.072
Budget Gap	2.324	4.483	2.154	3.704	**4.215**	**6.993**	**3.865**	**2.121**	9.568	45.534	8.991	4.845
Approved Savings	-0.850	0.000	0.000	0.000	-0.850	0.000	0.000	0.000	-0.850	0.000	0.000	0.000
Additional Annual Savings Required	**1.474**	**4.483**	**2.154**	**3.704**	**3.365**	**6.993**	**3.865**	**2.121**	**8.718**	**45.534**	**8.991**	**4.845**
Cumulative Savings Required	**1.474**	**5.957**	**8.111**	**11.814**	**3.365**	**10.358**	**14.223**	**16.343**	**8.718**	**54.252**	**63.243**	**68.088**

8.2. Taking the main case scenario as the expect position, the MTFS shows the annual measures required to bridge the budget gap for 2025/26 to 2028/29 as £3.365m, £6.993m, £3.865m and £2.121m, respectively each year. This is a cumulative total of £16.343m over the four years to 2028/29.

8.3. It is important to note two things. Firstly, the 2025/26 pressures allowance is limited to £2.5m (after funding pay award shortfall and the concessionary fares increase), and therefore does not attempt to fund any of the 2024/25 overspend. The 2024/25 budget was stabilised through significant growth in high spend areas of CSC, TA and ASC and there is no capacity to fund additional budget in these areas without making significant budget savings.

8.4. Secondly, the savings offered up in 2022/23 and 2023/24 for 2025/26 of £0.850m are included within these MTFS figures. If these are not delivered, then the budget gap increases proportionately.

8.5. 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 2028/29 reduces by approximately £4.5m to £11.814m. This is based on lower predicted cuts to baseline funding, mainly the Revenue Support Grant (RSG), and higher increases in the Council Tax collection rates and the council tax base.

8.6. The pessimistic case scenario reflects the impact of certain risks having a more severe impact. The cumulative budget gap to 2028/29 increases by approximately £52m to £68.088m. This scenario demonstrates the difficulty the Council could potentially face if funding cuts are higher, including the removal of the Revenue Support Grant (RSG) completely from 2026/27 onwards, and Council Tax collection rates are lower than expected.

8.7. Effectively the assumed resource growth in government grants and Council Tax income raised is not sufficient to fund in full the necessary cost and salary inflation in each year. This means that for each and every year the Council will need to find savings ranging between circa £5m - £10m to enable a balanced budget to be set, and this is without allowing for significant growth and pressures, meaning that the Council should seek to identify £20m of cuts during 2024/25 for implementation in 2025/26 and 2026/27.

8.8. None of these scenarios allow for significant service overspends to be funded as growth. Any overspends in 2024/25 and future years will simply add to the savings targets required from services. 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. The base case MTFS assumes that the Council will still need to find circa £20m of cuts to ensure financial sustainability over the four year period. It is expected that the reductions are likely to identified via the transformation work that officers have commenced in preparation from this and following the ‘deep dives’ undertaken into the areas of highest overspend in 2023/24, namely CSC, TA, ASC and supported transport (for childrens and adults).

9.2. In addition to the work of the deep dives, there are a range of transformation projects to seek to improve the productivity of the Council, these fall into the main categories of: corporate projects (including asset management, no wrong front door); directorate transformation (including housing and waste); enablers (including records management, digital strategy) and other priority projects such as debt collection and the Public Telephone Switched network (PSTN) transition from analogue to digital.

9.3. As set out in sections 7 and 8 above, the 2024/25 budget was stabilised in terms of seeking to fund the pressures and growth in those service with persistent overspends, and the MTFS does not provide for similar levels of pressures and growth funding. However, based on the P2 financial monitoring, both demand and costs in TA, CSC, ASC and supported transport have accelerated significantly beyond the £36m provided. Unless these pressures are managed within 2024/25 then commensurate savings will need to be found to fund this level of spend on a permanent basis. This would increase the two years savings target for 2025/26 and 2026/27 from circa £20m to nearer £50m.

9.4. Given that the areas of overspend account for approximately 70% of the Council's overall net budget, any savings of a significant scale would need to either come from these services (essentially a circular control mechanism for the services to manage) or would result in wholesale stoppages of services if the savings had to be found from the remainder of the Council's services.

9.5. In order to ensure that the 2024/25 outturn is managed down where possible, and to supplement the transformation and deep dive implementation, EMT has implemented some immediate controls. These include: increased scrutiny and control of contract and commissioned spend; recruitment review and controls; review of use of agency and agency spend; and debt collection improvements.

9.6. The spending controls are in place and the formal savings process will commence over the summer, including Member engagement, with the aim of identifying at least £20m (and up to £50m) of savings for the period 2025/26 – 2028/29. The level of savings targeted is greater than the forecast required £16m to enable Members to be able to consider options in terms of which items to approve for implementation.

9.7. This will be run in conjunction with the transformation programme, and will be led by the Transformation service led by the newly created Director of Strategy, Transformation, Equalities and Performance.

9.8. The 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.

9.9. 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.

9.10. The progress of the 2024/25 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.

9.11. The governance arrangements will be the EMT Transformation Programme which has been established 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 2025/26 to 2028/29. 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 with a rollover for 2024/25. Furthermore the Budget suggested that the growth provided in the current spending round would be funded via reductions in spending in future spending rounds. With the general election in July 2024, officers are assuming that 2025/26 will be another rollover year, with the Fair Funding Review being delayed by at least a further two years.

10.3. The Funding Reforms to Business Rates and the Social Care funding reforms have been further delayed and are not expected until 2026/27 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, MSIF) to support services. The RSG grant is intended to be phased out and accounts for circa £30m of our core grant funding, the various social care and health grants total another £90m, drastic changes to these would mean a fundamental reshaping of the Council and its services.

10.4. **Given the scale and complexity of the these potential changes officers have not sought to model this in the remaining four year period in the MTFS, and therefore the modelling for the latter years is heavily caveated and uncertain.**

10.5. The MTFS is a forecasting and modelling tool for the General Fund (GF) revenue budgets, it does not consider capital budgets, but does need to reflect the revenue implications arising from the capital programme. The current capital programme is ambitious and of a scale that will significantly increase the Councils borrowing to deliver this. In 2024/25 a further £1m of capital financing budget was provided, to be reviewed as part of the Treasury Management Strategy (TMS), and it may be that additional budget will be needed dependant on the cost of borrowing and the Minimum Revenue Provision (MRP) policy. Furthermore, the capital programme often experiences slippage, and whilst this delays the required borrowing, there is a financial impact through the writing off of costs to revenue, the risk that inflation and challenges in the construction markets threaten scheme viability further. 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 savings targets required.

10.6. There also remains the significant risk that the general fund may be required to support both the HRA and schools budget, although noting that transfers of income and expenditure between the HRA and general fund are only allowed in limited specific circumstances.

10.7. The are a number of key risks to the schools budget. Government policy towards increasing academisation has meant a reduction in both the Schools Central Block grant and the income received by the Council for services sold to them. The number of schools with deficits and the overall level of deficits continues to increase. The borough has started to experience falling pupil numbers which reduces school funding allocations and exacerbates budget pressures. The persistent growth in the number of Education Health and Care Plans (EHCPs) means that more young people are eligible for supported transport services which fall to the general fund, hence the deep dive review of this service. Lastly the statutory override (which ringfences the current circa £14m schools deficit to schools reserve) may be lifted, meaning that the general fund reserves will be required to fund this.

10.8. The HRA has experienced significant overspends in the last two years which, along with the need to fund the capital programme, has meant that the reserves are now below the recognised minimum level which should be held. The medium term financial plan is therefore very vulnerable and is being very closely monitored and managed. In addition to the general fund housing projects to reduce the spend in TA, there are a number of transformation and improvement projects within the HRA housing services. EMT continues to closely monitor the situation and will report this via the regular financial monitoring to members.

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 2028/29.

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 further 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 £20m of budget reductions over the next four years, on top of the £0.85m already put forward in 2022/23 and 2023/24 for 2025/26.

11.4. The current forecast level of cuts excludes any assumed funding for service pressures being experienced in the persistent overspend services of CSC, TA, ASC and supported transport. These budgets were stabilised in setting the 2024/25 budget and therefore the Council must manage these down in 2024/25 in order to avoid increasing the savings target by a futher potential £30m.

11.5. The Council will start preparing overspend reduction and savings measures, using the key lines of enquiry arising from the service deep dives and the other transformation projects to ensure that the targets identified in the MTFS can be met.

11.6. The proposals will be worked up by officers (and the process and target adjusted as necessary as Government produces its Autumn Budget and provisional Local Government Finance Settlement) and brought forward for scrutiny and decision making 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.

11.7. 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 reduce further, what services local government may be responsible for in the future, and how services are expected to transform and change to support the borough and its residents in the longer term.

12. 2024/25 CLIMATE BUDGET

12.1. The Council has developed its first Climate Budget for 2024/25, this supports the Council's ambition for the borough to be net zero carbon by 2030 and the Climate Action Plan as published this year. The budget assesses the total cost of full decarbonisation of both its corporate and housing assets as being circa £648m, which is currently not funded via the agreed capital programme, and which accounts for only ~7% of the boroughs carbon emissions. The revenue costs of delivering the Council's Climate Emergency Action Plan are contained within existing budgets for two-thirds of the actions. With the remaining one-third of actions work is underway but additional resources may be needed to complete the work over the lifetime of the action.

12.2. The Climate Budget is not securing funding, this process will be done via the established and existing processes of agreeing revenue and capital budgets, and therefore going forward the Climate Budget for 2025/26 and following years will be brought forward as part of the budget setting process for scrutiny and agreement in February of each year, in order to align these.

12.3. The 2024/25 Climate Budget is included as Appendix 3 and Mayor and Cabinet are asked to agree this and note the intention to bring forward future climate budgets with the main budget setting process.

13. THE LONDON BOROUGH OF LEWISHAM PRODUCTIVITY PLAN

13.1. The Government introduced the concept of productivity plans when it announced the Local Government Financial Settlement. In a letter to all council chief executives sent on 16 April 2024, the Minister for Local Government, Simon Hoare, outlined both the purpose of the plans and what they should include.

13.2. Productivity plans are designed so the Government better understands what is already working well in local government across the whole country, what the common themes are, whether there are any gaps and what more we need to do to unlock future opportunities. When writing these plans, Councils were encouraged to think broadly and include reference to not only how we run our organisation, but also how we run the public services we provide and how we provide place leadership.

13.3. The request for productivity plans specifically did not include a set format for response, but it was requested that plans be three to four pages in length and set out what we have done in recent years, alongside pre-existing plans, to transform the organisation and services. The Government noted that Council's must ensure that there is member oversight and support of plans, and they must be published on the Council's website once completed, with a deadline of the 19 July 2024. This productivity plan has been approved by the Executive Management Team, reviewed by Cabinet and, and is now being submitted as an appendix to the MTFS for Mayor and Cabinet approval prior to publication by the required deadline.

14. FINANCIAL IMPLICATIONS

14.1. 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.

15. LEGAL IMPLICATIONS

15.1. 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.

15.2. 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.

15.3. 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.

15.4. In relation to the Climate Budget, the Council is not under a statutory or any other obligation to deliver net zero carbon and is not statutorily required to fund the costs of decarbonising the borough. However, The Council declared a climate emergency in 2019 and published its Action Plan in 2020 (revised 2024). The proposals in this report are consistent with that.

16. EQUALITIES IMPLICATIONS

16.1. 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.

16.2. 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.

16.3. 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.

16.4. 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.

16.5. Any equalities implications arising from cuts or budget reductions identified in the processes set out in this report will be duly assessed and considered as part of the appropriate decision making process.

17. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

17.1. The appended 2024/25 Climate Budget seeks to assess the total cost of full decarbonisation of both the Council's corporate and housing assets, as such it supports the Council's net Zero by 2023 ambition.

17.2. Any specific climate change or environmental implications arising from cuts or budget reductions identified in the processes set out in this report will be duly assessed and considered as part of the appropriate decision making process.

18. CRIME AND DISORDER IMPLICATIONS

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

19. HEALTH AND WELLBEING IMPLICATIONS

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

20. BACKGROUND PAPERS

20.1. Budget Report 2024/25 – Full Council 28 February 2024

Lewisham Council - Agenda for Council on Wednesday, 28th February 2024, 7.30 pm

20.2. 2023/24 Financial Outturn Report – Mayor & Cabinet 12 June 2024

Lewisham Council - Agenda for Mayor and Cabinet on Wednesday, 12th June, 2024, 6.00 pm

21. APPENDICES

21.1. Appendix 1 – National Economic and Fiscal Context

21.2. Appendix 2 - MTFS Assumptions

21.3. Appendix 3 – 2024/25 Climate Budget

21.4. Appendix 4 – London Borough of Lewisham Productivity Plan 2024/25

22. 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.

Term	Definition
Budget Requirement	The Council's revenue budget on general fund services after deducting funding streams such as fees and charges and any funding from reserves. (Excluding Council Tax, RSG and Business Rates)
Business Rates Baseline	The business rates baseline is equal to the amount of business rates generated locally in a specific year.
Capital Expenditure	Spend on assets that have a lasting value, for example, land, buildings and large items of equipment such as vehicles. This can also include indirect expenditure in the form of grants or loans to other persons or bodies.
Capital Programme	The Council's plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.
Capital Receipts	These are proceeds from the disposal of land or other assets and can be used to finance new capital expenditure but cannot be used to finance revenue expenditure.
Capping	This is the power under which the government may limit the maximum level of local authority spending or increases in the level of spending year on year, which it considers excessive. It is a tool used by the government to restrain increases in Council Tax. The Council Tax cap, currently 2%, means that any local authority in England wanting to raise Council Tax by more than 2% in 2015/16 must consult the public in a referendum, Councils losing a referendum would have to revert to a lower increase in their bills.
CIPFA	The Chartered Institute of Public Finance and Accountancy are one of the UK accountancy institutes. Uniquely, CIPFA specialise in the public sector. Consequently CIPFA holds the responsibility for setting accounting standards for local government.
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.

Term	Definition
Collection Fund surplus (or deficit)	If the Council collects more or less than it expected at the start of the financial year, the surplus or deficit is shared with the major precepting authority, in Lewisham's case this is the GLA, in proportion to the respective Council Taxes. These surpluses or deficits have to be returned to the Council taxpayer in the following year through lower or higher Council taxes. If, for example, the number of properties or the allowance for discounts, exemptions or appeals vary from those used in the Council Tax base, a surplus or deficit will arise. The Council generally achieves a surplus, which is shared with the GLA.
Contingency	This is money set-aside centrally in the Council's base budget to meet the cost of unforeseen items of expenditure, such as higher than expected inflation or new responsibilities.
Council Tax Base	The Council Tax base for a Council is used in the calculation of Council Tax and is equal to the number of Band D equivalent properties. To work this out, the Council counts the number of properties in each band and works out an equivalent number of Band D equivalent properties. The band proportions are expressed in ninths and are specified in the Local Government Finance Act 1992. They are: A 6/9, B 7/9, C 8/9, D 9/9, E 11/9, F 13/9, G 15/9 and H 18/9, so that Band A is six ninths of the 'standard' Band D, and so on.
CPI and RPI	The main inflation rate used in the UK is the CPI (Consumer Price Index), the Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is currently set at 2%. The CPI differs from the RPI (Retail Price Index) in that CPI excludes housing costs. Also used is RPIX, which is a variation on RPI, one that removes mortgage interest payments.
Dedicated schools grant (DSG)	This is the ring-fenced specific grant that provides most of the government's funding for schools. This is distributed to schools by the Council using a formula agreed by the schools forum.
Financial Regulations	These are a written code of procedures set by a local authority, which provide a framework for the proper financial management of the authority. They cover rules for accounting and audit procedures, and set out administrative controls over the authorisation of payments, etc.
Financial Year	The local authority financial year commences on 1st April and finishes on the following 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).

Term	Definition
Gross Domestic Product (GDP)	GDP is defined as the value of all goods and services produced within the overall economy.
Gross Expenditure	The total cost of providing the Council's services, before deducting income from government grants, or fees and charges for services.
Housing Revenue Account (HRA)	A separate account of expenditure and income on housing that Lewisham must keep. The account is kept ring-fenced from other Council activities. The government introduced a new funding regime for social housing within the HRA from April 2012.
Individual authority business rates baseline	This is derived by apportioning the billing authority business rates baseline between billing and major precepting authorities on the basis of major precepting authority shares.
Levies	A levy is an amount of money a local authority is compelled to collect (and include in its budget) on behalf of another organisation. Lewisham is required to pay levies to a number of bodies such as the London Pensions Fund Authority.
Local share	This is the percentage share of locally collected business rates that will be retained by local government, currently 50%.
Net Expenditure	This is gross expenditure less services income, but before deduction of government grant.
New Homes Bonus	Under this scheme Councils receive a new homes bonus (NHB) per each new property built in the borough for the first six years following completion. Payments are based on match funding the Council Tax raised on each property with an additional amount for affordable homes. It is paid in the form of an un-ringfenced grant.
Prudential Borrowing	Set of rules governing local authority borrowing for funding capital projects under a professional code of practice developed by CIPFA to ensure the Council's capital investment plans are affordable, prudent and sustainable.
Revenue Expenditure	The day-to-day running expenses on services provided by Council.
Revenue Support Grant (RSG)	All authorities receive Revenue Support Grant from central government in addition to its baseline funding level under the local government finance system. An authority's Revenue Support Grant amount plus its baseline funding level together comprises its Settlement Funding Assessment.
Section 151 officer	Legally Councils must appoint under section 151 of the Local Government Act 1972 a named chief finance officer to give them financial advice, in Lewisham's case this is the post of the Executive Director for Resources and Regeneration.

Term	Definition
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.

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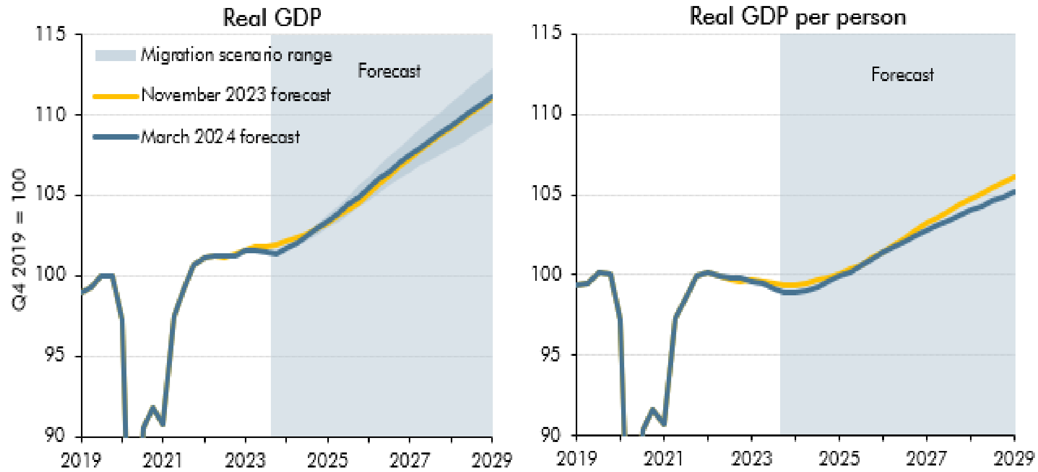
APPENDIX 1 – National Economic and Fiscal Context

In March 2024 the Office for Budget Responsibility (OBR) published its Economic and Fiscal Outlook, which highlighted stronger near-term growth prospects than in the November 2023 outlook, but also emphasised the significant challenges still facing the economy in the medium-term.

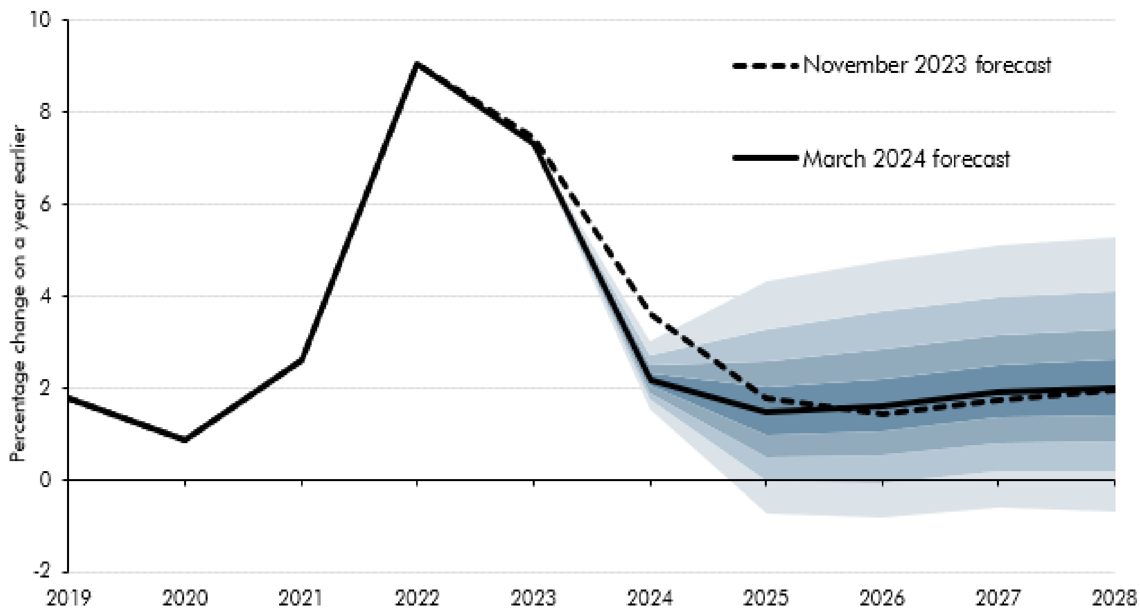
GDP growth in 2023 was not as strong as OBR expected in their November 2023 forecast as it only grew by 0.1% as opposed to 0.4%. The OBR states that real GDP fell by 0.2% in the third quarter of 2023 and then remained constant in the final quarter of the year, therefore narrowly avoiding two consecutive quarters of negative growth and a technical recession. OBR forecast for real GDP to grow again into the first quarter of 2024 and for real GDP to grow overall during 2024 by 1.3% due, in part, to the expected fall of interest rates and the resulting recovery of real household income. Risks to their medium-term GDP forecast are still elevated due to the uncertainty being faced around both migration and labour participation.

Chart 1: Real GDP (source: ONS, OBR)



Inflation (measured by the Consumer Price Index CPI) peaked in October 2022 at 11.1%, resulting in an average inflation during 2022 of 9.1% according to OBR's latest Economic and Fiscal Outlook data. This average fell to 7.3% in 2023 and is expected to fall further to an average of 2.2% during 2024, and 1.5% during 2025. These forecast reductions are as a result of anticipated falls in global energy prices, for which the effect will offset that of current affairs such as the Red Sea shipping disruptions. Other current affairs such as the conflict in the Middle East present risk to this forecast as the volatility of the situation means a widening of the conflict could instead cause another sharp rise in energy prices and, therefore, inflation. Domestically generated inflation is forecast to be below the target of 2% in 2025 and 2026 but is then expected to return to target by 2028.

Chart 2: CPI Inflation (source: ONS, OBR)



Note: Successive pairs of lighter-shaded areas around our forecast represent 20 per cent probability bands.

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

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

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to contract in the near term due to the lagging effect of increases in interest rates raising the cost of capital.

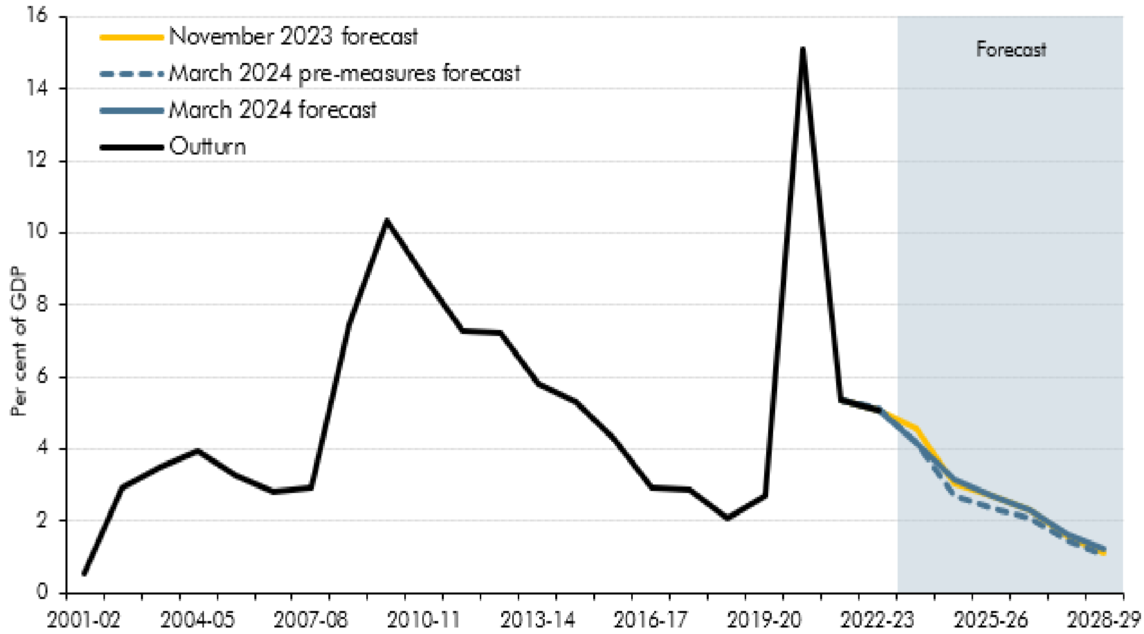
Labour market participation, having risen since 2010 (despite the ageing of the population), has fallen dramatically in the wake of the pandemic, especially among older workers. The labour participation rate is yet to return to its pre-pandemic peak and is expected to continue to fall further by 2028, now to a lower level than was forecast by OBR in November 2023.

Productivity growth has remained well below its pre-financial crisis average which reflects both the stagnation in business investment and weak growth in total factor productivity. It would be boosted by lower interest rates, lower energy prices and higher net migration, however, the outlook for productivity growth is an uncertain forecast judgement.

Borrowing in cash terms for 2023/24 has improved since the OBR November forecast mainly due to a reduction in debt interest spending, but the forecast for each year of the forecast thereafter is now slightly higher, corresponding to cuts in National Insurance contributions amongst other factors. There is substantial uncertainty around the forecasts for both borrowing and debt over the next five years with the Government in a position that they need to run a primary surplus of approximately 1.3% of GDP to stabilise debt in the medium term. Public sector net borrowing in 2023/24 is expected to be £114.1bn which equates to 4.2% of GDP. It is then forecast to fall to £39.4bn by 2028/29 which equates to 1.2% of GDP, therefore meeting their target for borrowing to be below 3% of GDP in the fifth year of the rolling forecast. This forecasted decrease is due to factors such as:

- Rising income tax driven by nominal earnings growth,
- Reduced spending – mainly departmental,
- The fall in debt interest as a share of GDP as inflation and interest rates moderate.

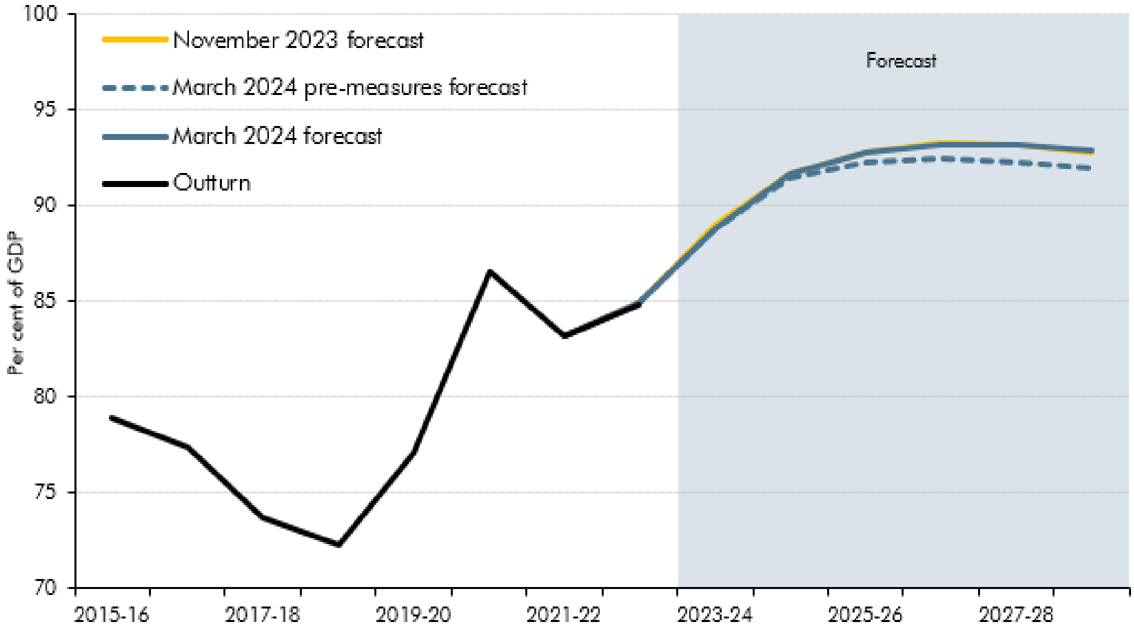
Chart 3: Public Sector Net Borrowing (source: ONS, OBR)



Public sector net debt is forecast to be £195.1bn for 2023/24, 88.8% of GDP – 0.2% lower than that forecast by OBR in November 2023. The Government's legislated fiscal mandate aims for public sector net debt to fall as a percentage of

GDP by the fifth year of the rolling forecast period; however, it is currently expected to peak in the next five years during 2027/28 at 93.2% of GDP before falling by 0.3% into 2028/29.

Chart 4: Public Sector Net Debt (source: ONS, OBR)



The latest OBR forecast has seen the tax burden (ratio of National Accounts taxes to GDP) fall relative to the November 2023 forecast, by 0.2% for 2023/24, 0.5% for 2024/25 and 0.6% in the final year of the forecast: 2028/29. A slight decrease this year from that of last year is driven by cuts to NICs, lower energy prices and reducing property taxes. Although a slight decrease has just been seen, this ratio is forecast to rise to its highest level in 2028/29 since 1948; 37.1%.

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.

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APPENDIX 2 – SUMMARY OF MTFS ASSUMPTIONS

RESOURCE ENVELOPE			
	Main case	**Pessimistic case**	**Optimistic Case**
Notional Revenue Support Grant	2025/26 2% inflation change to 2024/25 levels, 45% reduction in 2026/27, thereafter further 5% reduction assumed each year	2025/26 0% inflation change to 2024/25 levels, 100% reduction in 2026/27	2025/26 3% inflation change to 2024/25 levels, 20% reduction in 2026/27, thereafter further 5% reduction assumed each year
Business Rates	1% real terms increase in 2025/26, and then 1% increase for each further year on the rateable value base and top-up	0% real terms increase in 2025/26, and then 0% increase for each further year on the rateable value base and top-up	2% real terms increase in 2025/26, and then 1% increase for each further year on the rateable value base and top-up

	£15m S31 grant in each year, increasing by 2% inflation each year.	£15m S31 grant in each year, no inflation	£15m S31 grant in each year, increasing by 3% in 2025/26 and 2% inflation each year thereafter.
Council Tax income	In 2025/26 1.99% change in Council Tax level and 1% Social Care precept), thereafter a 1.99% change in the CTax level each year and no ASC precept. % increase each year in Council Tax base from 2024/25 onwards is: 0.75%, 1.25%, 1%, 1% and 1% CT collection rate each year from 2024/25 onwards is: 96%, 96%, 96%, 97% and 97% CTRS changes do not increase nor decrease the cost of the scheme in any year	In 2025/26 1.99% change in Council Tax level and 0% Social Care precept), thereafter a 1.99% change in the CTax level each year. % increase each year in Council Tax base from 2024/25 onwards is: 0.5%, 1%, 0.75%, 0.75% and 0.75% CT collection rate each year from 2024/25 onwards is: 95%, 95%, 95%, 96% and 96% CTRS changes do not increase nor decrease the cost of the scheme in any year	In 2025/26 1.99% change in Council Tax level and 1% Social Care precept), thereafter a 1.99% change in the CTax level each year and no ASC precept. % increase each year in Council Tax base from 2024/25 onwards is: 1%, 1.25%, 1%, 1% and 1% CT collection rate each year from 2024/25 onwards is: 96%, 96%, 97%, 97% 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 2024/25: £0m, £2m, £2m, £2m and £2m	The collection fund shortfall to be collected over 3 years is assumed to be from 2024/25: £0m, £2m, £3m, £3m and £2m	The collection fund shortfall to be collected over 3 years is assumed to be from 2024/25: £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 £90m – assumes it stays flat £14.9m £30.8m £10m £26.6m	Change in RNF basis for distribution - £8m loss	Inflation at half of CPI 1.25% in 2025/26, and 1% each year afterwards

	£6m □ Assuming DSG self funds	□ Assuming DSG self funds	□ Assuming DSG self funds
EXPENDITURE			
	Main case	**Pessimistic case**	**Optimistic Case**
Pay awards	□ 3% in 2025/26, 2.5% in 2026/27 and 2% each year afterwards	□ 3% in 2025/26, 3% in 2026/27, 2.5% in 2027/28 and 2% each year afterwards	□ 3% in 2025/26, and 2% each year afterwards
General price inflation (incl. fees and charges)	□ % increase each year in non-pay budgets from 2024/25 is: 3% in 2025/26, 2.5% in 2026/27 and 2% each year afterwards	□ 3% in 2025/26, 3% in 2026/27, 2.5% in 2027/28 and 2% each year afterwards	□ 3% in 2025/26, and 2% each year afterwards
Pressures and risks	□ £4.5m in 2025/26 – 2029/30 □ £25m of service pressures funded – if agreed.	□ £4.5m in 2025/26 – 2029/30 □ £25m of service pressures funded – if agreed.	□ £4.5m in 2025/26 – 2029/30 □ £15m of service pressures funded – if agreed.
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			