

MAYOR & CABINET			
Report Title	2016/17 Budget Update		
Key Decision	Yes	Item No.	
Ward	All		
Contributors	Executive Director for Resources & Regeneration		
Class	Part 1	Date: 17 February 2016	

REASONS FOR URGENCY AND LATENESS

Urgency: Given the significance of the financial constraints that the Council will face over the coming years, it is essential that the Mayor and his Cabinet are updated on any changes affecting the 2016/17 Budget prior to presenting it to Council. The reason for lateness was to ensure that any decisions taken by the Mayor & Cabinet on 10 February 2016 could be appropriately considered within this report.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. SUMMARY

- 1.1 This report presents the Mayor with updates to the main 2016/17 Budget Report presented to Mayor and Cabinet on 10 February 2016, and seeks the Mayor's approval to finalise the recommended 2016/17 budget for consideration and agreement by the Council on 24 February 2016.

2. PURPOSE

- 2.1 The purpose of this report is to finalise the 2016/17 budget for consideration by the Council on 24 February 2016.

3. RECOMMENDATIONS

That the Mayor:

- 3.1 Agrees to recommend to Council a Band D Council Tax for 2016/17 of £1,102.66 for the Council's element. This is an increase of 3.99% (including a social care precept of 2%), based on a General Fund Budget Requirement of £236.218m for 2016/17.

- 3.2 Notes and asks Council to note an overall increase in the total Council Tax for 2016/17 of 3.99% to include the Greater London Authority (GLA) precept being reduced by £19 to £276, a 6.4% reduction from its 2015/16 level as proposed.
- 3.3 Agrees to recommend to Council on 24 February 2016, the statutory calculation of the Budget Requirement for Lewisham for 2016/17, attached at Appendix A.
- 3.4 Agrees to recommend to Council on 24 February 2016, the motion on the budget, attached at Appendix B, including modifications made to the proposals published in the 2016/17 Budget Report.
- 3.5 Notes the provisional and estimated precept and levies from the GLA and other bodies as detailed in Appendix C and delegate authority to the Executive Director for Resources and Regeneration to include any changes to these in the report for Council.
- 3.6 Notes the final settlement figure of £146.691m announced on the 8 February 2016, which is the same as the provisional settlement figure.
- 3.7 Notes that there were no responses from Business rate payers to the consultation on the draft Budget which took place from 21 January 2016 to 4 February 2016.
- 3.8 Notes the updated equalities implications as set out in section 9 for the introduction of the Social Care precept as part of proposed Council Tax increases.
- 3.9 Considers the Section 25 Statement from the Chief Financial Officer. This is attached at Appendix D.

4. UPDATE ON THE COUNCIL'S CURRENT FINANCIAL POSITION

- 4.1 This report updates the main 2016/17 Budget Report through considering the following areas:-
- Revenue Budget Savings and Funding Issues
 - The Greater London Authority Precept
 - Final Level of Council Tax

Revenue Budget Savings and Funding Issues

- 4.2 The impact of the final grant settlement and savings decisions taken at the Mayor and Cabinet meeting of the 10 February and their impact on the statutory calculations in respect of Council Tax are set out in this section:

Final Settlement Funding Assessment

- 4.3 The Department for Communities and Local Government announced the final Local Government settlement figures on the 8 February 2016.
- 4.4 The Council's total Settlement Funding Assessment for 2016/17 remains the same as the provisional figure announced on the 17 December 2015.

- 4.5 The Secretary of State announced in his speech to the House of Commons, that no council will receive less funding in 2016-17 than outlined in the provisional settlement. He also announced that Councils will have until 14 October 2016 to agree funding allocations for the remaining years of the Spending Review period (2017-18 to 2019-20).

Update on other grants and future year's strategy

- 4.6 The Secretary of State announced that the Government will “conduct a review of what the needs assessment formula should be in a world in which all local government spending is funded by local resources not central grant, and use it to determine the transition to 100% business rates retention”, i.e. funding baselines will be recalculated with an updated assessment of need in time for 100 per cent retention.
- 4.7 The Government will also consult on the proposed new methodology allocations of the improved Better Care Fund from 2017/18, and on allowing well-performing planning departments to increase their fees in line with inflation.

Overall Budget Position for 2016/17

- 4.8 For 2016/17, the overall budget position for the Council is a General Fund Budget Requirement of £236.218m. The overall position is set out in Table 1 below.

Table 1: Overall Budget Position for 2016/17

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Settlement Funding Assessment (SFA) for 2016/17	(146.691)	
Council Tax 2016/17 at 3.99% increase	(86.590)	
Surplus on Collection Fund	(2.937)	
Assumed Budget Requirement for 2016/17		(236.218)
Total Resources available for 2016/17		
Base Budget for 2015/16	246.224	
Plus: Reversal of reserves drawn in 15/16 (once off)	6.959	
Plus: additional Pay inflation	0.623	
Plus: Non-pay Inflation	2.663	
Plus: Grant adjustments for changes 15/16 to 16/17	1.405	
Plus: Budget pressures to be funded from 16/17 fund	3.750	
Plus: Risks and other potential budget pressures	3.750	
Less: MRP and debt adjustment measures	(1.000)	
Less: Previously agreed savings for 2016/17	(6.462)	
Less: New savings for 2015/16	(10.752)	
Less: Use of New Homes Bonus reserve	(5.000)	
Less: Once off use of provisions and reserves	(5.942)	
Total		236.218

Risks

- 4.9 Since preparing the draft budget report, a number of NHS hospitals have applied to be considered as charities for business rate purposes and that this be backdated for six years. If accepted, this would reduce their business rates by 80%. For Lewisham the impact would be a backdated payment in the region of £8m and an ongoing loss of business rates of approximately £1.5m. Guidance is being sought by the local government sector nationally as this could be expensive to the public purse if challenged and only serve to move money within the public sector. Officers will monitor the situation and keep members informed as part of preparing the medium term financial strategy for future years.

Levies

- 4.10 There are three bodies which charge a levy against Lewisham's Council Tax: the London Pensions Fund Authority (LPFA); the Environment Agency; and the Lee Valley Park Authority. Formal notification from the Environment Agency has been received, and officers have estimated the levy for the LPFA and the Lee Valley Park Authority and assumed no change. The detail for these levies is provided in Appendix C. The Council's 'relevant basic' amount of Council Tax has been calculated and results in a 3.99% increase for 2016/17.

The Greater London Authority Precept

- 4.11 On the 21 January, the Mayor of London's draft budget was announced. The proposed 2016/17 GLA precept for Band D is £276. This represents a reduction of £19 from its 2015/16 level. The final announcement is due after the 22 February (the date the London Assembly will consider the Mayor's budget), and officers have assumed no change to the precept already announced.
- 4.12 Accordingly, the Mayor is asked to agree to recommend to Council on 24 February 2016, the motion, attached at Appendix B.

Final Level of Council Tax

- 4.13 Table 2 shows Lewisham's overall Council Tax Calculation for 2016/17 and calculation of the Council Tax for Band D for 2016/17, based on the recommended budget requirement of £236.218m.

Table 2: Calculation of Council Tax Requirement and Band D based on spend of £236.218m for 2016/17.

	£
Assumed Budget Requirement for 2016/17	236,218,129
Less: Revenue Support Grant	59,608,093
Less: Baseline Funding Level	87,082,712
Less: Surplus in collection fund	2,937,000
Council Tax requirement	86,590,324
Divide by: Council Tax Base	78,528.58
Council Tax for Lewisham Services (Band D)	1,102.66

Add: Precept demand from GLA (estimated)	276.00
Total Council Tax (Band D)	1,378.66

- 4.14 The final calculation of Council Tax for different Council Tax bands is shown in Table 3, based on the Band D calculated in Table 2.

Table 3: Council Tax for different Council Tax Bands in 2016/17

Council Tax Band	Fraction	Lewisham Council Tax	GLA Precept	Total Council Tax
		£	£	£
A	6/9	735.11	184.00	919.11
B	7/9	857.62	214.67	1,072.29
C	8/9	980.14	245.33	1,225.47
D	9/9	1,102.66	276.00	1,378.66
E	11/9	1,347.69	337.33	1,685.02
F	13/9	1,592.73	398.67	1,991.40
G	15/9	1,837.76	460.00	2,297.76
H	18/9	2,205.32	552.00	2,757.32

Conclusion

- 4.15 This report sets out the updated information for the Mayor to make recommendations to Council to set the 2016/17 budget. This includes finalising the statutory requirements to allow Council to make final decisions on 24 February 2016.

5. FINANCIAL IMPLICATIONS

- 5.1 This entire report is concerned with the Council's budget.

6. LEGAL IMPLICATIONS

- 6.1 For the legal implications, these are set out in detail in the main 2016/17 Budget Report and the 2016/17 Revenue Budget Savings Report presented to Mayor & Cabinet on 10 February 2016 and 30 September 2015 respectively.

7. HUMAN RESOURCES IMPLICATIONS

- 7.1 There are no specific human resources implications directly arising from this report. Any human resources implications have been set out in the main budget report.

8. CRIME & DISORDER IMPLICATIONS

8.1 There are no specific crime and disorder implications directly arising from this report. Any crime and disorder implications have been set out in the main budget report.

9. EQUALITIES IMPLICATIONS

9.1 The Council is proposing to increase Council Tax by 1.99% within the referendum limit and a further 2% as a social care precept. In proposing to increase Council Tax in 2016/17, the Council must have regard to the equalities implications of so doing, both in terms of raising and then spending this additional money. This has been done as described below. Overall there will be a positive equalities impact for the elderly and disabled in Lewisham as a consequence of these proposals.

9.2 In respect of raising additional Council Tax there are no new equality impacts for any of the identified characteristics because Council Tax is raised from all households in line with existing national arrangements. There are also no new equality impacts for any of the identified characteristics from the 1.99% increase as the £1.65m will be spent on the Council's general services for the benefit of the population as a whole.

9.3 There are positive equality impacts for some of the identified characteristics from the 2% social care increase as this £1.67m will be ring fenced for spending on those in receipt of adult social care. In particular, by definition the characteristics of age and disability.

9.4 To put this in context; Lewisham's population was identified as being 276,000 (census 2011) of whom 9.5% were 65 years or older and 14.5% were living with a long term condition (a proxy for disability).

9.5 In terms of adult social care in 2014/15 (the latest annual figures available) the Council;

- supported the following:
 - 1,713 Carers needs were considered or reviewed
 - 1,510 Peoples needs were assessed and 629 new assessments undertaken
 - 1,000 People were in receipt of Direct Payments and 100 Carers received a Direct Payment
 - 2,240 People were in receipt of a Personal Budget
 - 900 People were placed in permanent residential placements
 - 180 People were admitted to nursing care.

- spending £81.5m on adult social care services spend, directed as follows:
 - Mental Health - 5%
 - Physical Disability - 9%
 - Other Services - 18%
 - Learning Disability - 33%
 - Older People - 35%.

9.6 There are no other specific equalities implications arising from this report beyond those set out and considered by Mayor & Cabinet on the 10 February in the 2016/17 Budget Report and 2016/17 Revenue Budget Savings Report.

10. ENVIRONMENTAL IMPLICATIONS

10.1 There are no specific environmental implications directly arising from this report. Any environmental implications have been set out in the main budget report.

11. BACKGROUND DOCUMENTS AND ORIGINATOR

Short Title of Document	Date	Location	Contact	Exempt
2016/17 Budget Report	Mayor & Cabinet 10 February 2016	5 th Floor Laurence House	David Austin	No

For further information on this report please contact:

Janet Senior, Executive Director for Resources & Regeneration on 020 8314 8013

David Austin, Head of Corporate Resources on 020 8314 9114

APPENDIX A

Statutory Calculations

- 1) It be noted that at its meeting on 20 January 2016, the Council calculated the number of **78,528.58** as its Council Tax base for 2016/17 in accordance with the Local Authorities (Calculation of Taxbase) Regulations;
- 2) The following amounts are now calculated by the Council for the year 2016/17 in accordance with the Local Government Finance Act 1992:
 - a. **£977,472,136** being the aggregate of the amounts which the Council estimates for gross expenditure, calculated in accordance with Section 32(2)A of the Act;
 - b. **£741,254,007** being the aggregate of the amounts which the Council estimates for income, calculated in accordance with Section 32(3)A of the Act;
 - c. **£236,218,129** being the amount by which the aggregate of 2(a) above exceeds the aggregate of 2(b) above, calculated by the Council, in accordance with Section 32A(4) of the Act, as its General Fund budget requirement for the year;
 - d. **£146,690,805** being the aggregate of the sums which the Council estimates will be payable for the year into its General Fund in respect of the Settlement Funding Assessment.
 - e. **£89,527,324** being the residual amount required to be collected from Council Tax payers. This includes the surplus on the Council's Collection Fund of **£2,937,000**.
 - f. **£1,102.66** being the residual sum at (e) above (less the surplus on the Collection Fund), divided by the Council Tax base of **78,528.58** which is Lewisham's precept on the Collection Fund for 2016/17 at the level of Band D;

Band	Council Tax (LBL)
	£
A	735.11
B	857.62
C	980.14
D	1,102.66
E	1,347.69
F	1,592.73
G	1,837.76
H	2,205.32

Being the amounts given by multiplying the amount at (f) above by the number which, in proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation Band D, calculated by the Council in

accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands;

3) It be noted that for the year 2016/17, the Greater London Authority is currently consulting on the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992 (as amended), for each of the categories of dwellings shown below:-

Band	GLA Precept
	£
A	184.00
B	214.67
C	245.33
D	276.00
E	337.33
F	398.67
G	460.00
H	552.00

4) Having calculated the estimated aggregate amount in each case of the amounts at 2) (f) and 3) above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, assumed the following amounts as the amounts of Council Tax for the year 2016/17 for each of the categories of dwellings shown below:-

Band	Total Council Tax (LBL & GLA)
	£
A	919.11
B	1,072.29
C	1,225.47
D	1,378.66
E	1,685.02
F	1,991.40
G	2,297.76
H	2,757.32

APPENDIX B

MOTION FOR THE MAYOR TO RECOMMEND TO COUNCIL

Having considered:

- (i) an officer report, the comments of the Public Accounts Select Committee of 27 January 2016, and a presentation from the Cabinet Member for Resources;
- (ii) the final Settlement Funding Assessment figures released by the Department for Communities and Local Government on the 8 February 2016;
- (iii) the views of those consulted on the budget as required and subject to proper process and consultation;

The Mayor, from the options available, is asked to:

Capital Programme

- 3.1 note and ask Council to note the 2015/16 Quarter 3 Capital Programme monitoring position as set out in section 5 of this report;
- 3.2 recommend that Council approves the 2016/17 to 2019/20 Capital Programme of £337.2m, as set out in section 5 of this report and attached at Appendices W1 and W2;

Housing Revenue Account

- 3.3 note and ask Council to note the consultation report on service charges to tenants and leaseholders in the Brockley area, presented to area panel members on 17th December 2015, and subsequent postal consultation, as attached at Appendix X2;
- 3.4 note and ask Council to note the consultation report on service charges to tenants and leaseholders and the Lewisham Homes budget strategy presented to area panel members on 17th December 2015, as attached at Appendix X3;
- 3.5 recommend that Council sets a decrease in dwelling rents of 1.0% (an average of £0.99 per week) – as per the requirements from government as presented in section 6 of this report;
- 3.6 recommend that Council sets a decrease in the hostels accommodation charge by 1.0% (or £0.39 per week), in accordance with Government requirements;
- 3.7 recommend that Council approves the following average weekly increases for dwellings for:
 - 3.9.1 service charges to non-Lewisham Homes managed dwellings (Brockley);

- caretaking 1.80% (£0.06)
- grounds 1.80% (£0.03)
- communal lighting 1.80% (£0.01)
- bulk waste collection 1.80% (£0.02)
- window cleaning 1.80% (£0.09)
- tenants' levy -30.0% (-£0.03)

3.9.2 service charges to Lewisham Homes managed dwellings:

- caretaking 1.20% (£0.07)
- grounds 68.0% (£0.66)
- window cleaning No increase
- communal lighting -10.7% (-£0.13)
- block pest control -4.3% (-£0.07)
- waste collection No change
- heating & hot water 23.1% (£1.85)
- tenants' levy -30.0% (-£0.03)
- bulk waste disposal new service (£0.81)
- sheltered housing new service (£23.62)

3.10 recommend that Council approves the following average weekly percentage changes for hostels and shared temporary units for;

- service charges (hostels) – caretaking etc.; 2.90% (£2.09)
- no energy cost increases for heat, light & power; 0.0% (£0.00)
- water charges decrease; -5.26% (-£0.01)

3.11 recommend that Council approves an increase in garage rents by Retail Price Inflation (RPI) of 0.80% (£0.09 per week) for Brockley residents and 0.80% (£0.09 per week) for Lewisham Homes residents;

3.12 note and ask Council to note that the budgeted expenditure for the Housing Revenue Account (HRA) for 2016/17 is £167.6m which includes the capital and new build programmes;

3.13 agree and ask Council to endorse the HRA budget strategy savings proposals in order to achieve a balanced budget in 2016/17, as attached at Appendix X1;

Dedicated Schools Grant and Pupil Premium

3.14 agree to recommend to Council, subject to final confirmation of the allocation, that the provisional Dedicated Schools Grant allocation of £283.5m be the Schools' Budget for 2016/17; and

- Note the consultation with schools on the changes to the funding arrangements for High Needs Pupils as set out in paragraph 7.12;
- Note the level of pupil premium anticipated for 2016/17 of £18.0m

General Fund Revenue Budget

- 3.15 note and ask Council to note the projected overall variance against the agreed 2015/16 revenue budget of £6.9m as set out in section 8 of this report and that any year-end overspend will have to be met from reserves;
- 3.16 endorse and ask Council to endorse the previously approved revenue budget savings of £6.462m for 2016/17 and budget savings proposals of £10.752 as per the Mayor and Cabinet meeting of the 30 September 2015, as set out in section 8 of the report and summarised in Appendix Y1 and Y2;
- 3.17 agree and ask Council to agree the transfer of £5.0m in 2016/17 from the New Homes Bonus reserve to the General Fund for one year to meet funding shortfalls and that the position be reviewed again for 2017/18;
- 3.18 agree and ask Council to agree the use of £5.942m reserves to meet the budget gap in 2016/17;
- 3.19 agree and ask Council to agree to fund budget pressures in the sum of £3.750m in 2016/17;
- 3.20 agree and ask Council to agree to create a fund in respect of as yet un-quantified revenue budget risks in the sum of £3.750m in 2016/17, allowing the Executive Director for Resources & Regeneration to hold these resources corporately in case these pressures emerge during the year, and authorises the Executive Director for Resources and Regeneration to allocate these funds to meet such pressures when satisfied that those pressures cannot be contained within the Directorates' cash limits;
- 3.21 agree to recommend to Council that a General Fund Budget Requirement of £236.218m for 2016/17 be approved, based on a 3.99% increase in Lewisham's Council Tax element. This will result in a Band D equivalent Council Tax level of £1,102.66 for Lewisham's services and £1,378.66 overall. This represents an overall increase in Council Tax for 2016/17 of 1.72% and is subject to the GLA precept for 2016/17 being reduced by 6.44% from its existing level, in line with the GLA's draft proposal;
- 3.22 note and ask Council to note the Council Tax Ready Reckoner which for illustrative purposes sets out the Band D equivalent Council Tax at various levels of increase. This is explained in section 8 of the report and set out in more detail in Appendix Y3 of the Budget Report;
- 3.23 recommend that Council ask the Executive Director for Resources & Regeneration to issue cash limits to all Directorates once the 2016/17 Revenue Budget is agreed;
- 3.24 note and ask Council to note the Chief Financial Officer's Section 25 Statement attached as Appendix D to this report;

- 3.25 agree and ask Council to agree the statutory calculations for 2016/17 as set out at Appendix A of this report;
- 3.26 note and ask Council to note the prospects for the revenue budget for 2017/18 and future years as set out in section 9 of the Budget Report;
- 3.27 agree that officers continue to develop firm proposals as part of the Lewisham Future Programme to help meet the forecast budget shortfalls;

Other Grants (within the General Fund)

- 3.28 note and ask Council to note the adjustments to and impact of various specific grants for 2016/17 on the General Fund as set out in section 8 of the Budget report;

Treasury Management Strategy

- 3.29 agree and recommend that Council approves the prudential indicators and treasury limits, as set out in section 10 of the Budget report;
- 3.30 agree and recommend that Council approves the 2016/17 treasury strategy, including; the potential for debt restructuring and opportunity to invest for longer than one year in pooled property funds, along with the investment strategy and the credit worthiness policy, as set out at Appendix Z3;
- 3.31 agree and recommend that Council approves the revised Minimum Revenue Provision (MRP) policy as set out in section 10 of the Budget report.
- 3.32 agree and recommend that Council agrees to delegate to the Executive Director for Resources & Regeneration authority during 2016/17 to make amendments to borrowing and investment limits provided they are consistent with the strategy and there is no change to the Council's authorised limit for borrowing;
- 3.33 agree and recommend that Council approves the credit and counterparty risk management criteria, as set out at Appendix Z3, the proposed countries for investment at Appendix Z4, and that it formally delegates responsibility for managing transactions with those institutions which meet the criteria to the Executive Director for Resources & Regeneration; and
- 3.34 agree and recommend that Council approves a minimum sovereign rating of AA- ;
- 3.35 agree and recommend that Council approves a change to the yellow and purple durational investment bands from 1 to 2 years in the credit worthiness policy.

APPENDIX C

RELEVANT AMOUNTS OF COUNCIL TAX AND LEVIES

Basic Amount of Council Tax	2015/16	2016/17
Council Tax Base	75,526.1	78,528.58
Council Tax Requirement with Levy (£)	80,084,100	86,590,324
Basic Amount of Council Tax (£)	1,060.35	1,102.66
% Increase in basic amount of Council Tax	0.00%	3.99%

Levy bodies for Lewisham	2015/16	2016/17	Change
LPFA (Estimated)	£1,231,690	£1,231,690	£0
Lee Valley Regional Park (Estimated)	£226,676	£226,676	£0
Environment Agency	£172,889	£178,500	£5,611
Total Levies	£1,631,255	£1,636,866	£5,611

APPENDIX D

APPENDIX Y4: Chief Financial Officer's Section 25 Statement

1. This statement makes reference to the 2016/17 Budget Report to Mayor & Cabinet circulated to all Members.
2. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to an authority when it is making the statutory calculations required to determine its Council Tax. The Authority is required to take the report into account when making the calculations. The report must deal with the robustness of the estimates, included in the budget and the adequacy of the reserves, for which the budget provides. This Statement also reflects the requirements of CIPFA's current Local Authority Accounting Panel (LAAP) Bulletin 77 on 'Local Authority Reserves and Balances'.
3. Section 114 of the Local Government Act 1988, requires the Chief Financial Officer (CFO) to issue a report to all the Local Authority members to be made by that officer, in consultation with the monitoring officer and head of paid service, if there is or is likely to be unlawful expenditure or an unbalanced budget.

Generally

4. The Council has already made savings from its revenue budget of £121m since May 2010. The Medium Term Financial Strategy was reported to Mayor & Cabinet in July 2015. This set out that an estimated £83m of savings is required from 2016/17 to 2019/20. Based on the local government finance settlement, including maximum Council Tax increases for each of the next four years, and using largely the same assumptions as set out in the Medium Term Financial Strategy this estimate reduces to £75m. To date proposals for £33m have been presented for scrutiny and to Mayor & Cabinet.
5. The final Local Government Finance Settlement on 8 February 2016 announced a one year settlement for 2016/17. This confirmed the need for £29.2m of savings in 2016/17. The estimates for 2017/18 to 2019/20 may vary depending on future year settlements and the outcomes to consultations due for a number of areas impacting local government finance. Current forecasts expect the Council to need to find in the region of a further £45m of savings for the four years to 2019/20.
6. The Council continues to take a prudent approach towards financial planning. During these times, the Council will need to weigh up the need to hold reserves and balances whilst going through this period of increased risk to the delivery of the budget versus the need to use reserves and balances when considering the need to set a balanced budget. This is even more important for 2016/17 as, following the government's Comprehensive Spending Review and Local Government Finance Settlement in 2015, a number of fundamental changes are proposed to the way in which local government will be financed. The emphasis of these changes is focused on local authorities becoming more self-sufficient and less reliant on central government grant.

Pressures on the Council's Revenue Budget in 2016/17

7. During 2015/16 there have been a number of pressures which have crystallised due to increasing demographics and legislative changes. Namely; individuals presenting with no recourse to public funds, looked after children, and demand for temporary accommodation. Consideration is given in the report to the management and funding of these risks.
8. In setting this budget, the Council will maintain a level of corporate balances and reserves which should be adequate to deal with any risk associated with the delivery of this budget. That said there are still considerable risks associated with delivering the scale of savings required. The Chief Financial Officer recommends that the un-earmarked reserves are held at the current level of £13.0m. Should the need arise to call upon these reserves during the year, consideration should be given to replenish them as soon as possible.
9. In addition, the Council held Specific Earmarked Reserves which total £69m at the 31 March 2015. These funds are earmarked for various future planned spending and to undertake one-off projects or work that does not happen every year. Examples include, the transitional fund, redundancy provisions, elections, replacement of obsolete equipment and contractual claims that may become due (e.g. dilapidations that may become payable on properties we lease from the private sector to provide housing).
10. The 2016/17 budget pressures have been outlined in the main budget report. These include a range of pressures, some of which cannot be quantified at this stage, and include: demographic pressures for children and adult services; redundancy and further potential changes to funding as a result of government legislation and reform. These funds will either be transferred to the Directorate budgets where quantifiable and not thought to be directly controllable at the start of the year or held corporately until such time as the pressure emerges during the year.

Budget assumptions

Inflation

11. For financial planning purposes, the Council continues to anticipate the environment of public sector pay restraint to continue and assume an average pay inflation of 1% per annum, which equates to approximately £1.1m. Negotiations in 2015 confirmed a pay offer of 1.0% from the 1 April 2016. While not yet formerly agreed, funding for this increase is provided within the budget.
12. The Council applies a notional non-pay inflation level of 2.5% per annum which equates to approximately £2.7m on net non-pay expenditure.
13. Moving forward, officers will need to closely monitor inflationary pressure on contracts, which in many cases, continue to outstrip the current level of Consumer Prices Index (CPI) inflation. In particular, this applies to those areas which are viewed as being particularly sensitive to contract price changes, such as Adult Social Care, or with long term fixed rate contracts, such as the range of PFI contracts which the Council is currently engaged with.

Budget Risks

Capital Programme

14. The risks related to the Capital Programme are managed programme-wide and scheme by scheme. Officers review anticipated capital receipts quarterly, the last review was carried out in January 2016. Projections are updated and reported on regularly to Mayor & Cabinet.

Service volume pressure

15. The Council continues to maintain a medium term financial strategy and corporate budget model by which it attempts to identify and anticipate financial pressures.
16. With regards to the overall financial standing of the authority, issues concerning the level of borrowing and debt outstanding are considered in section ten of the 2016/17 Budget Report.

Business Rates Retention

17. This is the fourth local government finance settlement under the new 'business rate retention' funding system. There is now an increased emphasis on local authorities to grow their business activities locally. Councils retain 30% of locally collected business rates, but have no discretion to vary the rateable value or 'multiplier', (i.e. the pound charged per rateable value). This element makes up 17% of the total baseline funding received by Lewisham in respect of business rates in the financial settlement.
18. Each local authority is given an indicative target of business rates yield against which growth will be judged. Councils will be able to retain a share of any growth in business rate income and therefore have a direct financial incentive to promote growth in their local economies. Conversely, any decline in business rates will also be borne by the authority and will negatively impact upon income levels.

Savings

Identifying savings

19. The Council, through the Lewisham Future Programme, continues to look at reshaping the Council over the medium term. This Programme recognises that in the sixth consecutive year of spending reductions even greater innovation, focus on the customer, and cross-cutting thinking is required to deliver savings. This whilst attempting to minimise the impacts on residents and customers for Lewisham Council services.
20. The Programme comprises a mixture of thematic and cross-cutting reviews. Some examples of these include: smarter assessment arrangements and deeper integration of social & health care, including public health; approach to safeguarding and early intervention services; opportunities for asset rationalisation; a strategic review of income generation and the drive to make further reductions in management and corporate overheads.
21. The 2014/15 and 2015/16 budgets were supported by the use of reserves. The 2016/17 budget makes use of once off resources from New Homes Bonus of £5.0m and £5.9m of earmarked reserves. Going forward, ongoing measures will need to be put in place to ensure the sustainability of the budget.

Implementing savings

22. There is a risk that one or more budget savings, in full or in part, may not be delivered on time in the year. The Council operates financial management on the principle of devolved responsibility for budgets to managers in Directorates. This is managed through the monthly budget monitoring process with quarterly updates provided in the budget monitoring reports for members. The extent to which any anticipated savings are not delivered adds to future pressures.

Control

23. Going forward into 2016/17 the Council will continue to maintain its strong systems for monitoring expenditure and controlling expenditure through Directorate cash limits.
24. During 2015/16 instructions to budget managers were re-affirmed to ensure tight spending on budgets and focus on ensuring the Council's budget position remains within budget at the year-end. However, throughout the year the Council has forecast a persistent overspending position. While this has been reduced, the forecast outturn position for the year at the December 2015 was an overspend of £6.9m. This will likely reduce further with the application of the unallocated element of the risk and pressures monies in the 2015/16 budget. Any overspend at the end of the financial year will have to be met from once off resources.
25. For 2016/17, the budget holders within Directorates are again being requested to endorse their cash limits before the start of the financial year and provide confirmation of an ability to deliver their services within the agreed allocated resources. At this stage it is expected that the Departmental Expenditure Panels and the Corporate Expenditure Panel will continue into 2016/17 and this will be kept under review.
26. Given the forecast outturn position in 2015/16, the level of savings required for 2016/17 and the anticipated significant level of savings/cuts required in the years beyond; it remains critically important to monitor the progress being made in implementing these savings throughout the year.

Conclusion

27. The Council has a robust and sophisticated approach for producing and maintaining its annual budget. Its financial plans and strategies have contributed to the achievement of the Council's corporate objectives to date.
28. The Council has drawn on once-off resources in 2014/15, 2015/16, and will do so again in 2016/17. This approach has been used to allow the Council to identify and implement cost reduction and transformational changes in a measured way. However, it does need to be recognised that this is not sustainable over the long term as continued use of reserves, if unplanned, could reduce the resilience of the Council to respond flexibly to unforeseen expenditure or continued resource reduction.
29. 2015/16 was the sixth consecutive year the Council has made sustained budget reductions and with the local finance settlement for 2016/17 we know this will continue for at least a further four years. The measures taken to date have, in the main, been successful. However, the identification and implementation of savings is becoming more challenging and taking longer to achieve. This pressure is

expected to continue and tight control will need to be exercised over the budget for 2016/17 given the level of risk the Council faces. As well as managing within budget, attention also needs to continue to be focussed on identifying the savings necessary to achieve a balanced budget in future years.

30. The use of once off resources on a continuous basis to balance the annual budget is not sustainable and could quickly lead to the depletion of reserves. Should the Council find itself in a position where it does not have the resources to meet expenditure this would lead to the consideration of a Section 114 notice. Whilst the Council does currently have adequate reserves and a robust financial management regime, the budget preparation for both the short and medium term must remain a priority.

Janet Senior – Executive Director for Resources & Regeneration
Chief Financial Officer – Section 151

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