MAYOR AND CABINET			
REPORT TITLE	2017/18 to 2019/20 Medium Term Financial Strategy		
KEY DECISION		**Item No.**	
WARD	All		
CONTIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	**Date:**	13 July 2016

1. EXECUTIVE SUMMARY

1.1. The Medium Term Financial Strategy (MTFS) for 2017/18 to 2019/20 sets out the Council's medium term financial plan over the next three years. It includes a review of the Council's overall financial position bringing together the outturn for 2015/16, the forecast for the current financial year of 2016/17, and considers prospects for 2017/18 and future years.

1.2. The strategy forecasts a further reduction in funding of a minimum of £15m (6%) between 2016/17 and 2019/20. At the same time spending projections, including pay and prices inflation and provision for budget pressures related to an increasing population and changing demographic needs, estimate that minimum additional spending of £30m (13%) will be required to meet those needs.

1.3. In the March 2016 budget, the Chancellor of the Exchequer announced further as yet unallocated efficiency savings of £3.5bn for the public sector in 2019/20. It is expected that this, combined with any austerity measures arising from the EU referendum, will have a further detrimental effect on the Council's funding.

1.4. The Secretary of State announced in his speech to the House of Commons, 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).

1.5. No forecast beyond 2019/20 is made given the uncertainty for local government financing. This includes: the £8bn of as yet unallocated Public Sector spending reductions for 2020/21; changes proposed regarding the local government funding formula and business rate arrangements; future arrangements for other funding streams (such as New Homes Bonus and improved Better Care Fund); and economic uncertainties (such as nationally the implications arising from EU referendum result and regionally a possible London devolution deal).

1.6. The Council estimates the level of savings required for the three year period 2017/18 to 2019/20 at £62m. Of this £17m of savings were agreed in the 2016/17 budget. The budget model therefore estimates the remaining savings requirement over the next three years to 2019/20 at £45m.

1.7. The Lewisham Future Programme continues to work to address the budget gap. The immediate target is now to deliver up to £15m of savings to bridge the budget gap for 2017/18, review the current four year efficiency plan, and decide whether to accept the government's offer in respect of RSG grant to 2019/20.

2. PURPOSE

2.1. The main purpose of this report is to set out the medium term financial position for the Council over the next three years and the assumptions on which it is based. It also provides an overview of the current financial situation and provides an update on the delivery of the savings programme for 2017/18.

2.2. The MTFS covers the following areas:

- It sets out the expected resource envelope that the Council's General Fund must operate within in 2017/18, attempts to project funding in future years, and identifies the main factors that might affect this.
- It sets out service and other spending projections (e.g. Housing Revenue Account, Capital Programme, Dedicated Schools Grant, and other funding streams) and the main factors that may affect these.
- It projects the General Fund budget gap which is the difference between the resource envelope and spending projections. This includes some sensitivity analysis for a best, base and worst projection for each year, depending on the assumptions made, the base representing the most likely outcome.
- It sets out the measures the Council needs to take to address the budget gap through the Lewisham Future Programme.

3. RECOMMENDATIONS

3.1. The Mayor is recommended to:

3.1.1. Note the 2017/18 to 2019/20 Medium Term Financial Strategy;

3.1.2. Request that a further update is brought back as part of the savings and budget setting process to reflect any changes arising from the local government finance settlement.

4. STRUCTURE OF THE REPORT

4.1. The Report is structured as follows:

1. Executive Summary
2. Purpose
3. Recommendations
4. Structure of the report

<u>STRATEGIC REVIEW</u>

5. Introduction
6. Local Policy Context
7. National Policy Context

8. Budget Update

MEDIUM TERM FINANCIAL STRATEGY

9. Introduction
10. Resource Envelope
11. Revenue Expenditure Assumptions
12. General Fund Budget Gap
13. Addressing the Budget Gap
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SUMMARY AND IMPLICATIONS

18. Conclusion
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STRATEGIC REVIEW

5. INTRODUCTION

5.1. The 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 2017/18 will be presented to Mayor & Cabinet in January 2017 and full Council in February 2017.

5.2. This report sets out the scope of the Council's financial planning which includes: the General Fund; Housing Revenue Account; the Dedicated Schools Grant, other funding streams and the Capital Programme.

5.3. The key objectives of the 2017/18 to 2019/20 Strategy are to:

- plan the Council's finances over a three year period to take account of local improvement priorities and national priorities;

- ensure that the Council's corporate priorities continue to drive its financial strategy and resource allocation;
- assist the alignment of business 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 Council's medium term financial strategy is linked to other internal strategies and plans; and
- ensure that the final agreed budget reflects all these considerations.

5.4. Over the last seven years, the Council has undertaken a major budget reduction programme to manage the difficult financial challenge it has been faced with. In the period 2010/11 to 2016/17 the Council has implemented savings of £138m. The financial outlook for the Council and the public sector as a whole remains extremely challenging. The Government has re-affirmed the need for significant reductions in public sector expenditure over the medium term. The Council has already seen the effects of these in its revenue budget settlements for the previous and current financial years and in the reduction of capital resources provided to the Council.

5.5. The Government is planning to change the way local authorities are funded by the end of this Parliament. The main local government grant, the Revenue Support Grant (RSG) will be phased out, 100% business rates to be devolved, and additional responsibilities transferred to local authorities.

5.6. It is expected that the system of top ups and tariffs which redistributes revenues between local authorities will be retained and updated following consultation in 2017/18 on the funding formula for local authorities. The government has also begun consultation on refreshing the national funding formula for schools. This will impact the level of Dedicated Schools Grant (DSG) the Council receives to support local schools. The consultation on the future of the New Homes Bonus scheme has closed and confirmation on how this will operate is pending. A consultation on the purpose and allocation of the proposed improved Better Care Fund is also expected. Existing Better Care Fund funding and Public Health grant expenditure is expected to be managed within the levels negotiated with partners.

5.7. The focus of the MTFS is the Council's General Fund budget. Whilst it is very important, particularly at a time of financial constraint, to identify ways in which all services can be delivered more effectively across traditional organisational and financial boundaries, the nature of the current financial austerity regime is such that most of the budget reductions have to come from Council General Fund services. Having a sound General Fund MTFS, and a strategy for responding to the challenges it presents, is an essential pre-requisite to ensuring effective responses from all of the services the Council directs and influences.

6. LOCAL POLICY CONTEXT

6.1. The Council's strategy and priorities drive the medium term financial planning process, with changes in resource allocation determined in accordance with policies and priorities. *Shaping our future* is Lewisham's Sustainable Community Strategy. It covers the period for 2008 to 2020 and sets out a vision for Lewisham and the priority outcomes that organisations, communities and individuals can work towards to make this vision a reality. The key priorities are set out at Appendix 1 for reference.

6.2. In taking forward the Council's Budget Strategy, in engaging our residents, service users and employees, and in deciding on the future shape, scale and quality of services, we will be driven by the Council's four core values:

- We put service to the public first.
- We respect all people and all communities.
- We invest in employees.
- We are open, honest and fair in all we do.

7. THE NATIONAL POLICY CONTEXT

7.1. The Chancellor of the Exchequer made his 2016 Budget speech on 16 March this year. Subsequently the results of the EU referendum and decision to leave are likely to have a significant impact on national financial assumptions

7.2. The global economic position continues to be one of growth (3% in 2015) with the UK performing well amongst the larger economies. Nonetheless there remain some key risks to continued global growth which bear on the UK economy. These include:

- geo-political uncertainties for example in the Middle East and former Soviet states;
- risk of UK recession and declining rates of growth in global trade;
- potential vulnerabilities in the Euro Zone and related global ramifications from the UK referendum on its membership of the EU; and
- economic shocks as US withdrawal from quantitative easing and return rising interest rates take effect.

7.3. The Office for Budget Responsibility (OBR) forecast GDP growth of 2.0% in 2016, 2.2% in 2017 and 2.1% to the end of the forecast period. It forecasts employment to be 31.5 million in 2016, rising each year to 32.1 million in 2020. Consumer Price Index (CPI) is forecast to be below the 2.0% inflation target in 2016, returning gradually to 2.0% by 2018.

7.4. Public sector net borrowing is forecast to fall to 3.8% of Gross Domestic Product (GDP) in 2015/16 and then to fall each year for the remainder of the forecast period. The OBR forecasts that the public finances will deliver a surplus of £10.4

billion in 2019/20 and £11.0 billion in 2020/21. Public sector net debt is forecast to fall to 74.7% of GDP in 2020/21.

7.5. The Government remains committed to cutting public sector spending by an anticipated £20 billion to 2019/20. It has also reaffirmed its on-going protection for key spending areas, including health, defence and overseas development. This means spending cuts fall on other un-protected spending areas, including local authorities. Within the local authority sector, the Government has reversed some of the mechanisms in the local government finance system for equalising needs and resources. The consequence has been a much larger reduction in resources for areas of higher deprivation, typically poorer urban areas. While Lewisham's position improved in the most recent deprivation index (September 2015) it remains in the lower quartile of authorities.

7.6. The consequence for Lewisham is plain. The Settlement Funding Assessment (the total amount the government assumes to come from Revenue Support Grant and business rates) fell by 9% in 2016/17 and is set to fall, as per the provisional settlement published by the DCLG, by an additional 8% in 2017/18. The current Comprehensive Spending Review provides some indication of expected government funding for local authorities to 2019/20. For Lewisham this is forecast to decrease to 54% of the Council's annual net general fund revenue budget (was 65% in 2012/13) thereby transferring a greater element of risk onto the Council's own sources of income (in particular Council Tax and Business Rates) with the business rates regime from 2020/21 still to be defined and Council Tax rises capped without a local referendum.

7.7. Longer term there are further national uncertainties and with less financial support more of the risk to funding Council services will be put on local tax payers from local taxes. More widely from the Chancellor's March budget there remains £3.5bn of unallocated national public sector efficiencies to be delivered in 2019/20 and a further £8bn of public sector spending reductions pencilled in for 2020/21. In addition, changes are proposed to the local government funding formula and business rate arrangements; future arrangements for other funding streams (such as New Homes Bonus and improved Better Care Fund); and economic uncertainties (such as nationally the implications arising from the EU referendum result and regionally a possible London devolution deal). All will impact the Council's financial planning.

7.8. Improvement in economic activity will have a beneficial impact on aspects of the Council's services. It should help drive regeneration within the borough, leading to more businesses and jobs as well as additional housing. The Council will achieve some direct financial benefits from these developments, including additional Council tax, New Homes Bonus and a share of increased business rates. There will also be benefits to Lewisham residents in terms of more jobs and more housing. However, the consequence of other aspects of government policy, such as failure to kerb rising house prices and welfare reform impact on levels of homelessness, will have a significant continuing adverse impact on Lewisham residents and, together with demographic pressures, will lead to increased pressure on services.

7.9. Other economic indicators will have an impact on the Council's spending. Inflation is expected to remain at around 2% but real wages are increasing. The

March Budget 2016 assumes public sector wages will be held to annual 1% rises for the three years to 2019/20. In addition, the expected increase in interest rates, with the governor of the Bank of England forecasting interest rates in the region of 2.5% by 2017/8, will affect the authority's finances. In this case it should be beneficial since interest on the Council's cash balances will rise while interest on Council debt, which is mainly funded from long term fixed interest loans, should remain largely unaffected.

7.10. As noted above, all of these forecasts were made before the EU referendum results were known. They are now subject to the uncertainties that follow that decision and may change significantly and quickly. The Council will therefore need to pay close attention to these indicators in the coming months and adjust the financial assumptions and actions for the future sustainability of the Council.

8. BUDGET UPDATE

2015/16 Financial accounts

8.1. The Council's draft final accounts for 2015/16 have been prepared and were reviewed by the Audit Panel on 8 June 2016, before being submitted for audit by the Council's external auditor, Grant Thornton. A separate report on the Council's final outturn position for revenue and capital budgets was presented to Mayor & Cabinet at the 1 June 2016 meeting.

8.2. The Council's final 2015/16 Directorate revenue outturn position was a Directorate overspend of £6.3m, reduced to £3.1m after applying a corporately held provision for pressures and risks of £3.2m. The Housing Revenue Account (HRA) is predicting a surplus of £3.2m. This surplus is expected to be transferred to reserves at the end of the year which will ensure that there are sufficient resources available to fund the current housing programme over the medium term. For the Dedicated Schools Grant (DSG) of £279.4m for 2015/16, there were three schools which applied for a licensed deficit in the year. There are a further nine schools which overspent by the year-end and will need to apply for a licensed deficit in the future. Capital expenditure for the year was £94.1m. This represents is 80% of the revised budget of £118.1m. The comparable figure last year was a final spend of £122.6m, which was 89% of the revised budget of £137.3m.

2016/17 Budget

8.3. The 2016/17 budget was approved by Council on the 24 February 2016. The overall budget position for the Council is a net General Fund Budget Requirement of £236.218m, as set out in Table1 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 2016/17	(10.752)	
Less: Use of New Homes Bonus reserve	(5.000)	
Less: Once off use of provisions and reserves	(5.942)	
Total		**236.218**

2016/17 General Fund Revenue Budget Monitoring

8.4. Officers continue to undertake regular revenue budget monitoring in 2016/17. The first revenue budget monitoring report will be presented to the Public Accounts Select Committee on 5 July. The report is based on information to the end of May 2016 and forecasts a year-end overspend of £7.7m. The main service areas overspending are:

- Children's Social Care £3.9m,
- Adult Social Care £1.1m,
- Public Health £1.5m
- Environment £1.0m.

8.5. The Executive Director noted that, in setting the Council's budget for 2016, a sum of £3.75m was set aside and is being held corporately for managing 'risks and other budget pressures'. This is for items which although difficult to quantify with absolute certainty, could prove significant should they materialise. Amounts required will be confirmed by the year end.

Housing Revenue Account Monitoring

8.6. The forecast position for the Housing Revenue Account is to spend to budget for 2016/17.

Dedicated Schools Grant

8.7. The forecast position for the Dedicated Schools Grant overall is to spend to budget for 2016/17.

8.8. However, it should be noted that there were three schools which applied for a licensed deficit in the year 2015/16 and a further nine schools which overspent by the year-end and will need to apply for a licensed deficit in the future.

Capital Programme

8.9. The overall spend to 31 May is £5.5m, which is 3% of the revised 2016/17 budget of £157.2m.

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

9. INTRODUCTION

9.1. The MTFS takes a forward view of the likely financial position of the Council over the next three years. The intention would usually be to project forward four to five years. However, the current levels of structural uncertainty and anticipated change for the years 2020/21 and 2021/22 (for the reasons noted above) does not make this possible at this time. This strategy does not seek to duplicate or replace any of the Council's other policies and strategies.

9.2. The financial strategy has produced a model with financial forecasts that aim to deliver the Council's priorities and identifies the constraints of the significant financial challenges it faces.

9.3. The MTFS projects:

a. the resource envelope the Council's General Fund must operate within in future years;

b. service and other spending pressures and the main factors that may affect these; and

c. the General Fund budget gap which is the difference between the resource envelope and the spending projections.

9.4. As the level of uncertainty regarding funding is relatively high for all years to 2019/20, the strategy has again modelled three indicative scenarios, the best case, the base case, and the worst case scenarios. The base case is assumed to be the most likely expected to happen. These scenarios are formulated on a number of local and national assumptions made based on the information available.

9.5. These are discussed below and summarised in Appendix 2. In addition, the four year efficiency plan will use the base case as the most likely and the one the Council is planning for in terms of savings required.

10. RESOURCE ENVELOPE

10.1. 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 Revenue Support Grant, business rate top-up, and retained business rate income; and
- Council Tax income.

Settlement Funding Assessment (SFA)

10.2. Local authorities currently receive funding from the government via the Settlement Funding Assessment (SFA). This consists of the local share of business rates, and Revenue Support Grant.

10.3. The Government announced the provisional figures for 2016/17 to 2019/20 on the 8 February 2016. Table 2 below sets out the provisional SFA for Lewisham from 2016/17 to 2019/20:

Table 2: Make-up of Lewisham's Provisional Settlement Funding Assessment, 2016/17 to 2019/20

Settlement Funding Assessment	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Revenue Support Grant	59.6	46.2	36.9	27.6
Business Rate Top-up (to reflect Lewisham's low business rate base)	71.6	73.0	75.1	77.5
Retained Business Rates	15.5	15.8	16.3	16.8
Total SFA	**146.7**	**135.0**	**128.3**	**121.9**

10.4. The Government will offer any Council that wishes to take it up a four-year funding settlement to 2019-20 which will provide funding certainty and stability in respect of the Revenue Support Grant only. The intention is to enable more proactive planning of service delivery and support strategic collaboration with local partners. The government has pledged to support this offer subject to exceptional economic circumstances preventing it doing so. Local Authorities have until the 14 October 2016 to decide whether to accept this offer.

Business rate income

10.5. Following changes to the local government finance system which came into effect in 2013/14, the Council retains 30% of the business rate income it receives, with 20% going to the GLA and 50% paid to government. Each year the Council receives an amount (the top-up) from central government. The Council's business rate income is therefore materially impacted by the national tax take and to a lesser degree by growth in business rates locally (see Table 2 above).

10.6. The government is expected to consult soon on a revised business rates approach to devolve 100% of the tax take to local government. This will also first require a review of the top-up and tariff arrangements in line with the announced funding formula review and the transfer of additional responsibilities to local government in line with the additional funding. However, some £6.7bn of the available £13bn of this additional funding was distributed in the Chancellor's March 2016 budget by making permanent various reliefs and raising the business turnover thresholds at which business rates become due.

10.7. In addition, 2017/18 is the year when the next five year valuation to 2015 will come into force. The work by the Valuations Office Agency to finalise the 2015 list is currently underway. Typically the release of a new list generates a high level of appeals. Also while the valuation process is being undertaken, open appeals on the previous list are on hold and when processed can be backdated to the start of that list. As noted in the 2015/16 draft financial statements. Lewisham potentially has some large changes pending on the old list and expects additional work from new appeals, under the new 'check, challenge and appeal' process, from the 2015 list when it is published.

10.8. As a higher proportion of the total business rates tax take is devolved to local authorities the risk to their incomes from changes in business rate valuations increases. The base case assumption is therefore a conservative 1% rise above inflation in business rate valuations in the borough and nationally.

Council Tax income

10.9. 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 for 2017/18 and their general responsibilities to steward the Council's finances over the medium term.

10.10. Council Tax income is also affected by growth in the number of properties in the borough, the rate of Council Tax collection, as well as decisions about the level of Council Tax.

10.11. In the November 2015 Spending Review, the Government announced the creation of a social care precept to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on social care. The precept works by giving local authorities the flexibility to raise council tax in their area by up to 2% above the existing referendum threshold. In Lewisham this provided additional funding of £1.665m ring fenced for adult social care spend in 2016/17.

10.12. The current position is still that Council Tax may not be increased by 2% or more (inclusive of levies) without a referendum. The 2% Social Care Precept is in addition to this. The government's assumptions in the local government financial settlement to 2019/20 include the raising of both Council Tax and the social care precept in each and every year to meet the recognised funding pressures faced by the sector.

10.13. In 2016/17, Council Tax was raised by 3.99% in total, i.e. a 1.99% general increase and a 2% social care precept increase. This generated additional funding of £3.3m.

10.14. For the purposes of the MTFS base case, it has been assumed that there will be a 3.99% increase in Council Tax for 2017/18 and each year thereafter. This reflects the assumption that the Council will continue to apply the 2% Social Care precept established for 2016/17, as well as the maximum increase allowed without a referendum. Combined this will generate additional Council Tax income of approximately £3.5m each year.

10.15. Forecast Council Tax income from 2017/18 to 2019/20 is set out in Table 3 using the assumptions in Appendix 2. The amounts collected here are after allowing for the cost of the Council Tax Reduction Scheme (some £25m annually) and any uncollected debts.

Table 3: Council Tax Income Future Year Projections

	2016/17 Expected	2017/18 projection	2018/19 projection	2019/20 projection
	£m	£m	£m	£m
Best case	-	91.4	96.5	101.8
Base case	86.6	91.4	96.5	101.8
Worst case	-	87.9	89.2	90.5

11. REVENUE EXPENDITURE ASSUMPTIONS

11.1. In addition to the reduction in the level of resources available over the next three years, the Council faces a number of budget pressures which will add to the overall revenue expenditure. This section of the report considers the effect such pressures will have on the future years' revenue expenditure.

Pay

11.2. A pay award of 1% was agreed for 2016/17 and 2017/18. The base model has assumed that pay awards will remain at 1% in future years in line with the Chancellor's stated expectations for public sector pay to 2019/20.

11.3. In addition, from 2017/18 the government will introduce the new apprenticeship levy at 0.5% of the pay bill for all employers with an annual pay bill of more than £3m. This money will be available to fund the training and development costs to organisations of apprenticeships, not their salaries. For the Council (excluding schools) the cost will be in the region of £0.35m per year.

Employer pension contributions

11.4. As with most Councils, the Lewisham Pension Fund has a deficit reflecting the nature of a final salary scheme, the available return on investments, and the increased longevity of staff who have retired. Changes to the scheme affecting the contributions made by employees, the age at which benefits can be taken, and the calculation of the benefits and indexing arrangements have helped to address pressures on the Pension Fund but not eliminated the deficit.

11.5. As a result of the last Valuation of the Pension Fund assets and liabilities at 31 March 2013, an additional £1m per annum may be needed to be put into the Pension Fund. This is on top of the 22.5% of basic pay that the Council contributes for those staff who are members of the Fund in 2016/17. The next valuation is currently underway and is based on the value of the fund as at 31 March 2016 and has effect from 1 April 2017. Until the results are available the assumption continues the existing arrangement through to 2019/20.

General price inflation assumptions

11.6. General price inflation is calculated on non-pay expenditure on General Fund services (excluding internal recharges and housing benefit payments). A proportion of this expenditure is contractual with indices linked to inflation but in many cases the Council is in a position to re-negotiate increases. For the purposes of these projections, it is assumed that all prices go up by inflation, which in 2017/18 has been estimated at 2%.

General fees and charges assumptions

11.7. The Council's approach in the past has been to expect fees and charges it makes 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

11.8. Forecasting the impact of demand changes is the most difficult aspect of the MTFS. But the MTFS needs to make allowance for the potential impact of these. The key challenges that impact on the demand for Council services are as follows:

- Population growth – this particularly affects people based services such as adult and children's social care. But it also affects general demand for universal services such as leisure and cultural services and school places;
- Ageing population – this affects care for the very elderly but also impacts on care for younger adults and children with disabilities who are living longer as a result of improvements in medical care. It also has a direct impact on the

funding the Council needs to provide for the London-wide concessionary fares scheme;

- Household growth – this impacts on General Fund property based services such as refuse collection and waste disposal; highways, footpaths and street lighting; and more school places and additional health and care needs.
- Impact of government policy – improvements in economic well-being and reduction in crime should potentially mean less demand for Council services. However, the shortage of housing, the impact of welfare changes, and policy toward people with No Recourse to Public Funds are all having a major impact on social needs within the borough. This is reflected directly through the number of families the Council has to accommodate in bed and breakfast and expenditure incurred on families with No Recourse to Public Funds. It also affects the ability of families to cope with economic and social pressures, with potential consequences for the number of children at risk or who need to be placed in care; and
- 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.

11.9. The Council is pro-actively trying to address these demand pressures and seeks to ensure wherever possible that the changes it has to make to services reduce rather than increase demand. These include, for example, measures to support people with a social care need at home, prevent children coming into care, increase the supply of affordable housing, reduce household and commercial waste disposal, as well as rigorous application of criteria for access to services.

11.10. Other pressures, such as the cost of transition of children with disabilities into adult services or when specific grants are withdrawn, are assumed to be managed within service budgets.

11.11. Nevertheless, with significant population growth forecast additional demand in some services is unavoidable. Therefore, the Council annually provides £7.5m corporately for growth from demand and other unavoidable pressures in the budget. The model assumes this will continue for future years.

Specific grant assumptions

11.12. The following assumptions have been made in the projections on specific grants which fund services:

- The Public Health grant – this grant is currently £25.6m in 2016/17 and now includes early years health visiting since 2015/16. The Chancellor’s Autumn Statement confirmed that LAs’ funding for public health would be reduced by an average of 3.9 per cent in real terms per annum until 2020. This equates to a reduction in cash terms of 9.6 per cent over the same period. The Autumn Statement also confirmed that a central government grant, ring-fenced for use on public health functions, would continue for at least two more years. The provisional allocation for 2017/18 is £24.9m.

- The Better Care Fund (BCF) – this funding increased slightly in 2016/17 but larger increases are expected by 2019/20 with the introduction of the improved BCF (iBCF). The difference between the BCF and iBCF is expected to be that the iBCF comes directly to Local Authorities to fund adult social care services while BCF spending has to be jointly agreed with the local Clinical Commissioning Group (CCG). The Spending review indicated that over this period an extra £1.5bn would be made available nationally to support integrated services through the iBCF. Firm details of the iBCF funding per area and of any conditions of use are not yet available but it is expected that this money, combined with revenue raised from the Adult Social Care precept, should address the recognised pressures on adult social care budgets.
- Adult Social Care new burdens funding – the government has increased funding for Lewisham for implementing the Care Act 2014 from £1.1m in 2015/16 to £1.5m 2016/17. This funding is currently held corporately and is available to support adult social care if required. The spending review indicated that this funding will increase to £2.4m by 2019/20.
- The Council receives a number of other grants but most are relatively small or directly related to specific projects. A number of these 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. As the new Mayor for London sets his priorities, any changes to these other grants will have to be met with an equivalent reduction in service spend to ensure it will have a neutral impact on the budget gap.

Other Income and Expenditure Items

11.13. 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>

11.14. Capital financing costs include all revenue costs relating to the Council's outstanding borrowing which comprises repayment of principal and interest charges. It also includes provision for capital spending which is charged directly to revenue and repayment of historic debt in respect of the former Inner London Education Authority. These costs are offset by principal and interest repayments from the Catford Regeneration Partnership Limited Lewisham Homes, and interest on the Council's investment balances.

11.15. The main factors that affect the forecasting of capital financing costs are the level of borrowing for capital purposes, the level of the Council's cash balances, and interest rates. The MTFS assumes that capital spending will be funded either from grant, capital receipts, capital reserves, be charged direct to revenue or borrowing.

11.16. Changes to interest rates should not 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. 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 scale is likely to be very limited and timing remains uncertain. The Bank of England's statement following the EU referendum highlighted the option to reduce interest rates from the current historic low of 0.5% and markets are currently assuming no increase in interest rates before 2020 and any rise is likely to be small in the near term.

Levies

11.17. These cover the London Pension Fund Authority, the Environment Agency and Lee Valley. The Council has not yet been provided indicative totals for levies in 2017/18. It is therefore assumed these will stay at similar levels for future years.

Added years pension costs

11.18. In the past, staff who retired early were awarded additional assumed years in the Pension Fund with the additional cost being charged to the General Fund. Although added years stopped being awarded some years ago, the Council has an on-going commitment for those staff who were awarded added years in the past.

Other known future years budget adjustments

11.19. There are three further adjustments that are included within the budget projections for future years, funded from the £7.5m provision stated in para 11.10 above:

- Concessionary fares – the cost of concessionary fares to the Council changes each year to reflect increases in population entitled to concessionary fares, increases in fares themselves, and changes to the basis for allocation of costs between boroughs. The projections assume an increase of £0.5m each year.
- Highways and footways maintenance – the 2014/15 budget report included a proposal to switch highways and footways maintenance funding from capital to revenue in order to avoid the build up of prudential borrowing charges. To fund this, it was agreed that £0.35m growth would be provided each year in the revenue budget together with funding that would be released within the capital financing charges budget as a result of prudential borrowing no longer being required.
- Licencing - in 2015/16 Lewisham introduced its first private sector landlord licencing scheme. It is expected that this will cost £0.2m annually to run. The intention is to help coordinate and raise the standard and safety of properties being let in the borough but providing a quality assurance scheme for landlords and tenants.

Education Services Grant

11.20. This is a non-ring fenced grant carved out of Revenue Support Grant which is an assessment of the amount the Council needs to fund local authority education functions which it would no longer be responsible for if all schools in its area were Academies or Free Schools. Lewisham's 2016/17 allocation is £3.6m an £0.35m reduction from 2015/16. The 2017/18 grant has not yet been announced, however it is anticipated that this grant will be phased out within the next three years as the government's policy for schools to move to become academies accelerates. Following the first phase consultation on future schools funding, it is possible the grant may be stopped completely in 2017/18.

New Homes Bonus

11.21. The New Homes Bonus (NHB) is a grant paid by central government to local councils for increasing the number of homes in use. The grant is currently paid each year for six years. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions, and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

11.22. Growth in the number of properties in Lewisham will lead to an increase in the New Homes Bonus although this will be offset from 2017/18 onwards as funding for properties for which New Homes Bonus was allocated in earlier years of the system drop out of the calculation.

11.23. In 2016/17 the Council's allocation is £9.3m. £0.65m of this has been committed within the revenue budget to additional spending requirements resulting from the provision of new housing. The balance is held in provisions for anticipated growth in Lewisham. The funding will be used to improve the borough's town centres, increase in the number of jobs in the borough, provide improved transport links to the rest of London and build upon the necessary infrastructure such as schools, health facilities and open spaces.

11.24. The Government has consulted on changes to the distribution of the NHB with effect from 2017/18, notably a reduction in the number of years the bonus is paid on a property. At present, each year's allocation under the Bonus leads to "legacy" payments over six years. The Government consulted on whether from 2017/18, the number of years for which legacy payments are to be paid should be reduced from six years to four years. This is the Government's preferred option, but it is also considering whether to move further and reduce payments to three or two years. The results of the consultation are yet to be announced.

11.25. For this reason the Council has taken the prudent approach of putting this funding to reserves first and only making commitments against it once received. This means that while the Council will receive less grant in the future which may limit options it will not add to the savings burden.

GENERAL FUND BUDGET GAP

11.26. 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

	Best Case			Base Case (Efficiency plan)			Worst Case		
	17/18	18/19	19/20	17/18	18/19	19/20	17/18	18/19	19/20
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total Resources	230.0	228.3	229.3	**227.0**	**225.1**	**224.2**	222.0	215.9	209.8
Total Revenue Expenditure	258.2	242.1	241.5	**259.3**	**239.4**	**237.2**	261.7	234.3	228.2
Approved Savings	(17.3)	0	0	**(17.3)**	**0**	**0**	(17.3)	0	0
Additional Annual Savings Required	10.8	12.9	10.3	**15.0**	**14.2**	**13.4**	22.3	18.5	18.4
Cumulative Savings Required	10.8	23.6	34.0	**15.0**	**29.2**	**42.6**	22.3	40.8	59.2

11.27. Taking the base case scenario as the expected position, it shows the annual measures required to bridge the budget gap from 2017/18 to 2019/20 are £15m, £14.2m, £13.4m. A total of £42.6m over the three years to 2019/20. This is being rounded to a £45m headline figure as to date the success rate of delivering savings has been around 95% so this provides a small contingency for proposals brought forward that may fall short. This is a substantial budget gap for the Council, especially as savings agreed to date have total £155.7m.

11.28. The best case scenario has been modelled to show the effect that positive changes in the assumptions will have on the overall budget gap. Here the culmulative budget gap to 2019/20 reduces by £8.6m to £34.0m. This is based on higher projected Council Tax collection levels and a £2.0m surplus in the collection fund.

11.29. The worst case scenario is the most unlikely scenario projected. The culmulative budget gap to 2019/20 increases by £16.6m to £59.2m. This scenario demonstrates the difficulty the Council could potentially face if the very worst happens or it opts not to use all available options to maintain its local tax base now that the government has removed the Council Tax freeze grant.

11.30. The next section of this report looks at how the Council continues to address the gap in order to produce a balanced budget.

12. ADDRESSING THE BUDGET GAP

Lewisham Future Programme

12.1. The Lewisham Future Programme, established in the Autumn of 2013, is the Council's organisational approach to deliver savings in order to address the budget gap. The Programme focuses on the areas of greatest spend, recognising that in many consecutive years of spending reductions even greater innovation, focus on the customer, and cross-cutting thinking is required to deliver savings whilst attempting to minimise the impact on residents and customers of Lewisham.

The Lewisham Future Programme (LFP) Board

12.2. The Lewisham Future Programme Board was established to transform the way Council services are delivered by 2020. The Board manages delivery of these changes and develops options for the Mayor and Council to consider. The Board is chaired by the Chief Executive and consists of all Executive Directors plus the Head of Corporate Resources and the Head of Technology and Change.

12.3. Its objective is to oversee a programme of change which will ensure that Lewisham's public services continue to be relevant and responsive to the community, in a way that provides opportunities and meets the Council's statutory obligations. It is recognised that the impact of the LFP will be fundamental and require innovative solutions that re-focus and re-shape services to meet this objective.

12.4. The role of the Board is in two parts: 1) to develop savings options for Mayor and Council to consider and then, once consulted upon and agreed; 2) to implement the changes.

12.5. Work to date has focused on developing options via 18 service and cross-cutting based reviews, each led by Heads of Service across the organisation. Each review has been provided an indicative target to help frame the scale of change needed. These targets are set with a focus on front line services and recognition of the pressures of meeting statutory requirements.

12.6. To support the work of the Lewisham Future Programme and following a large scale consultation with the community (the Big Budget Challenge), in 2015 the Council adopted its Lewisham 2020 strategy. This focuses on four themes for transformation and enabling approaches to support the implementation of service reductions. They are:

- Creating the conditions where communities will be able to support themselves;
- Actively exploring all opportunities to share services;
- Digitising our services and our interactions with residents (to help simplify and manage demand); and
- Developing entrepreneurial approaches to income generation, particularly in relation to assets.

Progress to Date

12.7. The Board continues to assess, challenge and support work strand leads to bringing forward a range of possible savings options. The focus since the budget in February 2016 has been on implementing the £35m of savings agreed for 2016/17 and 2017/18 and developing proposals for the £45m of anticipated savings required by 2019/20 (£15m in each year 17/18, 18/19, and 19/20).

12.8. After making £138m of savings in the seven years from 2010/11 to 2016/17 there are few ‘efficiencies’ still to be delivered. Savings proposals now relate to changing the operation of the Council and the services it is able to provide. The identification, implementation and sustainability of proposed savings is becoming much harder to predict, both from a financial and timing perspective. This increases the risk for the Council’s underlying financial position.

12.9. The Council holds various revenue reserves for the risk of events that may disrupt ‘business as usual’ activities. These were used again in setting the budget for 2016/17 to enable time to develop, consult with stakeholders and implement the scale of savings required. The level of remaining reserves is being maintained given the continuing uncertainty prevailing from austerity, future local government finance changes, and now the results of the EU referendum.

12.10. The Council holds £13m of un-earmarked reserves and corporate provisions for unforeseen events. A review of the current reserves and provisions was undertaken as part of the 2016/17 budget setting process. This evaluated how they might best be used to mitigate the financial risks to the Council as it transforms and reshapes services. The position will be reviewed as part of the 2017/18 budget or before if there is an emergency budget.

Revenue Budget Savings Process

12.11. The next steps are for the:

1) proposals to be presented to members for scrutiny and decision;
2) LFP to continue informal member level discussions around key service areas; and
3) Board to continue to develop further savings proposals for 2017/18 and future years.

12.12. The Board has agreed to putting savings forward as they are ready this year, and the provisional timetable for scrutiny and decision making is shown in Table 5 below. These savings decisions and any further savings that may be identified after these rounds will then be collated and included in the usual budget process in February 2017.

Table 5: Budget Timetable – Key Dates

Month	Key Stage
September 2016	Select Committees - Revenue Budget Savings report
	PAC and Mayor & Cabinet - Treasury Management Mid Year report
	PAC and Mayor Cabinet - Revenue Budget Savings
December 2016	Provisional Local Government Finance Settlement
	Council Tax Reduction Scheme to M&C
January 2017	Final Local Government Finance Settlement
	PASC - the 2017/18 Budget Report
	Council Tax Base agreed by M&C and then Council
February 2017	National Non Domestic Rates consultation session
	Greater London Authority sets the Budget and Precept for 2017/18
	Notification of Precepts and Levies
	Mayor & Cabinet agrees the Budget & Council Tax 2017/18
	Council approves Budget & Council Tax for 2017/18

13. HOUSING REVENUE ACCOUNT

13.1. The Housing Revenue Account (HRA) is a statutory account which sets the Landlord costs and income for the housing stock. The HRA now operates with a 30 year business plan which allows the housing strategy to be updated and implements long term planning on resources and asset maintenance.

13.2. The plan contains a long-term assessment of the need for investment in assets, such as Decent Homes and other cyclical maintenance requirements, as well as forecasts on income streams such as rents, in line with rent restructuring, and future developments. The plan also recognises certain risks. For example; the impact of government policy changes in respect of types of tenancy, rent levels, right to buy, pay to stay, and treatment of voids.

13.3. These risks are discussed below and officers continue to test the flexibility and robustness of the HRA to meet such risks and the implications of any further government policy changes.

13.4. As reported in the 2016/17 budget report, the HRA has been undergoing a major revision following the Government's announcement in the July 2015 of a 1% reduction in social rents to be applied each year for the next four years from 2016/17, contained in the Welfare Reform and Work Act 2016. The impact of the change in policy is a total reduction of forecast rental income within the business plan of £1.90m for 2016/17. The expected cumulative rent reduction over the next four years is £25.0m, with £374.0m being lost over the life of the 30 year business plan. As the Government's proposals are enacted by primary legislation, the authority has no choice other than to implement the rent reduction. In order to protect the business plan to provide the same level of investment and services, the reduction in income will need to be off-set though increased efficiencies and reprioritisation of investment requirements.

13.5. A review of investment needs and priorities has been undertaken, based on updated surveys and inflation estimates has enabled officers to produce a balanced plan, as set out in the attached appendices. Appendix 4 shows the detailed plan for the next five years, including the current year.

13.6. The Housing and Planning Act 2016 has presented the HRA with two further risks. The first the obligation of councils to make a contribution to the Treasury for the disposal of High Value Assets. Whilst the details are still to be determined, it is expected that this will operate by means of a formula from which will assess how much each Council should receive from selling high value voids every year. Councils will be expected to pay this sum to the Treasury.

13.7. The second key risk arising from 2016 is the 'pay to stay policy' which requires tenants with a household income of over £40k per annum to pay 80% of market rents and those with an income over £50k to pay full market rents. This will present the Council with a significantly increased administrative burden although the Council will not be able to keep any of the additional income raised. This may lead to an increase in Right to Buy applications and higher void costs as tenants chose to move from the social housing sector.

14. DEDICATED SCHOOLS GRANT

14.1. The Dedicated Schools Grants 2016/17 for Lewisham has provisionally been set by the Department for Education (DfE) at £283.5m, although this will change during the year to reflect updated pupil numbers.

14.2. Further grants are given to schools and routed through the Local Authority. This includes the Pupil Premium (£17m), Post 16 funding (£6m), Universal Free School Meals Grant (£3m). Making total available funds for schools in 2016/17 of £309m.

14.3. The Government is consulting on a revised National Funding Formula for schools and High Needs Pupils. It is expected that the new formula will be introduced in April 2017.

14.4. There is now a real possibility that there will be a redistribution of funds between the Local Authorities with the highest per pupil funding to the lowest. Lewisham is the 11th highest per pupil funded authority in the country. The F40 group (a group of the 40 lowest funded Local Authorities) have put forward a model which if implemented would see a reduction of around 10% per pupil in Lewisham. The proposals would likely be phased in over a three-year period and would present a significant management challenge for schools in Lewisham.

14.5. If this happens, then schools would see the following reductions where pupil numbers do not change:

School Type	Primary School		Secondary School	
Size of School	210 Pupils £	400 Pupils £	850 pupils £	1200 pupils £
Typical Budget	1,130,000	2,180,000	6,130,000	9,360,000
7% Reduction	79,100	152,600	429,100	655,200

14.6. Overall, this would represent a £17m reduction in funding in real terms for state funded schools within Lewisham. It is expected that the funding Lewisham receives for High Needs pupils would also reduce by 10% or £4.5m.

15. CAPITAL PROGRAMME

15.1. The Capital Programme is a financial expression of the Council's priorities for investment. It has strategic links to the Council's Community Strategy and the Corporate Plan. The Asset Management Strategy sets out the Council's approach to the assets required to deliver excellent services to local people and this also influences the content of the Capital Programme.

Capital Programme Schemes and Resources 2016/17 to 2019/2020

15.2. The estimated resources available, the forecast spend and the under programming within the 2016/17 to 2019/20 Committed Capital Programme are set out in Table 6 below:

Table 6: Capital Programme Resources and Forecast Expenditure 2016/17 to 2019/20 (as at June 2016)

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
SCHEMES					
General Fund	71,578	15,522	8,900	14,823	110,823
HRA	85,693	89.655	37,610	38,471	251,429
	157,271	**105,177**	**46,510**	**53,294**	**362,252**
RESOURCES					

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Prudential Borrowing	22,845	0	0	0	22,845
Grants & Contributions	22,911	1,300	1,300	0	25,511
General (capital receipt, reserves, revenue)	111,515	103,877	45,210	53,294	313,896
	157,271	**105,177**	**46,510**	**53,294**	**362,252**

15.3. The proposed 2016/17 to 2019/20 Capital Programme totals £362m and brings together all capital projects across the Council. It sets out the key priorities for the Council over the next five years and is the subject of regular review.

15.4. Over the next five years the Council faces a period of financial uncertainty as revenue funding is cut and Government grants are reduced or terminated. This places increased reliance on the Council's capacity to generate capital receipts from asset sales to fund infrastructure development or can be afforded through long term borrowing. For this reason, any new projects or programmes will need to clearly demonstrate a sound business case for investment.

16. RISK MANAGEMENT

16.1. The risk landscape facing local authorities continues to change as a result of policy and practice. All of which bring further financial uncertainty and pressure to bear on plans and may require further and more radical efficiencies to be made. As the Council continues to make significant budget cuts it is increasingly juggling the challenges from taking more risk while avoiding service or financial failure.

16.2. A critical element of the Council’s medium term financial planning processes is to ensure that the financial consequences of risk are adequately reflected in the Council’s budgets. The Council’s risk register sets out those strategic and corporate risks which could materialise, together with the key risk areas in service budgets and associated mitigating measures. These include failure to contain expenditure within agreed cash limits, not meeting the revenue budget savings target and under achievement of income, as well as more specific risks on certain budgets.

SUMMMARY AND IMPLICATIONS

17. CONCLUSION

17.1. The Medium Term Financial Strategy sets out initial estimates of the scale of financial challenge the Council will face over the medium term to 2019/20. It presents the outturn for 2015/16, summarises the current financial position for 2016/17, and looks forward to 2017/18 and later years.

17.2. 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, or a revised budget following the EU referendum decision – whichever comes first. This, in turn, will inform the Council's development of the proposals by the Lewisham Future Programme.

17.3. The Council will have to make further difficult decisions to prepare for future shortfalls. 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 and what local government will look like in future.

18. FINANCIAL IMPLICATIONS

18.1. 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.

19. LEGAL IMPLICATIONS

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

19.2. 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.

19.3. 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.

20. EQUALITIES IMPLICATIONS

20.1. The Council's budget is of primary importance as a means of delivering Lewisham's objectives. When the budget savings and resources allocation proposals are considered during the latter part of this year, they will be assessed in terms of their impact on service delivery and equalities implications.

21. ENVIRONMENTAL IMPLICATIONS

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

22. CRIME & DISORDER IMPLICATIONS

22.1. There are no crime and disorder implications directly arising from this report.

23. BACKGROUND PAPERS

Title of Document	Date	File Location	Contact Officer
Budget Report 2016/17	24 February 2016 (Full Council)	5th Floor Laurence House, Corporate Resources	David Austin
Final Revenue and Capital Outturn 2015/16	1 June 2016 (Mayor & Cabinet)	5th Floor Laurence House, Financial Services	Selwyn Thompson
2016/17 Budget Monitoring Report	5 July 2016 (PASC)	5th Floor Laurence House, Financial Services	Selwyn Thompson

APPENDICES

Appendix 1 – Corporate Priorities

Appendix 2 – Summary of MTFS Assumptions

Appendix 3 – Glossary of Terms

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APPENDIX 1 – LEWISHAM CORPORATE PRIORITIES

The six Sustainable Community Priority outcomes, agreed with the Lewisham Strategic Partnership and the Council's 10 Corporate Priorities are set out as follows:

Sustainable Community Strategy

- **Ambitious and achieving:** where people are inspired and supported to fulfil their potential.
- **Safer:** where people feel safe and are able to live free from crime, anti-social behaviour and abuse.
- **Empowered and responsible:** where people can be actively involved in their local area and contribute to supportive communities.
- **Clean, green and liveable:** where people live in high quality housing and can care for and enjoy their environment.
- **Healthy, active and enjoyable:** where people can actively participate in maintaining and improving their health and well being.
- **Dynamic and prosperous:** where people are part of vibrant localities and town centres well-connected to London and beyond.

Corporate Priorities

- **Community Leadership and Empowerment:** developing opportunities for the active participation and engagement of people in the life of the community.
- **Young people's achievement and involvement:** raising educational attainment and improving facilities for young people through partnership working.
- **Clean, green and liveable:** improving environmental management, the cleanliness and care for roads and pavements, and promoting a sustainable environment.
- **Safety, security and a visible presence:** partnership working with the police and others to further reduce crime levels and using Council powers to combat anti-social behaviour.
- **Strengthening the local economy:** gaining resources to regenerate key localities, strengthen employment skills and promote public transport.
- **Decent Homes for all:** investment in social and affordable housing to achieve the decent homes standard, tackle homelessness and supply key worker housing.
- **Protection of children:** better safeguarding and joined up services for children at risk.
- **Caring for adults and older people:** working with health services to support older people and adults in need of care.
- **Active, healthy citizens:** leisure, sporting, learning and creative activities for everyone
- **Inspiring efficiency, effectiveness and equity:** ensuring efficiency and equity in the delivery of excellent services to meet the needs of the community.

APPENDIX 2 - SUMMARY OF ASSUMPTIONS

	Best Case	Base case	Worst case
RESOURCE ENVELOPE			
Settlement Funding Assessment	• February 2016 Provisional figures used	• February 2016 Provisional figures used	• February 2016 Provisional figures used
Retained business rates	• 2% real terms increase each year from 2017/18 from growth in rateable value base	• 1% real terms increase each year from 2017/18 from growth in rateable value base	• No real terms change in rateable value base
Council Tax income	• 3.99% change in Council Tax level • 3% increase each year in Council Tax base from 2017/18 onwards • CT collection rate of 96.5% each year from 2017/18 onwards	• 3.99% change in Council Tax level • 1.5% increase each year in Council Tax base from 2016/17 onwards • CT collection rate of 96% each year from 2016/17 onwards	• No change in Council Tax level • 0.5% increase each year in Council Tax base from 2016/17 onwards • CT collection rate of 95.5% each year from 2016/17 onwards
Settlement Funding Assessment Adjustment Grant	• Consolidated in RSG from 2017/18	• Consolidated in RSG from 2017/18	• Consolidated in RSG from 2017/18
Surpluses/deficits on Collection Fund	• £2m estimated surplus in 2017/18	• £0.5m estimated surplus in 2017/18	• No surplus declared in 2017/18
Pay awards	• 1% from 2017/18 onwards	• 1% through to 2019/20	• 1% for 2017/18 and 2% from 2018/19 onwards
Employer pension contributions	• £1m added each year until 2019/20	• £1m added each year until 2019/20	• £1m added each year until 2019/20
General price inflation (incl. fees	• 2.5% increase each year in non-pay budgets	• 2.5% increase each year in non-pay budgets	• 2.5% increase each year in non-pay budgets

	Best Case	Base case	Worst case
and charges)			
Pressures and risks	• £6.5m growth each year (in addition to increase in Pension Fund contributions)	• £6.5m growth each year (in addition to increase in Pension Fund contributions)	• £6.5m growth each year (in addition to increase in Pension Fund contributions)
New legislation	• Nothing allowed	• Nothing allowed	• Nothing allowed
2017/18 budget pressures and risks	• All used and allocated to service spend	• All used and allocated to service spend	• All used and allocated to service spend
Education Services Grant	• No national reduction from 2017/18 onwards	• Reduction of £1.190m a year from 2017/18	• Total grant withdrawal in 2017/18

APPENDIX 3 - GLOSSARY OF TERMS

Actuarial valuation

An independent report of the financial position of the Pension Fund carried out by an actuary every three years. The actuary reviews the Pension Fund assets and liabilities as at the date of the valuation and makes recommendations such as, employer's contribution rates and deficit recovery period, to the Council.

Baseline funding level

The amount of a local authority's start-up funding allocation which is provided through the local share of the estimated business rates aggregate (England) at the outset of the scheme as forecast by the Government. It forms the baseline against which tariffs and top-ups are calculated.

Budget Requirement

The Council's revenue budget on general fund services after deducting funding streams such as fees and charges and any funding from reserves. (Excluding Council Tax, RSG and Business Rates)

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.

Collection fund

A statutory account maintained by the Council recording the amounts collected from Council Tax and Business Rates and from which it pays the precept to the Greater London Authority.

Collection Fund surplus (or deficit)

If the Council collects more or less than it expected at the start of the financial year, the surplus or deficit is shared with the major precepting authority, in Lewisham's case this is the GLA, in proportion to the respective Council Taxes. These surpluses or deficits have to be returned to the Council taxpayer in the following year through lower or higher Council taxes. If, for example, the number of properties or the allowance for discounts, exemptions or appeals vary from those used in the Council Tax base, a surplus or deficit will arise. The Council generally achieves a surplus, which is shared with the GLA.

Contingency

This is money set-aside centrally in the Council's base budget to meet the cost of unforeseen items of expenditure, such as higher than expected inflation or new responsibilities.

Council Tax Base

The Council Tax base for a Council is used in the calculation of Council Tax and is equal to the number of Band D equivalent properties. To work this out, the Council counts the number of properties in each band and works out an equivalent number of Band D equivalent properties. The band proportions are expressed in ninths and are specified in the Local Government Finance Act 1992. They are: A 6/9, B 7/9, C 8/9, D 9/9, E 11/9, F 13/9, G 15/9 and H 18/9, so that Band A is six ninths of the 'standard' Band D, and so on.

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

General Fund

This is the main revenue fund of the local authority, day-to-day spending on services is met from the fund. Spending on the provision of housing however, must be charged to the separate Housing Revenue Account (HRA).

Gross Domestic Product (GDP)

GDP is defined as the value of all goods and services produced within the overall economy.

Gross expenditure

The total cost of providing the Council's services, before deducting income from Government grants, or fees and charges for services.

Housing Revenue Account (HRA)

A separate account of expenditure and income on housing that Lewisham must keep. The account is kept ring-fenced from other Council activities. The Government introduced a new funding regime for social housing within the HRA from April 2012.

Individual authority business rates baseline

This is derived by apportioning the billing authority business rates baseline between billing and major precepting authorities on the basis of major precepting authority shares.

Levies

A levy is an amount of money a local authority is compelled to collect (and include in its budget) on behalf of another organisation. Lewisham is required to pay levies to a number of bodies such as the London Pensions Fund Authority.

Local share

This is the percentage share of locally collected business rates that will be retained by local government, currently 50%.

Net Expenditure

This is gross expenditure less services income, but before deduction of government grant.

New Homes Bonus

Under this scheme Councils receive a new homes bonus (NHB) per each new property built in the borough for the first six years following completion. Payments are based on match funding the Council Tax raised on each property with an additional amount for affordable homes. It is paid in the form of an un-ringfenced grant.

Prudential Borrowing

Set of rules governing local authority borrowing for funding capital projects under a professional code of practice developed by CIPFA to ensure the Council's capital investment plans are affordable, prudent and sustainable.

Revenue Expenditure

The day-to-day running expenses on services provided by Council.

Revenue Support Grant (RSG)

All authorities receive Revenue Support Grant from central government in addition to its baseline funding level under the local government finance system. An authority's Revenue Support Grant amount plus its baseline funding level together comprises its Settlement Funding Assessment.

Section 151 officer

Legally Councils must appoint under section 151 of the Local Government Act 1972 a named chief finance officer to give them financial advice, in Lewisham's case this is the post of the Executive Director for Resources and Regeneration.

Settlement Funding Assessment (SFA)

A local authority's share of the local government spending control total which comprises its Revenue Support Grant for the year in question and its baseline funding level.

Specific Grants

As the name suggests funding through a specific grant is provided for a specific purpose and cannot be spent on anything else e.g. The Dedicated Schools Grant (DSG) for schools.

Spending Review

The Spending Review is an internal Government process in which the Treasury negotiates budgets for each Government Department. The 2010 SR set government spending for the four financial years up to 2014/15, the 2013 SR set spending for a single year 2015/16. The next spending review is expected in 2016.

Start-up funding allocation (SUFA)

Refer to Settlement Funding Assessment.

Treasury Management

The process of managing the Council's cash flows, borrowing and cash investments to support Lewisham's finances. Details are set out in the Treasury Management Strategy which is approved by Mayor and Cabinet and Full Council in February each year.

APPENDIX 4

HOUSING REVENUE ACCOUNT 30 YEAR PLAN – YEARS ONE TO FIVE AS AT JUNE 2016

PROJECTED INCOME & EXPENDITURE STREAMS	SHORT TERM INCOME & EXPENDITURE FORECAST					
-	YEAR 1 £M's	YEAR 2 £M's	YEAR 3 £M's	YEAR 4 £M's	YEAR 5 £M's	TOTAL 1 to 5 £M's
Rents	68.4	70.8	73.1	73.7	71.7	357.7
Tenants service charges	4.5	4.6	4.6	4.6	5.7	24.0
Leasehold service charges	4.0	4.2	4.4	4.4	4.2	21.2
Hostel charges and grants	0.9	1.4	1.3	1.3	1.3	6.3
Major Works recoveries	1.2	1.2	2.2	2.3	5.5	12.4
Other income	3.9	4.1	3.0	2.5	1.5	15.0
Operating Income	**82.9**	**86.3**	**88.6**	**88.8**	**89.9**	**436.6**
Less:						
Management costs	-29.7	-30.2	-29.9	-29.2	-34.5	-153.6
Repairs & maintenance	-16.7	-15.4	-14.6	-14.2	-15.4	-76.3
PFI Costs	-4.7	-5.1	-5.3	-5.5	-5.4	-26.0
	-51.1	**-50.7**	**-49.8**	**-48.9**	**-55.3**	**-255.8**
Interest & other finance costs	-4.6	-4.5	-3.7	-3.6	-4.3	-20.7
Depreciation	-16.9	-21.8	-26.3	-30.1	-30.3	-125.4
Operating surplus/(deficit) after financing	**10.3**	**9.3**	**8.8**	**6.2**	**0.0**	**34.6**
RCCO	-3.2	-6.0	0.0	0.0	0.0	-9.2
Debt Repayment	0.0	0.0	0.0	0.0	0.0	0.0
Interest on balances	0.2	0.2	0.4	0.6	0.9	2.4
Surplus/(deficit) after appropriations	**7.3**	**3.5**	**9.2**	**6.8**	**1.0**	**27.9**
Opening reserves	7.8	15.1	21.2	30.4	37.2	7.8
Other Reserve Contributions	0.0	2.5	0.0	0.0	0.0	0.0
HRA Reserves	**15.1**	**18.7**	**30.4**	**37.2**	**38.2**	**35.7**

CAPITAL PROGRAMME & RESOURCING	SHORT TERM CAPITAL PROGRAMME & RESOURCING					
	YEAR 1 £M's	YEAR 2 £M's	YEAR 3 £M's	YEAR 4 £M's	YEAR 5 £M's	TOTAL 1 to 5 £M's
Capital programme	36.2	44.3	51.0	19.4	28.6	179.6
Sheltered Housing	0.0	0.0	0.0	0.0	0.0	0.0
New Build construction	0.1	0.4	1.7	2.6	9.8	14.6
New Build ongoing capital costs	0.0	0.0	0.0	0.0	0.0	0.0
Capital programme slippage (RPI uplift)	0.0	0.0	0.0	0.0	0.0	0.0
Capital slippage	**36.3**	**44.7**	**52.8**	**22.0**	**38.4**	**194.2**
Funded By:						
MRR Opening Balance	-4.5	-12.7	-19.8	-29.4	-37.5	-103.9
Decent Homes Funding	-20.5	-24.0	-36.0	0.0	0.0	-80.5
RCCO	-7.1	-6.0	0.0	0.0	0.0	-13.1
Depreciation	-16.9	-21.8	-26.3	-30.1	-30.3	-125.4
Borrowing	0.0	0.0	0.0	0.0	0.0	0.0
Capital shortfall	**-12.7**	**-19.8**	**-29.4**	**-37.5**	**-29.4**	**-128.7**
Debt Level	**83.5**	**83.5**	**74.8**	**74.8**	**74.8**	**74.8**