

Mayor and Cabinet			
REPORT TITLE	Budget update report		
KEY DECISION	Yes	ITEM No.	
WARD	All		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date	11 January 2017

Lateness: This report was not available for the original dispatch because officers needing additional time to complete their review of the announcements in December on the provisional local government settlement and their budget impacts for 2017/18.

Urgency: The report is urgent and cannot wait until the next meeting of the Mayor & Cabinet as the decisions from this report will influence the preparation of the budget report for Mayor and Cabinet on the 8 February.

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. EXECUTIVE SUMMARY

- 1.1. Each year, usually in November, the Chancellor of the Exchequer presents the government's Autumn Statement to parliament setting out the national economic forecasts and related implications for government budgets. While some of the housing and business initiatives may impact the Council in due course, there were no direct implications for the Council from the statement.
- 1.2. The Autumn Statement is followed in December by the provisional Local Government Finance Settlement (LGFS) from the Secretary of State for the Department for Communities and Local Government. The LGFS and related publications from the Departments for Health and Education provide the detailed financial resources and grants for local authorities for the coming financial year.

- 1.3. The report then considers the highlights as they impact the Council and any actions to consider in preparing the 2017/18 budget from these two statements and, this year, the Pension Fund triennial valuation.

2. PURPOSE OF THE REPORT

- 2.1. The purpose of this report is (1) to update Mayor and Cabinet (M&C) on the recent government announcements (Autumn Statement and Local Government Finance Settlement) as they impact the Council's budget for 2017/18 and future years and (2) to bring forward any corporate savings that result.

3. RECOMMENDATIONS

- 3.1. The Mayor is asked to:
- 3.2. Note the updates from the Autumn Statement and provisional Local Government Finance Settlement as presented in the report.
- 3.3. Note that the current financial assumptions of the Medium Term Financial Strategy (MTFS) assume an annual 2% Adult Social Care precept is applied to the Council Tax Base for the next three years (option 1 in section 7) and that the Local Government Finance Settlement introduced new alternative options (2 to six) on which the budget could be modelled .
- 3.4. Agree that the Council's budget be prepared with a reduced corporate risks and pressures budget of £6.5m (down from £7.5m in previous years) for the three years to 2019/20, thereby saving £1m in 2017/18 and £3m over the period.

4. POLICY CONTEXT

- 4.1. The overarching policy and decision making framework for the discharge of the Council's many functions and duties is contained in Lewisham's Sustainable Community Strategy (SCS). The Strategy contains two overarching principles which are:
 - Reducing inequality – narrowing the gap in outcomes.
 - Delivering together efficiently, effectively and equitably – ensuring that all citizens have appropriate access to and choice of high quality services.
- 4.2. Also contained within the overarching policy framework are the Council's ten corporate priorities. These priorities describe the specific contribution that the Local Authority will make to the delivery of the SCS. The Council's priorities are as follows:
 - Community Leadership and Empowerment.
 - Young people achievement and involvement.

- Clean, green and liveable.
- Safety, security and visible presence.
- Strengthening the local economy.
- Decent Homes for all.
- Protection of children.
- Caring for adults and older people.
- Active healthy citizens.
- Inspiring efficiency, effectiveness and equity.

5. AUTUMN STATEMENT

- 5.1. The Government's aim is to bring Government spending down to 40% of GDP (from 45% in 2010) with improved public services with a focus on infrastructure and innovation investments to address productivity gap (where UK is lagging US & Germany by 30%, France 20% and Italy 8%)
- 5.2. The Government therefore remains committed to fiscal discipline and confirmed that the Department Expenditure Limits (DEL) will remain as announced in 2015 Comprehensive Spending Review.
- 5.3. These limits will include the unallocated £3.5bn of efficiency savings to be met in 2019/20 and that the Departmental protections (Defence, Health, International Aid, Pensions) will be maintained for this parliament. This means the efficiencies will have to be made from the unprotected Department budgets, including potentially the Department for Communities and Local Government (DCLG).
- 5.4. However, the government is no longer seeking a surplus in Public Spending by 2019/20. The commitment to balance the budget has changed from by 2019/20 to as soon as practicable in the economic cycle. To support this a new draft charter with three rules is proposed. They are:
- Cyclical adjusted net borrowing to be below 2% in this parliament;
 - Net debt as % of GDP falling by 2020/21; and
 - Welfare spending to be maintained within a spending cap (amount to be confirmed).
- 5.5. The Chancellor also confirmed that there would be no new welfare savings proposals in this parliament beyond those already announced.
- 5.6. The medium term outlook for public sector spending is to run a deficit in early years of the next parliament below the 2% target for developed economies.

The intention being to allow some flexibility to respond to the uncertainties arising from the negotiations following the result of the EU referendum in June 2016.

- 5.7. To deliver on these objectives within the fiscal constraints set, the following priorities were announced:

Investment / Devolution

- From 2020, set aside 1% to 1.2% of GDP for infrastructure investment (through the National Infrastructure Commission)
- Release £1.8bn of Local Growth fund to Local Enterprise Partnerships for infrastructure (including £492m to London and the South East)
- London and Midland devolution discussions to continue with London to receive:
 - £3.15bn of National Affordable Housing money for 90,000 home starts by 20/21
 - Responsibility for Adult Learning Education (from 19/20) and Employment Support (work and health programme)
- Consultation on local government access to £1bn of borrowing at gilts + 60bps for three years for infrastructure
- Transport investment of £1.1bn for English local authorities
 - £0.2bn on local road schemes
 - £0.5bn for digital rail signalling
 - £0.4bn for lower emission vehicles
- 100% capital allowance on electric charging infrastructure
- £1bn for fibre network and support of 5G and 100% business rates relief for five years on new fibre infrastructure

Welfare / Employment / Other

- National Living Wage to rise in April 2017 to £7.50 (from £7.20 or 4.17%)
- Universal Credit taper rate to be reduced to 63% (from planned 65%)
- From 2017/18 National Insurance employer and employee thresholds aligned
- Insurance Premium tax to rise to 12% (from 10%) next June

Housing

- Housing white paper to be presented as soon as possible in 2017
- Additional £1.4bn for 40,000 affordable homes
- Relax restrictions on housing types for developers
- Regional pilot for 'right to buy' scheme with Housing Associations
- Help to Buy equity loan and Housing ISA to continue
- Pay to Stay housing policy will not be implemented
- Implementation of Local Housing Allowance (LHA) cap delayed one year to April 2019

- Refuges, alms houses, community land trusts, and cooperative housing exempt from four year 1% per year social rent reductions
- Market reviews to be conducted: Private rental – with unregulated fees to be banned as soon as possible

5.8. There were no changes with a direct implication for the Council from the Autumn Statement. The Council will be indirectly impacted by some of the London devolution to the Greater London Authority (e.g. for employment & skills and the work & health programme), investments and regulation changes in respect of housing, and potentially through business rates in respect of fibre infrastructure given Virgin Media is the Council's largest rate payer.

6. LOCAL GOVERNMENT FINANCE SETTLEMENT

6.1. The LGFS confirmed the four year settlement offer for 2017/18 which means the Council's budget strategy for business rates and grants remains unchanged.

Business Rates

6.2. London is one of a number of regional pilots to be invited to trial aspects (scope to be confirmed) of the 100% devolution of business rates in 17/18.

6.3. In the meantime work continues on preparation for arrangements for move to devolution of 100% of business rates and update to fair funding framework for all services from 2020/21. And before that the implementation of the results of the 2015 valuation and likely challenges and appeals. Lewisham saw the third highest rise in London of 36% in their rateable values under the new valuation.

New Homes Bonus

6.4. It was confirmed, following the consultation in 2016, that the New Homes Bonus (NHB) would be reduced. This will see a transition to NHB being paid for five years in 2017/18 and then four years from 2018/19 (down from the current six years). Subject to further consultation being completed, certain other constraints were announced. These were that NHB would only be paid for housing growth above a national baseline (expected to be 0.4%), and NHB to be withheld if planning was rejected but subsequently overturned on appeal.

Social Care

6.5. Related to the NHB changes, the Minister confirmed that the reduction in NHB of £240m in the first year would be allocated to councils providing Adult Social Care (ASC) as a one off grant, over and above the introduction of the improved Better Care Fund (iBCF) for local authorities to start in 2017/18.

6.6. In respect of Social Care, a new option for councils providing social care to raise their precept by up to 3% in any year but by no more than 6% over the three years to 2019/20 was introduced. The implications for Lewisham are considered in more detail in section 8 below.

6.7. The government will also publish an ‘integration and better care fund policy framework’ to support priority of health and social care integration.

Other areas

6.8. The Council Tax referendum limit was left unchanged at 2%. It is worth noting that this is now below the Bank of England’s forecast Consumer Price Index (CPI) inflation rate for 2017 of 2.7%.

6.9. The Department of Health have confirmed the Public Health grant for 2017/18, which for Lewisham will be £24.9m. It then reduces by 2.6% in each of the following two years.

6.10. The Department for Education have now announced the details of the Dedicated Schools Grant (DSG), Pupil Premium, and Education Support Grant (ESG) for schools.

- In respect of the DSG it has been confirmed that, subject to consultation, the fair funding for schools changes will be introduced from April 2018 with a maximum reduction for any individual school of 1.5% in any one year. This dampening reduces the initial impact for Lewisham schools budgets, now estimated at £7m rather than the initial £17m.
- The rates at which Pupil Premium are paid is to be maintained for 2017/18.
- The main element of the ESG grant, worth £3.5m to Lewisham, will stop in August 2017. There will be a retained amount of £0.6m going forward which Schools Forum have confirmed will continue to be used to purchase Council services in 2017/18. This will be a real financial loss in terms of impact to the Council’s general fund budget and has already been factored corporately into the MTFs.

8. BUDGET CONSIDERATIONS

ASC Precept

7.1. The offer to adjust the timing of the ASC precept makes a very marginal difference to the total amount of revenue collected over the period. The variations to the current MTFs of a 1.99% Council Tax and 2% ASC precept in each year are set out in the table below:

Options for ASC precept (NB: All options, in addition to the ASC element, assume a 1.99% general Council Tax increase in each year)	17/18	18/19	19/20
1. Current - raises £16.9m over 3 yrs	2%	2%	2%
Saving impact compared to MTFs £m (- less / + more)	0.0	0.0	0.0
Band D impact £/wk (half for CTax rise and half for ASC precept)	0.92	0.96	1.00

Options for ASC precept (NB: All options, in addition to the ASC element, assume a 1.99% general Council Tax increase in each year)	17/18	18/19	19/20
2 - raises £14k less than option 1 over 3 yrs	3%	3%	0%
Saving impact compared to MTFS £m (- less / + more)	-0.9	-1.0	1.9
Band D impact £/wk	1.14	1.19	0.55
3 - raises £5k more than option 1 over 3 yrs	3%	2%	1%
Saving impact compared to MTFS £m (- less / + more)	-0.9	0.0	0.9
Band D impact £/wk	1.14	0.97	0.77
4 - raises £5k more than option 1 over 3 yrs	3%	1%	2%
Saving impact compared to MTFS £m (- less / + more)	-0.9	0.9	0.0
Band D impact £/wk	1.14	0.75	1.00
5 - raises £9k less than option 1 over 3 yrs	2%	3%	1%
Saving impact compared to MTFS £m (- less / + more)	0.0	-0.9	0.9
Band D impact £/wk	0.92	1.18	0.77
6 - raises £24k less than option 1 over 3 yrs	1%	3%	2%
Saving impact compared to MTFS £m (- less / + more)	0.9	-0.9	0.0
Band D impact £/wk	0.71	1.17	1.00

- 7.2. The upsides of applying the ASC precept sooner are:
- that the revenue is locked into the base and before the larger amounts of improved Better Care Fund come on stream (in full in 2019/20), and
 - it defers up to £1.9m of the savings still to be identified to 2019/20.

- 7.3. The downsides are:
- it raises taxes on a lower base (as we are assuming growth for each of the three years), hence the slight loss from doing it early in the model.

Corporate Risk & Pressures

- 7.4. In addition to the budget implications from the LGFS noted above, 2016/17 was a triennial pension fund valuation year. In the MTFS, an annual £1m of the corporate risk and pressures monies had been set aside as a lump sum contribution to help make up the fund's deficit position. This continued the arrangements implemented at the last valuation. The results of the valuation show the funding position of the Pension Fund has improved and this annual contribution will not be required going forward (at least for the next three years).

- 7.5. It is therefore proposed to offer this up as a saving by reducing the corporate risks and pressures budget to £6.5m (down from £7.5m in previous years) for

the three years to 2019/20, thereby saving £1m in 2017/18 and £3m in total over the period.

Summary savings position

- 7.6. The current working draft of the MTFs now has the savings required to 2019/20 at £32.2m, compared to the mid-year update in July 2016 of a savings target of £45m. The changes by year are set out in the table below

MTFS savings requirement	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
at Jul. 2016	15.5	14.9	14.6	45.0
at Jan. 2017	8.6	12.7	10.9	32.2

- 7.7. The £32.2m position at January 2017 is arrived at:
- After accounting for;
 - the savings decisions made in September 2016;
 - the growth in the Council Tax base in 2016/17;
 - the cost from the loss of ESG; and
 - the saving from corporate risk and pressures monies outlined above.
 - But before allowing for;
 - any of the £14m of savings outlined in September 2016 (£5m in 18/19 and £9m in 19/20) to be worked up and presented to members for agreement;
 - options for the use of NHB or reserves in setting the budget; or
 - the final calculations for risks and pressures and other aspects of the Council's 2017/18 proposed budget.

8. FINANCIAL IMPLICATIONS

- 8.1. This report has no direct financial implications. The financial detail in respect of the ASC precept options and option to reduce the corporate risk and pressures monies are set out in the report. The full financial implications will be considered further in context as part of the 2017/18 budget which is the report to which the decisions on these points attach.
- 8.2. The full detail and implications of the settlement, including risks and pressures and an update on savings, will be set out and discussed in the 2017/18 Budget Report going to Mayor & Cabinet on the 8 and 15 February, before being presented to Council on the 22 February.

9. LEGAL IMPLICATIONS

9.1. The Council must act prudently in relation to the stewardship of Council taxpayers' funds. The Council must set and maintain a balanced budget.

Equalities Legislation

9.2. The Equality Act 2010 (the Act) introduced a public sector equality duty (the equality duty or the duty). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

9.3. In summary, the Council must, in the exercise of its functions, have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- advance equality of opportunity between people who share a protected characteristic and those who do not.
- foster good relations between people who share a protected characteristic and those who do not.

9.4. It is not an absolute requirement to eliminate unlawful discrimination, harassment, victimisation or other prohibited conduct, or to promote equality of opportunity or foster good relations between persons who share a protected characteristic and those who do not. It is a duty to have due regard to the need to achieve the goals listed at 13.5 above.

9.5. The weight to be attached to the duty will be dependent on the nature of the decision and the circumstances in which it is made. This is a matter for the Mayor, bearing in mind the issues of relevance and proportionality. The Mayor must understand the impact or likely impact of the decision on those with protected characteristics who are potentially affected by the decision. The extent of the duty will necessarily vary from case to case and due regard is such regard as is appropriate in all the circumstances.

9.6. The Equality and Human Rights Commission has issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled "Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice". The Council must have regard to the statutory code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with the equality duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found at:

<https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-codes-practice>

<https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-technical-guidance>

- 9.7. The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:
[The essential guide to the public sector equality duty](#)
[Meeting the equality duty in policy and decision-making](#)
[Engagement and the equality duty: A guide for public authorities](#)
[Objectives and the equality duty. A guide for public authorities](#)
[Equality Information and the Equality Duty: A Guide for Public Authorities](#)
- 9.8. The essential guide provides an overview of the equality duty requirements including the general equality duty, the specific duties and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice. Further information and resources are available at:
<https://www.equalityhumanrights.com/en/advice-and-guidance/public-sector-equality-duty-guidance#h1>

14. CRIME AND DISORDER IMPLICATIONS

- 14.1. There are no specific crime and disorder implications directly arising from this report.

15. EQUALITIES IMPLICATIONS

- 15.1. Every effort will be made to ensure that Council tax payers, particularly those who are from disadvantaged groups, receive services consistent with the Legal Implications noted above.

16. ENVIRONMENTAL IMPLICATIONS

- 16.1. There are no specific environmental implications directly arising from this report.

17. CONCLUSION

- 17.1. The Autumn Statement and provisional LGFS for 2017/18 have confirmed the acceptance of the four year settlement for local government. As a result there are few changes for the Council's budget or savings assumptions at this time
- 17.2 The three main changes to note are: 1) the option to front load some of the ASC precept; 2) a potential saving from reducing the corporate risk & pressures monies in the budget following the Pension Fund triennial valuation; and 3) the loss of the ESG in 2017/18 which will be borne corporately.

For further information on this report, please contact:

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