

Mayor and Cabinet			
REPORT TITLE	2018/19 to 2021/22 Medium Term Financial Strategy		
KEY DECISION	No	Item No.	
WARD	All		
CONTRIBUTORS	Executive Director for Resources and Regeneration		
CLASS	Part 1	Date:	19 July 2017

1. EXECUTIVE SUMMARY

- 1.1. The Medium Term Financial Strategy (MTFS) 2018/19 to 2021/22 sets out the Council's medium term financial plan over the next four years. It includes a review of the Council's overall financial position bringing together the outturn for 2016/17, the forecast for the current financial year 2017/18, and considers prospects for 2018/19 and future years.
- 1.2. The strategy forecasts a further reduction in the Revenue Support Grant of a minimum of £20m (15%) between 2017/18 and 2021/22. This is based on the confirmed reduction from 2017/18 to 2019/20 of 9% and an assumption that Settlement Funding Assessment (SFA) will reduce by a further 6% between 2019/20 to 2021/22. 2020/21 is the year Local Government funding was expected to move to 100% Business Rates devolution with implications for the levels of grant and responsibilities of local government. However, the Government is yet to release any figures indicating funding levels for local government for 2020/21 and beyond.
- 1.3. At the same time spending projections – including: pay and prices inflation, provision for budget pressures related to an increasing population and changing demographic needs, and changing responsibilities for local government – mean additional spending of at least £42m will be required to meet those needs.
- 1.4. The Lewisham Future Programme continues to address the budget gap. This report sets out the main areas covered by the Lewisham Future Programme. The immediate target is now to deliver £32m of savings to bridge the gap for 2018/19 and 2019/20. In particular, securing an agreement with health partners on the direction of additional one off resources provided for adult social care to 2019/20. The Council estimates the total level of savings required for the four year period 2018/19 to 2021/22 is £52m.
- 1.5. The combination of these factors contributes to a lack of clarity regarding funding levels, the responsibilities local government will have, and the pressures and risks faced by the sector nationally and regionally. This MTFS is therefore more uncertain than in recent years, and in particular for the position beyond 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 four 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 2018/19.
- 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 2018/19, 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 an optimistic, main and pessimistic projection for each year, depending on the assumptions made, the main case 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 and endorse the 2018/19 to 2021/22 Medium Term Financial Strategy; and
 - 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 Autumn Budget or 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

STRATEGIC REVIEW

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

14. Housing Revenue Account

15. Dedicated Schools Grant

16. Capital Programme

17. Risk Management

SUMMARY AND IMPLICATIONS

18. Conclusion

19. Financial Implications

20. Legal Implications

21. Equalities Implications

22. Environmental Implications

23. Crime & Disorder Implications

24. Background Papers

25. Appendices

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 2018/19 will be presented to Mayor and Cabinet in January 2018 and full Council in February 2018.
- 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 2018/19 to 2021/22 Strategy are to:
 - plan the Council's finances over a four 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 MTFS is linked to other internal strategies and plans; and
 - ensure that the final agreed budget reflects all these considerations.
- 5.4. Over the last eight 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 2017/18 the Council has implemented savings of £160m. And work is underway to identify and deliver a further £32m by 2019/20.
- 5.5. 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 into the 2020s.
- 5.6. Prior to the general election in June 2017, the Government was planning to change the way local authorities are funded by 2019/20. This involved the main local government grant, the Revenue Support Grant (RSG), was to be phased out, 100% of business rates devolved, additional responsibilities transferred to local authorities, changes to school funding (formula and paid direct to schools), the continuing impact of move to Universal Credit, and further health and social care integration. The specifics, pace and scale of these changes is now uncertain as the government resets its legislative agenda with a focus on Brexit.
- 5.7. 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 fair funding formula for local authorities. The government has also recently announced changes to the national funding formula for schools with details to follow. This will impact the level of Dedicated Schools Grant (DSG) the Council receives to support local schools.
- 5.8. Other large grant funded areas, in particular the Better Care Fund, improved Better Care Fund, Public Health (including Early Years) and some capital grants are presumed to operate within the available funding levels and service managers will adjust their staffing and contracted work accordingly.
- 5.9. 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 2017 Spring Budget speech on 8 March this year. The direction of travel remains to get public sector expenditure consistently below 40% of Gross Domestic Product (GDP) to help eliminate the deficit, bring the budget back into surplus, and start reducing the deficit.
- 7.2. The global economic position continues to be one of growth with the International Monetary Fund forecasting growth in excess of 3% in 2017. The Office for Budget Responsibility (OBR) forecast that the UK economy will grow at a slightly slower rate, declining to 1.6% in 2018 before picking up to 2% by 2021. At the same time in the UK Consumer Price Index (CPI) inflation is rising at nearly 3% in 2017 before being expected to fall back in future years once the 15% currency revaluation impact of Brexit in 2016 has worked through the system. The UK unemployment rate is currently steady at 4.6% or just over 1.5m people. At present the Bank of England monetary policy is holding interest rates at 0.25%.
- 7.3. Public sector net borrowing is forecast to fall to 2.9% of GDP in 2017 and then to fall each year for the remainder of the forecast period. Following the 2017 Spring budget the OBR now forecasts that the public finances will deliver a surplus in 2025. At the same time the total UK debt level has risen to over £1,700bn or 90% of GDP and will continue to rise until the annual budget returns to surplus.
- 7.4. The economic levers to reduce the levels of deficit or debt are to curb public sector spending, grow the economy and raise taxes. The current understanding of the government's policy agenda, as it impacts local government, to address these challenges is discussed later in this report. Nonetheless, it is fair to say that beyond 2019 there is a considerable level of uncertainty for the UK now in all of the international, national and local spheres of government.
- 7.5. The specific consequences or implications for Lewisham are uncertain but the overall direction of travel is expected to remain one of severely constrained resources. The Settlement Funding Assessment (the total amount the

government assumes to come from Revenue Support Grant and business rates) falls by 15% between 2017/18 and 2019/20. For Lewisham these reductions transfer a greater element of risk onto the Council's own sources of income (in particular Council Tax and Business Rates) as a time when the options for increasing Council Tax are capped below inflation and recognising that Lewisham has a relatively low business rate base, and the business rate regime is uncertain.

- 7.6. 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, at the same time, the economic uncertainties of Brexit for London and pressures from inflation alongside high house prices and the impact of government's welfare reform policies will have a continuing adverse impact on Lewisham residents and, together with demographic pressures, will lead to increased pressure on services and the need for resources.
- 7.7. The Queen's Speech, following the snap general election, was delivered on the 21 June 2017. As expected, it focussed on the legislation that will need to be introduced to accommodate Brexit. There were also a number of announcements with direct or indirect implications for local government. They included:
 - **Business Rates:** there was no new Local Government Finance Act but not all the changes in train were reliant on primary legislation. Fair funding changes to baselines, tier splits and transfers do not require legislation so can go ahead.
 - **Social Care:** Ministers will work to improve social care and will bring forward proposals for consultation, including floor and cap funding levels.
 - **Schools:** there was no mention of creating new grammar schools, which had been a manifesto pledge, and instead there was a return to the previous government's policy of creating new academies.
 - **Housing:** the focus continues to be on the supply-side, and using the market to ensure the right number and type of homes are built. This suggests that the Government will continue to help the private sector to deliver, rather than encouraging local authorities to build housing themselves.
 - **Public Finances:** the commitment to balance the budget by the middle of the next decade and to reduce the structural deficit to 2% by 2020-21 are re-confirmed.
 - **Pay inflation:** the government is now sounding more sympathetic to the pay of public sector workers, and local authorities could therefore find themselves having to fund increased pay awards out of the same funding allocations. This would put more pressure on budgets.
- 7.8. The Chancellor's Mansion House Statement, delivered on the 20 June, gave a practical indication of how the government will manage the public finances. The

Chancellor confirmed that the government will continue with the spending targets announced in the Autumn Statement. The expectation is that public spending will increase in line with inflation in both 2020/21 and 2021/22, and possibly through to the middle of the decade.

8. BUDGET UPDATE

2016/17 Financial accounts

- 8.1. The Council's draft final accounts for 2016/17 have been prepared and were reviewed by the Audit Panel on 20 June 2017, 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 Public Accounts Committee at the 28 June 2017 meeting.
- 8.2. The Council's final 2016/17 Directorate revenue outturn position was a Directorate overspend of £9.8m, reduced to £7m after applying a corporately held provision for pressures and risks of £2.75m. The Housing Revenue Account (HRA) is projecting an additional surplus of £4.1m above the already budgeted surplus of £10.1m, making the total for the year £14.2m. 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. The Dedicated Schools Grant (DSG) of £284.7m was in balance at the end of the year. There were nine schools in deficit at the year-end: five secondary, three primary schools and the pupil referral unit. All of those schools have a licensed deficit agreement or are in the process of applying for one. The Capital Programme spend as at 31 March 2017 was £70.9m. This represents is 84% of the revised budget of £84.8m. The comparable figure last year was a final spend of £94.1m, which was 80% of the revised budget of £118.1m. Capital resources unspent in the year are rolled forward.

2017/18 Budget

- 8.3. The 2017/18 budget was approved by Council on the 22 February 2017. The overall budget position for the Council is a net General Fund Budget Requirement of £232.746m, as set out in Table1 below.

Table 1 - Overall Budget Position for 2017/18

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Settlement Funding Assessment (SFA) for 2017/18	(135.019)	
Council Tax 2017/18 at 4.99% increase	(93.874)	
Surplus on Collection Fund	(3.853)	
Assumed Budget Requirement for 2017/18		(232.746)
Total Resources available for 2017/18		

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Base Budget for 2016/17	236.218	
Plus: Reversal of reserves drawn in 16/17 (once off)	10.943	
Plus: Additional Pay inflation	0.978	
Plus: Non-pay Inflation	2.500	
Plus: Education Support Grant changes for 17/18	2.870	
Plus: Budget pressures to be funded from 17/18 fund	5.120	
Plus: Risks and other potential budget pressures	2.130	
Less: 16/17 pressures funding no longer required	(0.750)	
Less: Previously agreed savings for 2017/18	(16.237)	
Less: September approved savings for 2017/18	(5.999)	
Less: Use of New Homes Bonus reserve	(5.000)	
Less: Once off use of Corporate reserves	(0.027)	
Total		232.746

2016/17 General Fund Revenue Budget Monitoring

- 8.4. Officers continue to undertake regular revenue budget monitoring in 2017/18. The first revenue budget monitoring report will be presented to the Public Accounts Select Committee on the 13 July 2017. The report is based on information to the end of May 2017 and forecasts a year-end overspend of £12.8m.
- 8.5. The main service areas overspending are:
- Children's Social Care £5.1m;
 - Adult Social Care £1.1m; and
 - Environment £2.4m
- 8.6. The Executive Director for Resources and Regeneration noted that, in setting the Council's budget for 2017/18, a sum of £2.1m 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

- 8.7. The forecast position for the Housing Revenue Account is to spend to budget for 2017/18.

Dedicated Schools Grant

- 8.8. The forecast position for the Dedicated Schools Grant overall is to spend to budget for 2016/17.
- 8.9. However, it should be noted that the number of schools running in-year deficits is growing - 32 in 2016/17 with nine schools overspent at the year-end. Further to

the national funding formula announcements that limited any school funding loss to 3%, the government has now suggested no school will lose out but the details have yet to be published. Other head wins facing school finances include uncertainty of numbers for school places, inflation and pay and pension rises, cost of implementing change (e.g. redundancy costs), and ability to manage both reducing real term budgets and address licenced loans or deficits.

Capital Programme

- 8.10. The overall spend to 31 May 2017 is £5.5m, which is 5% of the revised 2017/18 budget of £116.4m.

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 four years. 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 years 2020/21 to 2021/22, the strategy has again modelled three indicative scenarios, the optimistic case, the **main** case, and the pessimistic case. The main 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. These are discussed below for the main case and summarised in Appendix 2.

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 offered any Council that wished to take it up a four-year funding settlement to 2019-20 which provides funding certainty and stability in respect of the Revenue Support Grant only. The Government confirmed the figures for 2017/18 to 2019/20 in the LGFS in December 2017. Table 2 below sets out the announced SFA for Lewisham from 2018/19 to 2019/20 and the estimated SFA from 2020/21 to 2021/22:

Table 2: Make-up of Lewisham's Provisional and Estimated Settlement Funding Assessment, 2018/19 to 2021/22

Settlement Funding Assessment	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Revenue Support Grant	36.9	27.6	20.5	16.0
Retained Business Rates (30%)	20.3	21.0	21.4	21.8
Business Rate Top-up (to reflect Lewisham's low business rate base)	71.4	73.9	75.5	77.0
Total SFA	128.6	122.5	117.4	114.8

Business rates income

- 10.4. Under the current local government finance system the Council retains 30% of the business rate income it collects, with 37% going to the GLA and 33% 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 via the top-up and to a lesser degree by growth in business rates locally (see Table 2 above).
- 10.5. The government has proposed a fundamental change to the way local authorities are financed such that Local Government would retain 100% of the Business Rates income it collects. However, following the June 2017 general election this appears to be delayed in the absence of a Local Government Finance Bill in the Queen's speech. Although the fair funding update is likely to proceed and the Government is planning to have this in place by 2019/20.
- 10.6. Changes to Business Rates retention were intended to be fiscally neutral by allowing the main local government grant (e.g. Revenue Support Grant) to be phased out and additional responsibilities devolved to local authorities or regions, matching the additional funding from business rates. If or how this will now proceed is uncertain.
- 10.7. Without these planned changes and with the new Business Rates valuations effective from April 2017, Lewisham retains the risk of appeals and lost collection for the new rates which increased significantly in London as a reflection of higher rent rises than the average nationally. This is set out in Table 3

Table 3: Rateable Value Changes

	2017/18 (2017 Valuation list)	2016/17 (2010 Valuation list)
Number of properties	6,057	6,027
Rateable Value £'000	180,751.3	140,205.5
Average RV £'000	29.8	23.3
Average RV % change	28%	-

- 10.8. The individual property increases could pose a potential risk of increase in appeals to the Council. The Government introduced additional reliefs to support businesses faced with large increases in business rates, e.g. supporting small businesses relief and new local discretionary relief scheme.
- 10.9. While it has been confirmed that “new burdens funding” would be paid to cover the additional cost of administering these relief schemes, legislation is yet to be issued providing further guidance or funding.
- 10.10. There are two main key risks area to the Council that are worth noting:

Virgin Media

- 10.11. Lewisham's is currently the largest Virgin Media RV in the country – standing at £15.9m. All appeals seeking to merge the VM networks in the 2010 rating lists were withdrawn in May 2017. Lewisham is keeping a close eye on this should VM seek to move from the local list to the Central list. This would mean that VM would pay their rates to Central Government rather than the Council.

Health sector

- 10.12. The NHS has its application for charitable status still pending. Charities can apply for up to 80% relief on the proportion of the building being used for charitable purposes. Should their application be successful, Lewisham's liability up to 2016/17 would be approximately £9.0m, and future annual business rate losses of approximately £1.4m. Lewisham has joined a combined legal action being coordinated by the LGA to challenge these applications.

Council Tax income

- 10.13. In considering savings proposals and the level of Council Tax, Members make political judgements, balancing these with their specific legal responsibilities to set a balanced budget and their general responsibilities to steward the Council's finances over the medium term.
- 10.14. The current position is still that Council Tax may not be increased by 2% or more (inclusive of levies) without a referendum. The Social Care Precept is in addition

to this. The government's assumptions in the provisional 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.

- 10.15. 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.
- 10.16. The Social Care precept introduced by the Government from 2016/17 will continue to 2019/20. Local authorities have the flexibility to raise council tax in their area by up to 6% over the three year period 2017/18 to 2019/20, above the existing referendum threshold for council tax of 1.99%. In Lewisham, the 2017/18 budget made the decision for an increase in the Social Care precept of 3% in 2017/18 and assumed increases of 1% in 2018/19 and 2% for 2019/20.
- 10.17. This additional funding is ring-fenced for adult social care each year. For both 2016/17 and 2017/18 the money was committed to funding the above inflation increases in the London Living Wage for those providing adult social care.
- 10.18. In 2017/18, Council Tax was raised by 4.99% in total, i.e. a 1.99% general increase and the 3% social care precept increase as set out above. This generated additional funding of £4.46m.
- 10.19. The MTFS main case assumes a 2.99% increase in Council Tax for 2018/19, 3.99% in 2019/20, and thereafter only the 1.99% general increase in each year. This reflects the assumption that the Council will apply a 1% and 2% Social Care precept in the first two years, as well as the maximum increase allowed without a referendum. In total over the period this will add approximately £13m to the Council Tax income base over the four year period to 2021/22.
- 10.20. Forecast Council Tax income from 2018/19 to 2021/22 is set out in Table 4 using the assumptions in Appendix 2. The amounts collected here are after allowing for the cost of the Council Tax Reduction Scheme and any uncollected debts.

Table 4: Council Tax Income Future Year Projections

	2017/18 Expected	2018/19 projection	2019/20 projection	2020/21 projection	2021/22 projection
	£m	£m	£m	£m	£m
Optimistic		98.64	104.12	107.78	111.58
Main	93.87	98.13	103.58	107.22	110.99
Pessimistic		96.23	99.63	101.13	104.69

11. REVENUE EXPENDITURE ASSUMPTIONS

- 11.1. In addition to the reduction in the level of resources available over the next four years, the Council faces a number of budget pressures which will add to the overall revenue expenditure. 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 main model has assumed that pay awards will remain at 1% in future years. However, it should be noted that this is an area of uncertainty in the budget model given the focus on public sector pay constraint as part of austerity following the general election in June 2017. The pessimistic MTFS case therefore allows for above 1% increases in pay inflation, putting more pressure on the budget in future years.

Employer pension contributions

- 11.3. 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.
- 11.4. As a result of the recent Valuation of the Pension Fund assets and liabilities at 31 March 2016, an additional £2.5m was 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. No further lump sum contribution is currently required based on the results of the valuation. The next valuation will take place in 2019.

General price inflation assumptions

- 11.5. 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 2018/19 has been estimated at 2.5%.

General fees and charges assumptions

- 11.6. 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

- 11.7. 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.
- **Impact of reducing preventative services** – reductions in budgets for preventative services such as early years, the youth service and aspects of adult social care provision are likely to affect demand for more acute services including children at risk, children involved in crime, adults with drug and alcohol problems, adults in residential accommodation and so on; and
- **Regulations and standards** – as the national negotiations progress to withdraw the UK from the European Union institutions, with new responsibilities for local government through anticipated funding changes, and as councils respond to recent community incidents standards and ways of working are expected to change.

- 11.8. 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 the rigorous application of criteria for access to services.
- 11.9. Other pressures, such as the cost of transition of children with disabilities into adult services or when specific grants are reduced or withdrawn, are assumed to be managed within service budgets.
- 11.10. Recognising these pressures and risks in flexible way as they come to bear the Council annually provides £6.5m corporately for growth from demand and other unavoidable pressures in the budget. The model assumes this will continue for future years.

Specific grant assumptions

- 11.11. The following assumptions have been made in the projections on specific grants which fund services. The general point is that within the Council's devolved budget management arrangements the funding position is noted and it is for the service to ensure that their spending is managed within the available grant. The main specific grants include:
- **Public Health** – this grant is currently £24.97m in 2017/18. The Chancellor's 2016 Autumn Statement confirmed that LAs' funding for public health would be reduced by an average of 2.6 per cent in cash terms per year until 2020. 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 2018/19 is £24.3m.
 - **Better Care Fund (BCF)** – this funding increased slightly in 2017/18 and is expected to increase by a further 1.9% (to £22.1m) in 2018/19. Currently, in negotiation with the Health sector the Council receives approximately £9m of this funding to support Council led services.
 - **Improved Better Care Fund (iBCF)** – the BCF is to be supplemented by through the introduction of the iBCF from 2017/18. The difference between the BCF and iBCF is that the iBCF comes directly to Local Authorities to fund adult social care. However, as with the BCF, iBCF spending has to be jointly agreed with local Health partners. In 2017/18 the iBCF totals £1.2m, rising to £11.2m in 2019/20.
 - **Adult Social Care one off funding** – in addition to the above the Government announced extra one off funding for adult social care over the three year period from 2017/18 to 2019/20. Lewisham will receive a total of £12.23m, split across the years £6.4m, £3.9m and £1.9m respectively. There is also a further grant for adult social care of £1.4m in 2017/18. This represents an income stream of approximately £10m per year for adult social care, which if agreed, will make a significant contribution to current pressures as well as supporting the planned improvements from better joint working with Health partners.
 - **Other grants** – 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 Council's overall budget gap.

Other Income and Expenditure Items

- 11.12. There are other income and expenditure items in the Council's budget which are mainly non-service specific. These consist of the following elements:

Capital financing charges

- 11.13. 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.
- 11.14. 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.
- 11.15. 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 their scale is likely to be limited and the timing remains uncertain.

Levies

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

Added years pension costs

- 11.17. 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

- 11.18. There are three further adjustments that are included within the budget projections for future years, funded from the £6.5m 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.

New Homes Bonus

- 11.19. The New Homes Bonus (NHB) is a grant paid by central government to local councils for increasing the number of homes in use. Growth in the number of properties in Lewisham in line with the London Housing plan will fund 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.
- 11.20. The grant will be paid each year for four years (previously six) for the period of this MTFS. 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.
- 11.21. As well as the reduced period of payment, the government have introduced a baseline level of 0.4% growth such that NHB is only paid for new property numbers above this level. The impact of these changes will be to reduce the level of NHB the Council received by at least a third and possibly a half from the current scheme level which in 2017/18, for all years in payment, is £10m.
- 11.22. The 'sharpening of the incentive' for NHB puts the onus on councils to continue to bring forward developments promptly to maintain supply of new housing in-line with local and regional plans. For Lewisham these are the targets within the London Housing Plan.

GENERAL FUND BUDGET GAP

- 11.23. Using the medium term resource envelope and revenue expenditure projections stated above the resulting overall forecast position for the authority is shown in Table 5 below:

Table 5: Summary of Projected Financial Position

	Optimistic Case				Main Case				Pessimistic Case			
	2018/19	2019/20	2020/21	2021/22	2018/19	2019/20	2020/21	2021/22	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Business Rates Baseline	91.72	94.98	96.88	98.82	91.72	94.98	96.88	98.82	91.72	94.98	96.88	98.82
RSG	36.94	27.55	22.04	17.63	36.94	27.55	20.50	16.00	36.94	27.55	19.28	13.50
Ctax	98.64	104.12	107.78	111.58	98.13	103.58	107.22	110.99	96.23	99.63	101.13	104.69
Ctax Collection Fund	0.00	0.00	3.00	3.00	0.00	0.00	2.00	2.00	0.00	0.00	0.00	0.00
Total Resources	227.30	226.65	229.70	231.03	226.79	226.11	226.6	227.81	224.89	222.16	217.29	217.01
Total Revenue Expenditure	248.65	237.06	236.69	239.76	248.65	237.06	236.64	237.22	250.32	236.89	234.48	229.75
Budget Gap	21.35	10.41	6.99	8.73	21.86	10.95	10.04	9.41	25.43	14.73	17.19	12.74
Approved Savings	-0.58	-0.10	0.00	0.00	-0.58	-0.10	0.00	0.00	-0.58	-0.10	0.00	0.00
Additional Annual Savings Required	20.77	10.31	6.99	8.73	21.28	10.85	10.04	9.41	24.85	14.63	17.19	12.74
Cumulative Savings Required		31.08	38.07	46.80		32.13	42.17	51.58		39.47	56.66	69.41

- 11.24. Taking the main case scenario as the expected position, the MTFS shows the annual measures required to bridge the budget gap from 2018/19 to 2021/22 as £21.4m, £11.0m, £10.0m, £9.4m. A total of £51.6m over the four years to 2021/22. This is a substantial budget gap for the Council, especially as savings agreed to date have totalled £160m and the financial monitoring in 2016/17 and 2017/18 is identifying difficulty and delay in implementing agreed savings as a contributory cause to the reported overspend position.
- 11.25. The optimistic case scenario has been modelled to show the effect that positive changes in the assumptions will have on the overall budget gap. Here the cumulative budget gap to 2021/22 reduces by £4.78m to £46.8m. This is based on higher projected Council Tax collection levels and a £3m surplus in the collection fund from 2020/21 to 2021/22.
- 11.26. The pessimistic case scenario is the most unlikely scenario projected. The cumulative budget gap to 2021/22 increases by £17.83m to £69.41m. This scenario demonstrates the difficulty the Council could potentially face if the very worst happens and it opts not to use all available options to increase Council Tax.
- 11.27. The next section of this report looks at how the Council continues to address the gap in order to produce a balance 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.
- 12.2. 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 delivering services in the context of a much reduced General Fund budget. They are:
 - Creating the conditions where communities will be able to support the delivery of services;
 - 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.

The Lewisham Future Programme (LFP) Board

- 12.3. 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.
- 12.4. 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.
- 12.5. The programme is supported, since 2016/17, by the agreed work on transformation projects funded through the £11m 'Invest to Save' commitments agreed as part of the 2017/18 budget.
- 12.6. 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.

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 2017 has been on implementing the £22m of savings agreed for 2017/18 and exploring options for developing proposals for the £51m of anticipated savings required by 2021/22.
- 12.8. After making £160m of savings in the eight years from 2010/11 to 2017/18 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 2017/18 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 Brexit.
- 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 2017/18 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 2018/19 budget or before if there is a need for an emergency budget.

Revenue Budget Savings Process

12.11. Following the 2017/18 budget being set the Board revisited and reset the savings targets by work strand to 2019/20. The focus being on the five main spending areas. They are adult and children social care, environment services, assets, and management overheads. Dedicated sessions to review next steps for each of these work strands have been held. The savings targets are set out in Table 7 below:

Table 7: summary of savings targets to 2019/20

Work strand savings targets	2018/19 £m	2019/20 £m	Total £m
A – Smarter and deeper integration of social care and health	6.1	3.1	9.2
E – Asset rationalisation	4.4	2.2	6.6
I – Management and corporate overheads	3.3	1.6	4.9
J – School effectiveness	0.6	0.3	0.9
L – Culture and community services	1.0	0.5	1.5
M – Housing strategy and non-HRA services	0.6	0.3	0.9
N – Environment services	2.3	1.1	3.4
O – Public Services	1.4	0.4	2.1
P – Planning and economic development	0.6	0.3	0.9
Q – safeguarding and early intervention	1.7	0.9	2.6
Total	22.0	11.0	33.0
Public Health	0.7	0.6	1.3

12.12. The Board will work on continuing management action to extend the savings already approved and bring forward proposals for members approval in the Autumn. The sorts of areas where management is continuing to focus their attention, both to manage spend to budget and go further to deliver savings, include:

- more timely and accurate recording and processing of transactions / casework;
- higher rates of debt collection;
- improved productivity through flexible and effective ways of working;
- better ‘right first time’ and coordinated customer interaction;
- accelerating where possible the delivery of capital development projects; and
- managing demand and tighter commissioning of services.

- 12.13. The timing is later for 2017/18 for two reasons: 1) the snap general election in June has pushed the time table back; and 2) subsequent uncertainty in respect of the direction of travel in a number of areas (e.g. business rates, planning rules, school funding, health and social care integration, public sector pay, revenue support grant) is delaying officers' ability to bring forward firm proposals to members.
- 12.14. The next steps are reviewing actions and detailed plans for those areas where management action can continue to deliver savings and continue work on developing:
- 1) the proposals to be presented to members for scrutiny and decision; and
 - 2) the LFP to continue informal member level discussions around key service areas.
- 12.15. As these discussions continue the full timetable for putting savings forward for scrutiny and decision making will be developed. It will likely now be to the October / November scrutiny round for decision at Mayor & Cabinet in December so that these are known for the budget discussions in January / February 2018. This is shown in Table 8 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 2018.

Table 8: Budget Timetable – Key Dates

Month	Key Stage
October / November 2017	Scrutiny of Revenue Budget Savings / Autumn Budget statement
December 2017	Provisional Local Government Finance Settlement
	Savings report and Council Tax Reduction Scheme to M&C
January 2018	Final Local Government Finance Settlement
	PASC - the 2018/19 Budget Report
	Council Tax Base agreed by M&C and then Council
	National Non Domestic Rates consultation session
February 2018	Greater London Authority sets their Precept for 2018/19
	Notification of Precepts and Levies
	Mayor & Cabinet agrees the Budget & Council Tax 2018/19
	Council approves Budget & Council Tax for 2018/19

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.

- 13.2. 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. 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.
- 13.3. 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, and treatment of voids. Recently the main challenge for the HRA has been to bring forward development of new homes given the pressure on available social housing stock. There may now also be costs for the refurbishment of buildings depending on the lessons learnt from the Grenfell tower fire in June 2017

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 £290.7m, although this will change during the year to reflect updated pupil numbers. Further grants are given to schools and routed through the Local Authority. This includes the Pupil Premium (£16m), Post 16 funding (£6m), Universal Free School Meals Grant (£3m). Making total available funds for schools in 2016/17 of £316m.
- 14.2. Prior to the June 2017 general election the Government consulted on a revised National Funding Formula for schools and High Needs Pupils. It was expected that the new formula would be introduced in April 2018. Under these proposals the Government said schools would be protected from any losses over 3%. However, the new Government has now announced that no school will lose from the implementation of the funding formula. The details are awaited as there is no indication on how long the protection will last or how it will work. No similar announcement have been made on the High Needs block. The funding position for Lewisham schools in the period of this MTFS therefore remains uncertain.

Redundancy and cost pressures

- 14.3. Under the current Lewisham Schools Scheme of Delegation redundancy costs are met by the school. Ministers are reviewing the position. It is uncertain whether in the future any costs will fall on Local Authorities or any decision will be retrospective.
- 14.4. Cost pressures in schools are expected to be 8% over the next three years. It is anticipated that for Lewisham schools the settlement from central government will be cash frozen on a per pupil basis. School budgets are under a strain with 32 of schools running in-year deficits in 2016/17 (i.e. their expenditure exceeded their current years income). This year budget plans indicate 61 schools will operate with in-year deficits to a total £7m. If this is not managed by schools, it will be a significant draw on their balances.

School Deficit Loan System

- 14.5. Lewisham operate a system to provide schools with a loan to cover budget deficits. The rational for this is that when a school becomes a sponsored academy a school budget deficit reverts to the Local Authority. If a loan is in place, the loan debt stays with the converting school.
- 14.6. The previous Government ran a government consultation between 24 March 2017 and the 22 April 2017. The consultation proposed that loans could not be made to schools to cover deficits. If all the schools that currently have deficits were to convert to academies, the Local Authority would need to write off £4.0m.

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 2017/18 to 2020/21

- 15.2. The estimated resources available, the forecast spend and the under programming within the 2017/18 to 2020/21 Committed Capital Programme are set out in Table 9 below:

Table 9: Capital Programme Resources and Forecast Expenditure 2017/18 to 2020/21 (as at June 2017)

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
SCHEMES					
General Fund	57,985	30,245	14,040	8,004	110,274
HRA	58,417	103,782	62,687	55,883	280,769
	116,402	134,027	76,727	63,887	391,043
RESOURCES					
Prudential Borrowing	3,754	0	0	0	3,754
Grants & Contributions	30,974	19,963	232	0	51,169
General (capital receipt, reserves, revenue)	81,674	114,064	76,495	63,887	336,120
	116,402	134,027	76,727	63,887	391,043

- 15.3. The proposed 2017/18 to 2020/21 Capital Programme totals £391m 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. 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.

SUMMARY 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 2021/22. It presents the outturn for 2016/17, summarises the current financial position for 2017/18, and looks forward to 2018/19 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, and clarity on the government's policy agenda as it impacts local government. 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 be responsible for and 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 2017/18	22 February 2017 (Full Council)	5 th Floor Laurence House, Corporate Resources	David Austin
Final Revenue and Capital Outturn 2016/17	28 June 2016 (Public Accounts)	5 th Floor Laurence House, Financial Services	Selwyn Thompson

	Committee)		
2017/18 Budget Monitoring Report	13 July 2017 (PASC)	5 th Floor Laurence House, Financial Services	Selwyn Thompson

APPENDICES

Appendix 1 – Corporate Priorities

Appendix 2 – Summary of MTFS Assumptions

Appendix 3 – Glossary of Terms

For further information on this report please contact

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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

	Optimistic Case	Main case	Pessimistic case
RESOURCE ENVELOPE			
Settlement Funding Assessment	<ul style="list-style-type: none"> February 2016 Provisional figures used to 2019/20 	<ul style="list-style-type: none"> February 2016 Provisional figures used to 2019/20 	<ul style="list-style-type: none"> February 2016 Provisional figures used to 2019/20
Revenue Support Grant	<ul style="list-style-type: none"> 2020 to 20/22 20% reduction assumed each year 	<ul style="list-style-type: none"> 2020 to 20/22- 23.5% reduction assumed (across the 2 years) 	<ul style="list-style-type: none"> 2020 to 20/22- 30% reduction assumed each year
Retained business rates	<ul style="list-style-type: none"> 2% real terms increase each year from 2018/19 from growth in rateable value base 	<ul style="list-style-type: none"> 2% real terms increase each year from 2018/19 from growth in rateable value base 	<ul style="list-style-type: none"> 2% real terms increase each year from 2018/19 from growth in rateable value base
Council Tax income	<ul style="list-style-type: none"> 2018/19 2.99% change in Council Tax level 2019/20 3.99% change in Council Tax level Next 2 years 1.99% change in Council Tax level 1.5% increase each year in Council Tax base from 2018/19 onwards CT collection rate of 96.5% each year from 2018/19 onwards 	<ul style="list-style-type: none"> 2018/19 2.99% change in Council Tax level 2019/20 3.99% change in Council Tax level Next 2 years 1.99% change in Council Tax level 1.5% increase each year in Council Tax base from 2018/19 onwards CT collection rate of 96% each year from 2018/19 onwards 	<ul style="list-style-type: none"> 2018/19 1% change in Council Tax level 2019/20 2% change in Council Tax level Next 2 years no change in Council Tax level 1.5% increase each year in Council Tax base from 2018/19 onwards CT collection rate of 96% each year from 2018/19 onwards
Surpluses/deficits on Collection Fund	<ul style="list-style-type: none"> £3m estimated surplus in 2020/21 and 2021/22 	<ul style="list-style-type: none"> £2m estimated surplus in 2020/21 and 2021/22 	<ul style="list-style-type: none"> No surplus declared
Pay awards	<ul style="list-style-type: none"> 1% from 2018/19 onwards 	<ul style="list-style-type: none"> 1% from 2018/19 onwards 	<ul style="list-style-type: none"> 2.5% from 2018/19 onwards
General price inflation (incl. fees)	<ul style="list-style-type: none"> 2.5% increase each year in non-pay budgets 	<ul style="list-style-type: none"> 2.5% increase each year in non-pay budgets 	<ul style="list-style-type: none"> 2.5% increase each year in non-pay budgets

	Optimistic Case	Main case	Pessimistic case
and charges)			
Pressures and risks	<ul style="list-style-type: none"> • £6.5m growth each year 	<ul style="list-style-type: none"> • £6.5m growth each year 	<ul style="list-style-type: none"> • £6.5m growth each year
New legislation	<ul style="list-style-type: none"> • Nothing allowed 	<ul style="list-style-type: none"> • Nothing allowed 	<ul style="list-style-type: none"> • Nothing allowed
2017/18 budget pressures and risks	<ul style="list-style-type: none"> • All used and allocated to service spend 	<ul style="list-style-type: none"> • All used and allocated to service spend 	<ul style="list-style-type: none"> • All used and allocated to service spend

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.

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.