



Mayor and Cabinet

Financial stabilisation - budget update and medium term plan

Date: 16 September 2020

Key decision: No

Class: Part 1

Ward(s) affected: All

Contributors: Acting Chief Finance Officer

DRAFT

Outline and recommendations

The purpose of this report is twofold:

- To set out the current in-year financial position for 2020/21 and the management actions being taken to mitigate the financial pressures arising; and
- To set out the medium term financial position for the Council over the next four years and the assumptions on which it is based, as well as the likely levels of cuts which will be required.

Mayor and Cabinet are recommended to:

- Note the current in-year financial challenges of the Covid-19 impact of £60m with a funding gap of up to £20m and service overspending of £17m faced by the Council and the management actions being taken to mitigate these;
- Note the 2021/22 to 2024/25 Medium Term Financial Strategy (MTFS) and approach being taken to identify cuts proposals to meet the estimated budget gap of at least £40m; and
- Note the timetable for bringing forward cuts proposals and building the 2021/22 budget to Full Council in February 2021.

Timeline of engagement and decision-making

26 February 2020 – Budget report to Council

10 June 2020 – Council's response to Covid-19 – financial update report to Mayor & Cabinet (M&C)

9 July 2020 – First 2020/21 financial monitoring report to M&C

1. EXECUTIVE SUMMARY

- 1.1. The Council is required to annually set a balanced budget and prepare a sustainable medium term financial plan. However, the current unprecedented levels of

economic and fiscal uncertainty means that this is even more challenging than previous years. This on top of a decade of austerity which the Council successfully navigated.

- 1.2. The onset of the Covid-19 pandemic will drive the country into recession and according to a report by the Organisation for Economic Cooperation and Development (OECD), Britain's economy is likely to suffer the worst damage from the COVID-19 crisis of any country in the developed world, with a slump in the UK's national income of 11.5% during 2020 forecast.
- 1.3. However, whilst the possible scale of the economic downturn can be estimated, there is little clarity on what this will mean for local government funding. In the immediate term the current level of Covid-19 funding from government is insufficient to cover the costs and lost income experienced by local government, and it is unclear whether more funding will be made available to meet these costs.
- 1.4. It remains the Government's intention to implement new funding baselines for all local authorities. The new baselines being based on its review of local needs and resources (the Fair Funding Review) and a review of business rates. The last time the 'needs based assessment' was updated was for the 2013/14 settlement. However, due to the pandemic, the Government has announced that these changes will be further delayed.
- 1.5. In consequence, the Council is setting its medium term financial plan in the midst of a global pandemic and without any clarity or certainty on the funding which it can expect to receive from government in future years.
- 1.6. Further announcements with regards to Covid-19 funding, an autumn Budget by the Chancellor, clarity on the outcomes of the comprehensive spending review and a provisional local government finance settlement will all be key announcements expected later in the year which will hopefully reduce the levels of economic and financial uncertainty facing the Council.
- 1.7. Alongside unprecedented levels of economic and fiscal uncertainty the Council is also facing extraordinary in-year financial pressures due mainly to the need to ensure that throughout the Covid-19 pandemic the Council continues to protect its residents and maintain front line critical services. This has resulted in an estimated Covid-19 impact of £60m with a funding gap of up to £20m and service overspending of £17m.
- 1.8. The current levels of government funding are not sufficient to meet these pressures and there is uncertainty over whether any further funding will come forward. The Council continues to press government to stand behind its pledge to do 'whatever it takes' to support local government.
- 1.9. In the meantime, in accordance with the Council's budget policy framework and financial regulations in the Constitution, measures have been taken to seek to limit the financial pressures within the current financial year. These actions will reduce the in-year overspend by almost £5.5m. Unless the Council can preserve cash within the year these pressures will need to be met from reserves.
- 1.10. In light of the extreme uncertainty surrounding government funding and the extraordinary in-year pressures it is incredibly challenging to set a medium term financial plan. The assumptions which this is based on will need to be tested and reviewed in light of future funding announcements and general economic forecasts. The assumptions that officers have based the Medium Term Financial Strategy (MTFS) on are set out in this report and produce a current base case of an assumed budget gap of £55m over the four year period of 2021/22 to 2024/25, with over £40m required in the first three years.

- 1.11. While the scale of the challenge is no greater than in previous years, it follows on a decade when £190m has already been cut from budgets, there is uncertainty regarding the long term impact of Covid-19 on the community, the economy, and the Council, and there remain significant risks on the horizon from the global economy and the impact of Brexit through to the funding of public services including local government in the UK. Preparing for these further cuts against this backdrop will be a very significant and challenging task for the Council.
- 1.12. For the future budget gap, officers have started work on identifying possible cuts proposals to meet the 2021/22 budget gap forecast in this MTFs of £24m. Sessions of the Senior Leadership Team (SLT) have taken place in the period June to July to work collaboratively and identify cross-cutting proposal that can be implemented in future years. A number of themes have come from these which are being developed.
- 1.13. These themes have been reviewed by the Executive Management Team (EMT) who are scrutinising the budget to capture possible reductions to in-year spending and will lead SLT in the work to develop draft officer proposals for cuts to be put to Members for scrutiny and decision in the autumn. All services are part of this process.
- 1.14. The timetable to deliver the Budget for 2021/22 is as set out below.

Month	Key Stage
September / October 2020	Medium term financial planning and monitoring. Chancellor's Autumn Budget
November / December 2020	Draft Officer cuts proposals presented for scrutiny and decision Provisional Local Government Finance Settlement
January 2021	Council Tax Base agreed by Council Draft Council Budget for 2021/22 prepared
February 2021	Greater London Authority sets their Precept for 2021/22 Council approves Budget & Council Tax for 2021/22

2. RECOMMENDATIONS

- 2.1. Mayor and Cabinet are recommended to:
- 2.2. Note the current in-year financial challenges of the Covid-19 impact of £60m with a funding gap of up to £20m and service overspending of £17m faced by the Council and the management actions being taken to mitigate these;
- 2.3. Note the 2021/22 to 2024/25 Medium Term Financial Strategy and approach being taken to identify cuts proposals to meet the estimated budget gap of at least £40m; and

- 2.4. Note the timetable for bringing forward cuts proposals and building the 2021/22 budget to Full Council in February 2021.

3. POLICY CONTEXT

3.1. The Council's 2018 to 2022 Corporate Strategy identifies seven corporate priorities and four core values which are the driving force behind what we do as an organisation. It sets out a vision for Lewisham and the priority outcomes that organisations, communities and individuals can work towards to make this vision a reality.

3.2. In taking action to minimise the current in-year financial pressures which have arisen, in setting out 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.

3.3. These core values align with the Council's seven corporate priorities namely:

Open Lewisham - Lewisham is a welcoming place of safety for all where we celebrate the diversity that strengthens us.

Tackling the housing crisis - Everyone has a decent home that is secure and affordable.

Giving children and young people the best start in life - Every child has access to an outstanding and inspiring education and is given the support they need to keep them safe, well and able to achieve their full potential.

Building an inclusive local economy - Everyone can access high quality job opportunities, with decent pay and security in our thriving and inclusive local economy.

Delivering & defending: Health, Social Care and Support - Ensuring everyone receives the health, mental health, social care and support services they need.

Making Lewisham greener - Everyone enjoys our green spaces and benefits from a healthy environment as we work to protect and improve our local environment.

Building safer communities - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

4. STRUCTURE OF THE REPORT

4.1. The Report is structured as follows:

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

Strategic Review

5. Introduction
6. Economic Context
7. Budget Update
8. In-year Financial Pressures Update

Medium Term Financial Strategy

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

Summary and Implications

14. Timetable
15. Conclusion
16. Financial Implications
17. Legal Implications
18. Equalities Implications
19. Climate Change and Environmental Implications
20. Crime & Disorder Implications
21. Health and Wellbeing Implications
22. Background Papers
23. Glossary
24. Report Author

STRATEGIC REVIEW

5. INTRODUCTION

- 5.1. The Medium Term Financial Strategy (MTFS) represents the start of the Council's

formal budget process, which concludes with the setting of the overall Budget each year. The Budget Report for 2021/22 will be presented to Mayor and Cabinet and full Council in February 2021.

- 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. This report also crucially sets out the impact of the extraordinary measures being undertaken by the Council to address the challenges of the Covid-19 pandemic and overspending in some service areas following a decade of austerity, and the resultant cost pressures arising in-year. It sets out the level of these pressures, the extent of government support towards this, and the actions taken by the Council to seek to mitigate the in-year pressures to ensure that, consistent with the Council's budget policy framework and financial regulations in the Constitution, wherever possible the impact of this is limited to the current financial year.
- 5.4. The key objectives of the 2021/22 to 2024/25 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.
- 5.5. Over the last ten years, the Council has undertaken a major budget reduction programme to manage the difficult financial challenge it has been faced with, implementing £190m of budget cuts in that time.
- 5.6. The financial outlook for the Council and the public sector as a whole remains extremely challenging, severely exacerbated by the Covid-19 pandemic. In the continuing absence of a future spending review or local government finance settlement from government and knowing that the economy is in recession, which will impact disproportionately on areas with higher inequality, it is expected that the Council's finances will remain under continued severe financial strain in the coming years. Faced with higher costs, more demands, and lower anticipated income the Council needs to prepare to make further cuts to services in order to be able to set a balanced budget for 2021/22 in line with its statutory obligation to do so.
- 5.7. The announcement of the new local government funding arrangements were deferred again in the 2020 Budget and the assumption is the current principles of the 2016-2020 approach to local government will continue, at least for one more year. The funding changes were expected to include the main local government grant, the Revenue Support Grant (RSG), being phased out, changes to the business rates regime and associated fair funding assumptions, additional responsibilities transferred to local authorities, the rolling-in of some specific grants, changes to school funding (formula and paid direct to schools), the continuing impact of the move to Universal Credit, and further health and social care integration. All of these therefore remain unresolved and uncertain at the current time.

- 5.8. In 2019/20, the government changed the business rates pooling from a 100% retention to a 75% retention pilot pool, the inflation assumptions to Consumer Price Index (CPI) from Retail Price Index (RPI), and withdrew the no detriment guarantee. London continued the pool for 2020/21 for a further year but with the impact of Covid-19 the Council should expect to receive less benefit from the pool in 2020/21.
- 5.9. The focus of the MTFs is the Council's General Fund budget. Whilst it is very important, particularly at a time of prolonged financial constraint, to identify ways in which all services can be delivered more effectively across traditional organisational and financial boundaries, the nature of the current continuing financial austerity regime is such that most of the budget reductions have to come from Council's 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. THE ECONOMIC CONTEXT

National

- 6.1. In his spring 2020 budget, the Chancellor of the Exchequer made a number of announcements in relation to the economic condition, forecasts and the government's policies. For example; the Chancellor gave strong signals that he will loosen the purse strings while retaining the existing fiscal rules, which require him to set a balanced revenue (current) budget whilst giving scope to significantly increase capital investment (up to 3% of GDP).
- 6.2. The increases in revenue spending proposed in the Budget will add a further 0.9% of GDP to the budget deficit on average over the next 5 years, and add £125bn to the public sector net debt by 2024-25. Capital investment will increase by a further £175bn over the next 5 years, taking public sector net investment up to 3% of GDP, the maximum allowed under the government's fiscal rules. Low interest rates have given the government scope to increase its borrowing for investment.
- 6.3. Further spring budget announcements included:
- £2.5 billion to be spent on fixing potholes;
 - Increasing the National Insurance Contribution thresholds from £8,632 to £9,500, saving a typical employee around £104 a year from April;
 - £300m additional funding to improve air quality;
 - £400 million to tackle rough sleeping;
 - Funding to build 200,000 new affordable homes with a 12.2 billion investment.
- 6.4. However, Covid-19 then happened and the Chancellor issued a summer statement released in July which was accompanied by the Office of Budget Responsibility (OBR) releasing an updated fiscal responsibility report. This presented an updated account of the enormous changes that have taken place since then, and the severe global economic impact of the Covid-19 pandemic. Some of the key announcements from these were as follows.
- The Office for National Statistics (ONS) estimates that Gross Domestic Product (GDP) in April was around 25% below the level recorded in February with a likely in-year borrowing requirement of now over £300bn.

- Economies across the world are experiencing the economic effects of COVID-19. The International Monetary Fund (IMF) estimates that the global economy will contract by 4.9% in 2020, having previously expected growth of 3.3% in its January forecast.
 - World Bank analysis suggests this will be the deepest global recession since the Second World War and the broadest collapse in per capita incomes since at least 1870.
 - The OBR is forecasting that unemployment will peak in Q1 2021 and then persist into the following year, albeit at lower and reducing rates. For local government, the implication of increased, and sustained unemployment, is that it will lead to much higher levels of claims for Council Tax Support (CTS).
 - The Consumer Price Index (CPI) is now reducing in the near term, partly because of a reduction in energy and utility bills. It has fallen from 1.8% in 2019 down to 0.8% in 2020 and only returns to 2% in 2023.
 - In March 2020, the OBR was forecasting that the budget deficit would be 2.2% of GDP by 2024-25. In July both the “central” and “downside” scenarios, the budget deficit is forecast to still be as high as 4.6% or 6.8% respectively in 2024-25. A deficit of 2% or under is sustainable – but the higher levels forecast by the OBR are not.
- 6.5. All of the above Office of Budget Responsibility (OBR) forecasts were made against the backdrop of the initial economic shock of the Covid-19 pandemic, but with continued uncertainty as to what the duration of the pandemic and any further spike in infection rates and consequent restrictions imposed both in the UK and globally, it is incredibly difficult to forecast the full impact and extent of the recession, and therefore local government finance.
- 6.6. Critically, the UK's debt is now worth more than its economy after the government borrowed a record amount in May. The £55.2bn figure was nine times higher than in May last year and the highest since records began in 1993 and it sent total government debt surging to £1.95trn. Income from tax, National Insurance and VAT all dived in May amid the coronavirus lockdown as spending on support measures soared. Since then the level of government borrowing has risen above £2trn, albeit on lower interest rates and with inflationary pressures stalled.
- 6.7. Britain's economy is likely to suffer the worst damage from the COVID-19 crisis of any country in the developed world, according to a report by the Organisation for Economic Cooperation and Development (OECD). It stated that a slump in the UK's national income of 11.5% during 2020 will outstrip the falls in France, Italy, Spain, Germany and the US.
- 6.8. Also according to the OECD, Britain, which is forecast to post an increase in unemployment to around 9%, could make its situation more difficult if it failed to secure a lasting agreement with the EU on trade and access to the single market;. “The failure to conclude a trade deal with the European Union by the end of 2020 or put in place alternative arrangements would have a strongly negative effect on trade and jobs”.

Local Government

Local Government funding reform

- 6.9. It remains the Government's intention to implement new funding baselines for all local authorities. The new baselines being based on its review of local needs and

resources (the Fair Funding Review), the introduction of 75% business rates retention and resetting business rate baselines. The last time the 'needs based assessment' was updated was for the 2013-14 settlement.

- 6.10. However, due to the pandemic, the Government has announced that:
- the review of relative needs and resource and the introduction of 75% business rates retention would no longer be implemented in April 2021 as planned;
 - the revaluation of business rates, due to take place in April 2021, will no longer take place;
 - the review of business rates will continue and it is assumed this will report back in autumn 2020.

Spending Review

- 6.11. The main strategic funding decisions of central government as they relate to local government are normally made at each Spending Review; although these have been supplemented at subsequent annual Local Government Finance Settlements.
- 6.12. The 2019 Spending Review was reduced in scope due to uncertainty over Brexit and covered one-year only (2020-21). It is still unclear whether there will be a multi-year CSR in 2020 or indeed an Autumn budget. The absence of any detail about all of the major funding streams creates huge financial uncertainty for the Council. Early visibility of local government funding would help local government plan and make effective decisions.
- 6.13. Alongside local authority spending power cuts of over 25% in real terms since 2010-11, local authorities are facing more demands (Lewisham's population has grown by 30,000 or 10% in the past decade) and cost pressures with no reduction in their statutory obligations to provide services. Local spending is becoming more narrowly focused on social care even with some council tax increases that are restricted to use only for adult social care. At the same time, while seeking to be more commercial income can be uncertain from other revenue sources, such as business rates growth, the New Homes Bonus, and fees and charges (e.g. parking and commercial waste). This income volatility is a significant element of the impact of Covid-19 for the Council with economy effectively paused for four months and no clear timeline for recovery and future growth at this time.
- 6.14. Pending the 2020 financial settlement for local authorities, likely to be as late as December, certainty about future funding disappears. This is compounded by not knowing whether local authorities will receive a number of the one year only grants for 2020/21 again, including those for any continuing impacts of Covid-19, nor whether there will be flexibility to raise council tax by more than 1.99% without triggering a referendum, recognising this is a regressive tax.

7. BUDGET UPDATE

2019/20 Financial Accounts

- 7.1. The Council's draft final accounts for 2019/20 have been prepared and have been submitted to the Council's external auditor, Grant Thornton. The draft accounts will be reviewed by the Audit Panel on 30 September 2020. The Council's final 2019/20 Directorate revenue outturn position was a Directorate overspend of approximately £6m.

- 7.2. The Housing Revenue Account (HRA) spent to budget after transfers to reserves as at 31 March 2020. It continues to hold significant reserves on an annual basis, mainly to ensure that there are sufficient resources available to fund the current 30 year business plan. This aims to continue to invest in decent homes and to significantly increase the supply of housing in the borough over the medium to long term. After transfers to and from reserves the HRA balance at the end of the year, including earmarked reserves, now stands at £107.8m (£113.6m as at 31 March 2019).
- 7.3. The final budget distribution of the Dedicated Schools Grant (DSG) for 2019/20 was £258.8m (net of academy recoupment). The cumulative revenue balances for schools at year-end, including external funds, amounted to £23.5m. However, it should be noted that there were 11 schools with licensed deficit budgets at the year end, totalling £3.8m. There are also eight schools with local authority loans with a total balance of £2.2m, four of which have licensed deficit budgets. Overall the net position for schools has reduced from £21.6m to £19.3m. All schools with deficits have a budget recovery plan and work will continue this year to ensure that plans are delivered and the future position is sustainable.
- 7.4. The Capital Programme spend as at 31 March 2020 was £121.2m. This represents 72% of the revised budget of £169.1m.

2020/21 Budget

- 7.5. The 2020/21 budget was approved by Council on the 26 February 2020. The overall budget position for the Council is a net General Fund Budget Requirement of £248.7m. This included £19m of ongoing budget growth funded to reset service baselines in-line with anticipated spend. It was expected that this would enable services to better live within their budgets and reduce the level of in-year overspending noted in recent years. This remains work in progress.

2020/21 General Fund Revenue Budget Monitoring

- 7.6. Officers continue to undertake regular revenue budget monitoring in 2020/21. The first revenue budget monitoring was presented to Mayor & Cabinet on the 9 July 2020. The impact of Covid-19 pandemic has meant that there is increased monitoring of costs and pressures, as well as monthly returns to Ministry of Housing Communities and Local Government (MHCLG). Section 8 specifically discusses the impact of Covid-19 on the Council's finances, whilst this section considers the wider financial position for 2020/21.

Council-wide Financial Position

- 7.7. The forecasts against the directorates' general fund revenue budgets are shown in Table 1. In summary, a forecast year-end gross overspend of £49.8m is being reported as at the end of June 2020, where £32.6m is considered Covid-19 related and the balance of £17.2m are classified as service directorate pressures. In addition to the directorate Covid-19 pressures of £32.6m, there is approximately £20m of collection fund losses also being reported to government. The pressures are alleviated in part by additional government funding which is being received to provide some financial support to councils to undertake additional activities in recognition of the unplanned costs which have been incurred in responding to Covid-19. The

amount received by Lewisham to date, or due for imminent arrival for such purposes, totals £25.7m. Once applied to the gross spend projections, this has the effect of reducing the overall pressure down to £24.1m. It should be noted that this still leaves unfunded Covid-19 related pressures of £6.9 for these services, as well as loss of collection fund income which will have to be written back over the next three years. This is set out in the following tables.

- 7.8. As the government continues to consider the easing of lockdown restrictions in the United Kingdom, the full impact and economic fallout of the coronavirus pandemic remains unclear. Therefore, officers are only able to estimate the likely impact on the Council's financial position in 2020/21. The current modelling that the council has undertaken reflects a spectrum of potential financial impacts due to this uncertainty.

Table 1 – Overall Directorate Position for 2020/21

Directorate	Gross budgeted spend 2020/21	Gross budgeted income 2020/21	Net budget 2020/21	Forecast Outturn 2020/21 As at end of June 2020	Forecast Variance Over/ (Under) Spend June 2020	Covid-19 Related Variance June 2020	Non Covid-19 Service Variance June 2020
	1	2	3 (1+2)	4	5 (4-3)	6	7 (5-6)
	£m	£m	£m	£m	£m	£m	£m
Children & Young People - CYP (1)	159.7	(102.2)	57.5	79.9	22.4	10.1	12.3
Community Services – COM	179.1	(90.5)	88.6	98.9	10.3	9.5	0.8
Housing, Regeneration and Environment – HPRP (2)	126.2	(90.3)	35.9	47.2	11.3	7.8	3.5
Chief Executive and Corporate Resources – CE/CR	64.3	(26.9)	37.4	43.2	5.8	5.2	0.6
Directorate Totals	529.3	(309.9)	219.4	269.2	49.8	32.6	17.2

(1) – gross figures exclude £180m Dedicated Schools' Grant expenditure and matching grant income

(2) – gross figures exclude approximately £213m of matching income and expenditure for housing benefits.

- 7.9. The level of support received from government to date has not been sufficient and additional funding is urgently needed. It will be essential that government recognises that local authorities like Lewisham will be at the heart of the pandemic recovery and appropriate financial support is vital to all of those across the borough who rely on Council services at this time.
- 7.10. In the meantime the Council is required to ensure that it manages within the statutory framework of a balanced budget. This will mean drawing on reserves for any overspending in-year, whether from the impact of Covid or other service pressures. The Council's reserves are limited and can only be spent once. Action is therefore required now to reduce the call on reserves and secure the Council on a sustainable financial footing. This is consistent with and reflected in the Council's Constitution in respect of good financial governance. The financial regulations (section K) of the Constitution, in particular section 3.3, set out that Executive Directors and Budget holders are expected to lead on this.
- 7.11. Given the scale of the in-year pressures, action is being taken now with a range of measures identified. The Executive Management Team (EMT) working with Directors as the Senior Leadership Team (SLT) are taking action to ensure that the overspend is reduced to mitigate the likely need to draw down from reserves in 2020/21.
- 7.12. While the Council continues to operate with the priority on the response to Covid and maintaining critical services, some recovery and return of other services to be fully operational is enabling actions to be taken by services to address in-year budget pressures. These actions include but are not limited to:
- holding vacancies where possible and stronger controls on agency recruitment;
 - ensuring costs are fully recharged and income collected;
 - reviewing contractual commitments and pricing for the remainder of the year; and
 - recognising where activity will be less than expected this year so costs are lower.
- 7.13. The table below shows the anticipated impact of these in-year spend reduction measures by directorate. Once delivered these are expected to reduce the non-Covid service variance of £17.2m noted above to £11.8m with management action continuing to reduce this further where possible. These actions and their impact on spending will continue to be reported as part of the quarterly financial monitoring to Mayor & Cabinet (M&C).

Table 2 – Overall Directorate in-year spend reduction for 2020/21

Directorate	Net budget £m	In-year reduction £m
CYP	57.5	1.7
COM	88.6	2.3
HRPR	35.9	1.0
CE / CR	37.4	0.4
TOTAL	219.4	5.4

- 7.14. These items are once off in nature and are not considered to be permanent budget reductions, but simply cost saving measures instigated during the year to manage down the overspend. Sections twelve and thirteen set out the likely general fund budget gap over the medium term, and the process to be undertaken to identify savings to ensure that the Council can set a financially sustainable medium term financial plan.

Housing Revenue Account Monitoring

- 7.15. The Housing Revenue Account (HRA) is a statutory account which sets the Landlord costs and income for the housing stock. The forecast position for the Housing Revenue Account is to spend to budget for 2020/21.
- 7.16. 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.
- 7.17. 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.

Dedicated Schools Grant

- 7.18. The Dedicated Schools Grant (DSG) is currently projected to overspend by £2.6m at the end of the financial year. There are five schools with loans totalling £1.4m.
- 7.19. The Dedicated Schools Grant (DSG) set by the Department for Education (DfE) for 2020/21 is now confirmed at £264.251m. This figure is after the DfE recoupment for Academy Schools and the adjustment for the inter-borough use of high needs places, although this could change during the year to reflect updated pupil numbers (and the finalisation of the Early Years Block).

Redundancy and cost pressures

- 7.20. Under the current Lewisham Schools Scheme of Delegation redundancy costs are met by the school. These costs arise from schools implementing management action to reduce staffing in order to balance their budgets.
- 7.21. Across London, authorities are reporting pressure on their DSG high needs block spending which, if not managed, adds to DSG pressures or, worse, becomes a further pressure for the General Fund for services that it is not intended to meet.

Deficit Recovery Plans

- 7.22. Historically like most Local Authorities Lewisham operated a system to provide schools with a loan to cover budget deficits. Regulations supporting this process have now changed. This means that in addition to potential redundancy costs, the Local Authority could incur liabilities arising from School Deficits.

Capital Programme

- 7.23. The Capital Programme spend as at 31 May 2020 is £4.4m, which is 2% of the 2020/21 of the proposed revised capital budget of £210.9m. At this point last year, 16% of the revised budget had been spent, with the final outturn being 72% (£121.2m) of the revised budget of £169.1m. This reflects the delays arising on schemes paused due to Covid-19.
- 7.24. The estimated resources available and the budgeted expenditure within the 2020/21 to 2022/23 Committed Capital Programme are set out in Table 3 below:

Table 3: Capital Programme Resources and Forecast Expenditure 2020/21 to 2022/23

	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
SCHEMES				
General Fund	58.1	27.6	8.6	94.3
HRA	136.3	196.1	132.8	465.2
	194.4	223.7	141.4	559.5
RESOURCES				
Prudential Borrowing	108.5	139.6	79.9	328
Grants & Contributions	36.4	42.5	29	107.9
General (capital receipt, reserves, revenue)	49.5	41.6	23.5	123.6
	194.4	223.7	141.4	559.5

- 7.25. The 2020/21 to 2022/23 Capital Programme totals £559.5m and brings together all capital projects across the Council. It sets out the key priorities for the Council over the next three years and is the subject of regular review.
- 7.26. The financial uncertainty prevailing for revenue spend as discussed above extends to cover capital spending. This places increased reliance on the Council's capacity to identify programmes that can be funded through grant 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.

8. IN-YEAR FINANCIAL PRESSURES UPDATE – COVID-19

- 8.1. The financial position demonstrates the impact of the very severe financial constraints which have been imposed on Council services with the cuts made year on year, despite the increasing demand to deliver services to the borough's residents, compounded by the Covid-19 pandemic and the Council's response to ensure that critical services continue to be delivered to its residents and those most vulnerable within society.

- 8.2. All local authorities are under significant financial strain following the outbreak of the coronavirus with business rates, council tax and income levels from fees and charges all falling significantly. Without extra funding from government then it may not be possible for local authorities to balance their budgets whilst providing a full emergency response and adequately maintaining essential services. The latest Institute for Fiscal Studies (IFS) report for the Local Government Association (LGA) identifies the current government funding for local authorities to respond to the impact of Covid-19 leaves a gap of £2bn which is not covered from available reserves.
- 8.3. Maintaining Council income was always important to ensure these critical services can continue, but the cost of coronavirus in Lewisham is estimated to be £59.8m this year and rising and the response continues and in anticipation of the risk of a serious second wave over the winter.
- 8.4. The Council has taken measures to support both businesses and residents who are facing financial hardship as a result of the Covid-19 pandemic. The table below provides an overall summary of the additional resources which have been received by the Council to date to help with this support.

Table 4: Government Funding for Covid-19

Funding Description	Lewisham's Allocation £m
Section 31 – Infection Control Grant	1.624
Section 31 – Test, Track and Contain Grant	2.267
Section 31 – Food and Essential Supplies	0.401
Covid-19 LA Support Grant (Tranches 1 and 2)	17.961
Covid-19 LA Support Grant – (Tranche 3)	3.194
Reopening High Street Safely Fund	0.272
Reclaim for costs from the Health Sector	TBC
Claim for lost income to be offset by government grant	TBC
Sub-Total – for service costs	25.719
<i>COVID-19 Hardship Fund</i>	3.241
<i>Nursery Discount – Local Share</i>	0.905
<i>Expanded Retail Discount – Local Share</i>	29.511
<i>Business Support Grant (Small business grant fund and Retail, Leisure and Hospitality Fund)</i>	47.000
<i>Discretionary business grants (up to 5% of business support grant)</i>	TBC
Sub-Total – for businesses and citizens	80.657
Grand Total	105.975

8.5. In March, the government announced a hardship grant would be provided to local authorities in response to Covid-19 to provide council tax relief to vulnerable people and households. Lewisham received £3.2m of hardship funding and has made these funds available to individual Council Tax payers through two routes:

- Grants aligned to the Council Tax Reduction Scheme
- Emergency support for residents.

8.6. The first is an additional grant of £150 per working age claimant of the Council's Council Tax Reduction Scheme (CTRS). On 8 June, 16,300 households' accounts were credited with £150. Any remaining balance of this funding is being used to support additional hardship claims for those in crisis via the local support scheme, where no other assistance is available. As at 29 July 2020, 197 applications have been received, of which 117 payments have been distributed and 78 applications have been unsuccessful.

Businesses

8.7. Central government has turned to local authorities to deliver a number of new schemes aimed at supported local businesses who have been impacted by Covid-19.

8.8. For businesses, support measures include extended business rates relief for 2020/21, grants to small businesses and those in the retail, hospitality, and leisure sectors, and a grant to support Small and Medium Enterprises (SMEs) – those with less than 50 employees – not covered by the initial grant arrangements.

8.9. The Council has received £47m to distribute in grants of £10k or £25k to small business within certain rateable values and/or in the retail, hospitality, and leisure sectors. At 29 July 2020, the Council had assessed all those who have applied and disbursed 3,032 grants of the 3,375 businesses eligible and over £38.4m. There are no cases pending assessment. Work continues to actively reach out to those remaining businesses who may be eligible, but have yet to apply and a discretionary award scheme has been in operation during the June and July.

Council Services

8.10. The Council received £18m from its share of the £3.2bn of government emergency Covid-19 funding. A further (third tranche) of funding was announced on 17 July 2020. Lewisham's share of this £500m of newly announced resources is £3.2m. The Council has also received £1.6m and £2.2m by way of grants for 'infection control' and 'test, track and contain', respectively. Furthermore, an allocation of £300k was received as Lewisham's share of the 're-opening the high street safely' fund, and £0.4m for essential food and supplies, to effectively support the shielding programme. This brings the overall total of known funding for these council services to £25.7m.

8.11. The government has also indicated that local authorities will be given more time (i.e. three rather than one year) to either collect or absorb the impact of some tax pressures (business rates and council tax) arising in 20/21 through the Collection Fund. That some compensation will be available for the loss of certain income up to

75% after allowing for a 5% loss but the specifics have yet to be confirmed. And, that it continues to review the pressures on services, not least as the country faces the winter season and possible second wave(s) of the pandemic.

9. MEDIUM TERM FINANCIAL STRATEGY (MTFS)

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 Funding gap which is the difference between the resource envelope and the spending projections.
- 9.4. As the level of uncertainty regarding funding is currently very high for the years 2021/22 to 2024/25, 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 1.

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 retained business rate income and business rate top-up.
 - Council Tax income.

Settlement Funding Assessment (SFA)

- 10.2. Local authorities receive funding from the government via the Settlement Funding Assessment (SFA). This previously consisted of a share of local Business Rates and a Revenue Support Grant (RSG).
- 10.3. This financial year, Lewisham continues to be part of the London Business Rates

pool, trialling the 75% Business Rates retention for a further year. The 2020/21 SFA is entirely paid from Business Rates, the RSG having been 'rolled in'.

- 10.4. The government offered any Council that wished to take it up a four-year funding settlement to 2019-20 which provided funding certainty and stability.
- 10.5. The government is now carrying out a Fair Funding Review which was intended to be for 2020 onwards, which is basically a review of the way the government distributes financial resources to local authorities. A number of consultations have taken place but there is limited information on the outcome of the review, which means local authorities currently have no indication as to what their 2020/21 funding levels will be. The 2019 Spending Review was reduced in scope due to uncertainty over Brexit and covered one-year only (2020-21). It is still unclear whether there will be a Spending Review in 2020 and, if there is, what period it will cover. The absence of any detail about all of the major funding streams creates huge financial uncertainty. Early visibility of local government funding would help local government plan and make effective decisions.
- 10.6. This makes forecasting future budget requirements wholly dependent on presumptions without any framework or guidance on what the new local authority funding regime and amounts may be. As a result, rather than try and predict a new model, this MTFS extends the assumptions of the previous (2016 to 2020) four year funding approach, which was extended a further year to 2021. The table below shows the forecast SFA over the next four years.

Table 5: Make-up of Lewisham's 2020/21 and Estimated Settlement Funding Assessment, 2020/21 to 2021/22 to 2024/25

Settlement Assessment	Funding	2020/21 Actual	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
		£m	£m	£m	£m	£m
Retained Business Rates		28.00				
Business Rate Top-up		95.15				
Baseline Funding Level (BFL)			118.39	115.68	109.20	104.72
Total SFA		123.15	118.39	115.68	109.20	104.72

Business rates income

- 10.7. In 2018/19, the government devolved 100% of Business Rates to local authorities via the pilot pool. In 2019/20, the level of devolved Business Rates was changed to 75%. In London, this will be shared between Local Authorities and the GLA. This means LAs will retain 48% of Business Rates and the GLA 27%. The RSG has been

'rolled-in' at this stage thereby phasing it out.

- 10.8. 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.
- 10.9. The government has confirmed that 75% Business Rates Retention arrangements will not now be implemented from April 2021 as intended. The forecast assumes the reforms and the business rates reset will be implemented from 2022-23. This has not been confirmed. For this reason, any assumptions beyond 2020 at this stage are officer assumptions, pending confirmation from government on funding allocations.

The Fair Funding Review

- 10.10. Central government funding for local authorities is based on an assessment of relative needs and resources. The overarching methodology that determines how much funding each authority receives annually was introduced over ten years ago and has not been updated since funding baselines were set at the start of the 50 per cent business rates retention scheme in 2013/14.
- 10.11. The government is therefore undertaking the Fair Funding Review to update the needs formula and set new funding baselines, intended to be for the start of the new 75% business rates retention scheme, from April 2020, which is now assumed to be the start of 2022/23.
- 10.12. The government is proposing to simplify the funding formula based on a small number of key cost drivers such as population, deprivation, rurality/density, and area costs. The government has so far undertaken two consultation exercises. The consultation identified key areas that require a more detailed assessment of needs such as adult social care, children's services, highways and public transport, waste collection and disposal. Last year, due to the impact of the Brexit negotiations on most of the government's major business decisions, this was deferred and the government issued instead a one year funding settlement and move the Fair Funding Review start to April 2021. It is still unclear whether there will be a Spending Review in 2020 and, if there is, what period it will cover.

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 stewardship of the Council's finances over the medium term.
- 10.14. For 2020/21, the government extended the 2.99% referendum trigger for another year. The Social Care Precept is in addition to this. The Social Care precept introduced by the government from 2016/17 to 2019/20 ended last year. The long awaited government proposals for the sustainable long-term funding of adult social care services has still not been published and it is unclear whether the governments

solution to the longer term funding of social care will include additional ASC precepts.

- 10.15. As these measures ended in 2019/20, the assumptions for increase in Council Tax in future years are focused on the local decisions to be made by the Council, limiting any increase to 1.99% (the referendum threshold).
- 10.16. 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.
- 10.17. In 2020/21, Council Tax was raised by 4.99% in total, i.e. a 2.99% core increase and the 2% social care precept increase as set out above. This generated additional funding of £4.6m.
- 10.18. For 2020/21, the MTFs main case assumes a 1.99% increase in core Council Tax and 1.99% in each year thereafter. This reflects the assumption that the Council will apply the maximum increase allowed without a referendum in 2021/22 and beyond. In addition, the MTFs assumes a 0.75% average increase in the Council Tax base for the four year budget period, based on Planning Service's housing trajectory. In total over the period this will add approximately £14m to the Council Tax income base over the four year period to 2024/25.
- 10.19. Forecast Council Tax income from 2021/22 to 2024/25 is set out in Table 6 using the assumptions in Appendix 1. The amounts collected here are after allowing for the cost of the Council Tax Reduction Scheme and any uncollected debts.

Table 6: Council Tax Income Future Year Projections

	2021/22 projection	2022/23 projection	2023/24 projection	2024/25 projection
	£m	£m	£m	£m
Optimistic	119.54	123.80	128.84	133.38
Main	118.29	122.52	127.53	132.02
Pessimistic	115.80	119.97	124.28	129.37

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, including ongoing pressures from the Covid-19 pandemic. 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 2% was agreed by the Greater London Provincial Council for 2019/20, with a better than 2% increase for lower paid staff also agreed. The current offer for 2020/21 is 2.75% but this has yet to be agreed. However, in light of the expected

recession the main model has assumed a 2% pay award for 2021/22 and assumed that pay awards will remain at 2% in future years.

General price inflation assumptions

- 11.3. 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 generally by inflation, which in 2021/20 has been estimated at 1.5%, rising to 2% by 2024/25.

General fees and charges assumptions

- 11.4. 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

- 11.5. 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 through the allocation of an amount for risks and pressures. The key challenges that impact on the demand for Council services are as follows:
- **Population 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. With deep and long lasting implications for the level and impact of poverty as set out in the 2019 United Nations report on the impact of austerity in the UK since 2010.
 - **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.
- 11.6. 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
- 11.7. 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.
- 11.8. To enable the Council to recognise these pressures and risks in a flexible way as they come to bear, the MTFs includes an annual provision of £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

- 11.9. 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 £24.8m in 2020/21, an increase of £1m from 2019/20. Any future year changes to the public health budgets once announced will need to be the subject of further officer proposals to ensure expenditure on services matches the available grant
 - **Better Care Fund (BCF)** – this funding increased to £23.3 in 2020/21. The Council receives approximately £8.9m of this funding to support Council led services.
 - **Improved Better Care Fund (iBCF)** – In 2020/21, the iBCF increases to £14.5m. This is intended to fund adult social care activity. Plans for its use, which have not yet been finalised, will also require the agreement of the local Clinical Commissioning Group (CCG). The grant is likely to be spent in substantially the same way as in 2019/20 with the increase being used to fund the balance in fee increases plus transition and other demographic pressures.
 - **Other grants** – the Council receives a number of other grants. Pending a full financial settlement for local government these have increased in recent years, in number and scale, and therefore post a greater risk to the Council's budget as they are only annual. These include recent s31 grants which supplement business rates, and social care and special education needs grants as well as some other relatively small or directly related to specific projects. A number of the smaller ones come from the Greater London Authority; for example, funding we receive from the

London Mayor's Office for Policing and Crime (MOPAC) to support crime reduction work. Any changes to these grants will have to be met with an equivalent reduction in service spend to ensure it will have a neutral impact on the Council's overall budget gap.

Other Income and Expenditure Items

- 11.10. 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

- 11.11. 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.
- 11.12. 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.
- 11.13. 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 in the immediate future. 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

- 11.14. 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

- 11.15. 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

- 11.16. There are further adjustments that are included within the budget projections for future years, funded from the £6.5m provision stated in para 11.8 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 now assume a 2% decrease for 2021/22, a further 1% decrease in 2022/23 and then a 0% change for the remaining two year period.
- **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.
- **Under 18's travel** – as part of the emergency funding deal for TfL, it is being proposed that free travel for 11-17 year-olds is removed. This is assumed to create a £0.5m pressure in 2020/21.
- **Pension Fund Contributions** – It is anticipated that due to the McCloud judgement (the Court of Appeal's ruling that Government's 2015 public sector pension reforms unlawfully treated existing public sectors differently based upon members' age on the 1 April 2012), it is anticipated that additional contributions will be required into the Council's pension fund in coming years. It is assumed that up to a further £1m per annum will be needed for the next three years.
- **IT infrastructure** – there is the need to ensure that the Council is able to continue to invest at pace in IT infrastructure and digital solutions. Some of this has arisen due to the significant channel shift required to move Council services on line and the increased levels of home and remote working due to Covid-19. It is assumed that £1m will be needed in 2021/22.
- **Service investments** – these range across a number of areas and are being monitored as the Council's recovery and transition planning from Covid 19 develops. They include: cost of market changes in areas such as social care and leisure services, demand for housing and temporary accommodation in particular, need to develop stronger economy and partnership relationships across the Borough, and other changes to government policy and funding.

New Homes Bonus

- 11.17. The New Homes Bonus (NHB) is a grant paid for a fixed period, currently four years, 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 has funded the New Homes Bonus.
- 11.18. The Government has announced that the scheme will not continue its current form with legacy payments for previous growth only, which run off in 2022/23. The Government has not consulted on any replacement scheme.
- 11.19. Over the past few years part of the NHB has been used to bridge the budget gap as a temporary measure. This has only moved the gap forward, not eliminated it. The ceasing of this funding stream will mean the Council will need to address the previous

year's unachieved savings in the very near future to avoid a greater draw on reserves.

12. GENERAL FUND BUDGET GAP

- 12.1. Using the medium term resource envelope and revenue expenditure projections stated above the resulting overall forecast position for the authority is shown in Table 7 below:

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Table 7: Summary of Projected Financial Position

	Optimistic Case				Main Case				Pessimistic Case			
	2021/22	2022/23	2023/24	2024/25	2021/22	2022/23	2023/24	2024/25	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Bus Rates Baseline Funding Level	119.535	123.800	128.841	133.376	118.392	115.680	109.203	104.723	118.392	110.080	104.723	101.139
BR S31 Grant and Pool Growth	3.800	0.000	0.000	0.000	3.800	0.000	0.000	0.000	3.800	0.000	0.000	0.000
BR Collection Fund	(1.000)	(1.000)	(1.000)	0.000	(4.000)	(4.000)	(4.000)	(1.000)	(4.000)	(4.000)	(4.000)	(1.000)
Ctax	119.535	123.800	128.841	133.376	118.290	122.524	127.526	132.015	115.800	119.971	124.278	129.367
Ctax Collection Fund	(0.800)	0.200	1.200	1.200	(1.800)	(0.800)	0.200	1.200	(2.800)	(1.800)	(0.800)	0.200
Total Resources	241.830	242.372	242.813	243.868	234.682	233.404	232.929	236.938	231.192	224.251	224.202	229.706
Total Revenue Expenditure	259.122	252.636	253.408	254.219	259.122	245.488	244.439	244.336	259.122	241.997	235.287	235.608
Budget Gap	17.292	10.264	10.595	10.352	24.440	12.084	11.510	7.398	27.930	17.746	11.085	5.902
Approved Savings	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Additional Annual Savings Required	17.292	10.264	10.595	10.352	24.440	12.084	11.510	7.398	27.930	17.746	11.085	5.902
Cumulative Savings Required	17.292	27.556	38.151	48.502	24.440	36.524	48.034	55.432	27.930	45.676	56.762	62.664

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- 12.2. Taking the main case scenario as the expected position, the MTFS shows the annual measures required to bridge the budget gap from 2021/22 to 2024/25 as £24.440m, £12.084m, £11.510m, and £7.398m, respectively in each year. A total of £55m over the four years to 2024/25. This is a substantial budget gap for the Council, especially as savings agreed to date have totalled £190m and the financial monitoring in 2020/21 is identifying difficulty and delay in implementing agreed savings as a contributory cause to the reported overspend position, plus the as yet unknown impact of Covid-19 on future years.
- 12.3. 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 2024/25 reduces by approximately £7m to £48.5m. This is based on lower predicted cuts to baseline funding and higher increase in the Council Tax base.
- 12.4. The pessimistic case scenario is the most unlikely scenario projected. The cumulative budget gap to 2024/25 increases by approximately £7m to £63m. This scenario demonstrates the difficulty the Council could potentially face if the very worst happens and the funding cuts are higher and Council Tax base and collection rates are lower than expected, and the future years impact of Covid-19 collection fund do not have support from government.
- 12.5. The next section of this report looks at how the Council continues to address the gap in order to produce a balance budget.

13. ADDRESSING THE BUDGET GAP

- 13.1. Officers are reviewing and challenging in-year on the existing pressures carried over from 2019/20, the in-year overspend, and Covid-19 impact. These are identified and discussed more fully in the Covid financial report and financial monitoring reported to Mayor & Cabinet in June and July respectively. This report updates on the further actions being undertaken in-year to reduce these pressures further, as discussed in section 7 above.
- 13.2. Through its Covid work the Council has agreed five principles to guide the required transformation and recovery work which will be fundamental to setting the Council's budget of a sustainable base going forward. They are:
- Tackling widening social, economic, and health inequalities;
 - Protecting and empowering our most vulnerable residents;
 - Ensuring the Council's continued resilience, stability, and sustainability;
 - Enabling residents to make the most of Lewisham the place; and
 - Collaborating and working together with our communities and partners across the Borough.
- 13.3. In respect of the future budget gap, officers have started work on identifying possible cuts proposals to meet the 2021/22 budget gap forecast in this MTFS of £24m and for future years where change will take longer to implement but decisions on direction of travel will be needed now to prepare. Sessions of the Senior Leadership Team (SLT), comprising the Chief Executive, Executive Directors and Directors, have taken place in the period June to July, working collaboratively to

identify cross-cutting efficiencies and savings that can be implemented in future years. A number of themes have come from these which continue to be developed further.

- 13.4. These themes have been reviewed by the Executive Management Team (EMT) who are also leading on scrutinising the budget to capture possible reductions to in-year spending. They will lead SLT in the work to develop the detailed draft officer proposals for cuts to be put to Members for scrutiny and decision in the autumn. All services are part of this process.
- 13.5. The objective is to identify cuts in a manner that will support the Council's recovery from Covid and transition to delivering future services within the available financial resources on a secure and sustainable basis.
- 13.6. The approach to making the next round of necessary budget cuts is through cross-service collaboration to present ideas around a set of emerging themes intended to focus on solutions and service configuration challenges that first and foremost support the external needs of the community and partners in line with the Council's corporate priorities. This will help avoid the risk of prioritising silo or internal considerations if done solely through management hierarchies. The other reason for doing this collaboratively is to ensure fairness and challenge against the Council's strategic priorities. Cutting over £40m, given most services (some 70% of services whether insourced or delivered under contract or with partners) are people based, will mean job losses.
- 13.7. The themes are discussed below and continue to be refined to ensure that where there is overlap the risk of duplication can be tracked and worked through to identify the best route for delivery. The next steps are for EMT to lead SLT, with the support of the change networks in the Council, to develop draft officer proposals. These will be presented to Members in November for scrutiny in line with the time table set out below. The table below set out where the main impact and options are expected to come from. The context, budget details and description of service that form part of the Directorates are set out on the Council's website – in particular the budget book at: <https://lewisham.gov.uk/documents?query=budget%20book&sort=score>

Table 8: Overview of themes to target >£40m of budget cuts by 2023/24.

Identify future service spending cuts in line with MTFS >£40m required	COM £m	CYP £m	HRPR £m	CS £m	CE £m
Joint working - partners and internally	✓	✓			✓
Productivity (staffing) from new ways of working	✓	✓	✓	✓	✓
Service reconfiguration	✓	✓	✓	✓	✓
Reduce overspending to relieve pressure on MTFS		✓	✓	✓	
Release of assets to reduce running costs	✓	✓	✓	✓	

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Identify future service spending cuts in line with MTFS >£40m required and risk	COM £m	CYP £m	HRPR £m	CS £m	CE £m
Changes to traded services – to de-risk / accept more risk		✓	✓	✓	
Better demand management	✓	✓	✓		
Reduce scope and scale of service offering	✓	✓	✓	✓	
Income / Commercialisation	✓	✓	✓	✓	✓
Contract management	✓	✓	✓	✓	

Joint working - partners and internally

- 13.8. The Council continues to listen and consult with its partners to understand how the impacts of Covid 19 and the resulting economic and community changes are driving different needs and expectations for Council services. This work is being led by the Chief Executive directorate with one of the main partners being Health services at this time. The intention here is to identify opportunities at less cost with our partners to deliver shared outcomes.

Productivity (staffing) from new ways of working

- 13.9. Over the past three years the Council has been on a significant journey to improve the availability, flexibility and security of its technology infrastructure. This was further given a boost with the rapid and successful move at the start of the Covid 19 response to getting all staff online and able to work remotely and across different services. The investments to make these changes were also about seeking to streamline decision making and automate more transactional work to make processes more efficient and capture a productivity gain. The theme will focus on how these benefits are being tracked and where necessary identify where fewer resources are now needed.

Service reconfiguration

- 13.10. In addition to the productivity point above, there will be opportunities to change how the Council engages with customers and delivers services. For example; our front door services are largely operating online and via the call centre with appointments available where necessary. There are also opportunities, through better collaborative working, to review how different services serving the same customers might better come together to do this. In addition to external customers this theme will also look at the relationships and role of corporate functions supporting frontline delivery.

Reduce overspending to relieve pressure on MTFS

- 13.11. There are currently three recurring areas where services are overspending, even after their base budgets have been corrected for. These are children social care,

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environment services, and technology & digital services. A clear focus to support these budget holders to manage their spend and identify service changes necessary to enable them to do so is the focus of this theme. This theme will cut across the others but given the urgency of doing this work to avoid adding further pressure to the already significant cuts needed it is prioritised separately.

Release of assets to reduce running costs and risk

- 13.12. As well as looking at the revenue budget considerations, it is important that the Council also reviews its assets and capital programmes to maximise efficiencies where possible. With changing ways of working and different service delivery mechanisms the Council may not require the same asset base. From this work there could be running cost savings and there may be some one-off receipts that could be used to support longer term transformation plans which take longer to realise. These changes need to be balanced with the need for the majority of the cuts currently anticipated next year.

Release of trading services or growth of them – to de-risk / accept more risk

- 13.13. The Council currently runs a number of traded services. The most significant being services to schools, the environmental services for commercial and garden waste, and bereavement services. The Council does not have to be in these business areas as fully as it currently is with options to change how much they support or contribute to core service delivery. As well as linking to the commercial discussion (i.e. cost recovery), there will be questions of strategic policy fit and risk that continued delivery of these services can be assessed against.

Better demand management

- 13.14. As much as the Council has a significant number of statutory services to deliver it also has discretion about how it does so. This enables services to ensure the value for money of provision within the overarching responsibility for stewardship of the public pound. Aligned with this, preventative work can lead to better outcomes for less cost in the long run compared to the need for crisis intervention. For the larger services, in particular adult and children social care but also environment services when considering levels of waste, how this translates into demand management around when users are engaged with the support they are offered has a the potential for promoting greater independence and significant budget impacts.

Reduce scope and scale of service offering

- 13.15. As well as seeking to do the same for less, with cuts of over £40m it is inevitable that some services may have to be reduced or stopped. These may be revisited at a future date, funding permitting, but within the anticipated financial resources for the Council in the near term there is not the funding to maintain current levels of service. This work stream will look to services to see if they can be reduced or stopped and assess the impact of doing so, mindful in particular of cost shunts to other services. This will include assessment of any discretionary services, offered over and above statutory requirements.

Income / Commercialisation

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13.16. The Council has been championing the development of greater commercial understanding and rigour in its service offering. This has been around achieving greater social value as well as financial return from engaging in such activities. This work will continue through this theme to assess the culture and approach to considering risk and reward in the Council's commercial dealings and collection of debt. It will also review how sales, fees and charges are set relative to benchmarks and assess market potential to ensure rates are set at the optimum level in line with the Council's priorities.

Contract management

13.17. The Council has a number of key commercial partners, some significant contracts for key line of service delivery and systems, and uses a large number of smaller local contractors for a variety of work. In total spending over £200m annually with third parties. This theme will review how these contracts are being managed to identify opportunities to improve performance and also to plan further in advance how they may be retendered to ensure the Council has the most opportunity (time and choice) to improve value for money from these service areas.

Risk Management

13.18. In planning to address the budget to bring it into balance for next year and maintain a sustainable footing in terms of reserves there are a number of risks. These include, but there will be others:

- Costs (whether spend or lost income) of maintaining or bringing back services under new conditions with social distancing and the flexibility to adapt if there are further local lockdowns or cost of supplier failure;
- Transitioning out of or resetting priorities to recognise where the balance of risks and pressures has shifted; for example cost of social care, Council's role is providing shielding and support, and need to tackle homelessness;
- Addressing the consequences of an economic recession as it impacts the community and in turn the Council; for example fewer businesses trading reduces Business Rates base, households facing unemployment and eviction reduce Council Tax collection, working practices and climate change response reduce parking income.
- Responding to the impacts, potentially requiring additional cuts or taxes to be raised at short notice, from government announcements on future financing for local government both Covid related but also more generally (e.g. CSR, FFR, Business Rates, Precepts, Grants etc.).
- Managing the HRA and DSG with partners to ensure any financial risks they are facing are managed there and do not blow back onto the General Fund; e.g. housing development costs from the HRA or school deficits or high needs costs from the DSG.

13.19. As noted at the beginning of this report the Council is facing three immediate pressures on the budget. They are; 1) Covid 19 impacts of up to £20m; 2) service overspending of £17m (reduced to under £12m with in-year actions); and 3) the anticipated future years gap of at least £40m. Where these pressures are not covered by either additional income (from the government or traded services) or reduced costs (from less service spending) in-year or delivery of cuts to balance the

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budget in future years, the impact will have to be borne by corporate provisions and reserves. In addition, these reserves are required to sustain the effective operation of the Council, to meet its long term commitments, and as mitigation against the risks noted above. At the 31 March 2020 the Council held £20m of general reserves and £150m of earmarked reserves.

- 13.20. The impact of Covid 19 will likely consume much or all of the general reserves, reducing the Council's flexibility to respond to further economic shocks unless or until these are replenished. Any service overspending in-year will be a draw on the Council's earmarked reserves, reducing its capacity to invest in and support future priorities. Finally, any shortfall in identifying the cuts to meet the MTFS will also have to be met from reserves to be able to set a balanced budget.
- 13.21. While the Council holds sufficient reserves to cover these pressures at this time, their use on maintaining unsustainable levels of service at a time of heightened operating risk, instead of delivering the necessary cuts would significantly reduce the Council's financial resilience and increase the scale and difficulty of making the cuts next year. The Council needs to work on addressing these budget pressures in full now to ensure it continues to deliver on the financial control and prudence it has demonstrated to date.
- 13.22. Using these themes, Officers will now develop specific draft cut proposals for Members to scrutinise and M&C to decide on as part of building the 2021/22 Budget. These individual proposals, as well as identifying the financial changes, will need to include any necessary public consultations required, timelines for internal changes consistent with the Council's policies for managing change, and detailed consideration of other relevant implications, for example legal and equalities. The covering cuts report will then analyse these implications in the round to support Members assessment of the options and their impact on the Borough as a whole as well as individually.

14. TIMETABLE

- 14.1. The Financial Stabilisation – Budget Update report will be presented to scrutiny in September before coming before M&C and Council in October. The specific dates are:

9 Sept	Safer Stronger
15 Sept	Housing
	Sustainable Development
21 Sept	CYP
23 Sept	Healthier Communities
24 Sept	PAC
7 Oct	M&C agree in-year financial stabilisation report
28 Oct	Council receive report

- 14.2. The Cuts report which will contain the specific proposals to implement the future year changes discussed above will then be presented to Members in November before coming to M&C in December. The specific dates are:

11 Nov	Healthier Communities
12 Nov	Sustainable Development
8 Nov	Housing

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26 Nov	CYP
1 Dec	Safer Stronger
3 Dec	PAC
9 Dec	M&C make decision on cuts to take forward to the Budget

- 14.3. The cuts from above, along with the Comprehensive Spending Review / Autumn Budget from the Chancellor (Oct/Nov) and provisional Local Government Finance Settlement in December, Council Tax base report and London precept plans in January will then be used to build the Council's Budget report for reporting to Public Accounts, M&C and onto Council for adoption on the 24 February.

SUMMARY AND IMPLICATIONS

15. CONCLUSION

- 15.1. The Medium Term Financial Strategy sets out initial estimates based on very uncertain assumptions for the funding of local government to prudently anticipate the scale of financial challenge the Council will face over the medium term to 2024/25. It presents the outturn for 2019/20, summarises the current financial position for 2020/21 and the unprecedented pressures due to Covid-19 and the necessary actions taken in year to manage these pressures, and looks forward to 2021/22 and later years.
- 15.2. 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 saving proposals required to balance the Council's budget and timing of these.
- 15.3. The MTFS identifies that the Council may have to make up to £55m of cuts over the next four years, including the £24m for 2021/22. Given the high level of uncertainty and risk of making cuts which may then have to be reversed if the assumptions used are wrong, the recommended focus now is to bring forward the £24m of proposals for 2021/22 to support the budget for that year. And keep a watching brief on plans for the future years, returning to Mayor & Cabinet as more detail is known and in good time to make further difficult decisions if necessary.
- 15.4. Local authorities have largely acknowledged that deep changes are required if they are to continue to deliver positive outcomes for their citizens. What is not yet clear is how authorities can continue to make this happen in practice if funding levels are cut further or what services local government may be responsible for in future, and how services may need to transform and change to support the borough and its residents post Covid-19.

16. FINANCIAL IMPLICATIONS

- 16.1. 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.

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17. LEGAL IMPLICATIONS

- 17.1. The purpose of this report is to develop a medium term approach in support of better service and financial planning and an update of in-year financial pressures. Members are reminded that the legal requirements are centred on annual budget production, and that indicative decisions made for future years are not binding.
- 17.2. 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.
- 17.3. 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.

18. EQUALITIES IMPLICATIONS

- 18.1. The Council has a public sector equality duty (the equality duty or the duty - The Equality Act 2010, or the Act). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. In summary, the Council must, in the exercise of its functions, have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
 - advance equality of opportunity between people who share a protected characteristic and those who do not.
 - foster good relations between people who share a protected characteristic and those who do not.
- 18.2. It is not an absolute requirement to eliminate unlawful discrimination, harassment, victimisation or other prohibited conduct, or to promote equality of opportunity or foster good relations between persons who share a protected characteristic and those who do not. It is a duty to have due regard to the need to achieve the goals listed above. The weight to be attached to the duty will be dependent on the nature of the decision and the circumstances in which it is made. This is a matter for Mayor and Cabinet, bearing in mind the issues of relevance and proportionality. Mayor and Cabinet must understand the impact or likely impact of the decision on those with protected characteristics who are potentially affected by the decision. The extent of

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the duty will necessarily vary from case to case and due regard is such regard as is appropriate in all the circumstances.

- 18.3. The Equality and Human Rights Commission (EHRC) has issued Technical Guidance on the Public Sector Equality Duty and statutory guidance. The Council must have regard to the statutory code in so far as it relates to the duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found on the EHRC website.
- 18.4. The EHRC has issued five guides for public authorities in England giving advice on the equality duty. The 'Essential' guide provides an overview of the equality duty requirements including the general equality duty, the specific duties and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice.

19. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

- 19.1. There are no environmental implications directly arising from the report.

20. CRIME AND DISORDER IMPLICATIONS

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

21. HEALTH AND WELLBEING IMPLICATIONS

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

22. BACKGROUND PAPERS

- 22.1. Budget Report 2020/21 – Full Council 26 February 2020
<http://councilmeetings.lewisham.gov.uk/ieListDocuments.aspx?CId=138&MId=5649>
- 22.2. Financial Results 2019/20 – Mayor & Cabinet
<http://councilmeetings.lewisham.gov.uk/ieListDocuments.aspx?CId=139&MId=6014>
- 22.3. Financial Forecasts Period 2 – Mayor & Cabinet 9 July 2020
<http://councilmeetings.lewisham.gov.uk/ieListDocuments.aspx?CId=139&MId=6014>

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23. GLOSSARY

Term	Definition
Actuarial Valuation	An independent report of the financial position of the Pension Fund carried out by an actuary every three years. The actuary reviews the Pension Fund assets and liabilities as at the date of the valuation and makes recommendations such as, employer's contribution rates and deficit recovery period, to the Council.
Baseline Funding Level	The amount of a local authority's start-up funding allocation which is provided through the local share of the estimated business rates aggregate (England) at the outset of the scheme as forecast by the government. It forms the baseline against which tariffs and top-ups are calculated.
Budget Requirement	The Council's revenue budget on general fund services after deducting funding streams such as fees and charges and any funding from reserves. (Excluding Council Tax, RSG and Business Rates)
Business Rates Baseline	The business rates baseline is equal to the amount of business rates generated locally in a specific year.
Capital Expenditure	Spend on assets that have a lasting value, for example, land, buildings and large items of equipment such as vehicles. This can also include indirect expenditure in the form of grants or loans to other persons or bodies.
Capital Programme	The Council's plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.
Capital Receipts	These are proceeds from the disposal of land or other assets and can be used to finance new capital expenditure but cannot be used to finance revenue expenditure.
Capping	This is the power under which the government may limit the maximum level of local authority spending or increases in the level of spending year on year, which it considers excessive. It is a tool used by the government to restrain increases in Council Tax. The Council Tax cap, currently 2%, means that any local authority in England wanting to raise Council Tax by more than 2% in 2015/16 must consult the public in a referendum, Councils losing a referendum would have to revert to a lower increase in their bills.
CIPFA	The Chartered Institute of Public Finance and Accountancy are one of the UK accountancy institutes. Uniquely, CIPFA specialise in the public sector. Consequently CIPFA holds the responsibility for setting accounting standards for local government.

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Term	Definition
Clinical Commissioning Group (CCG)	Clinical Commissioning Groups (CCGs) were created following the Health and Social Care Act in 2012, and replaced Primary Care Trusts on 1 April 2013. They are clinically-led statutory NHS bodies responsible for the planning and commissioning of health care services for their local area.
Collection fund	A statutory account maintained by the Council recording the amounts collected from Council Tax and Business Rates and from which it pays the precept to the Greater London Authority.
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

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Term	Definition
	for accounting and audit procedures, and set out administrative controls over the authorisation of payments, etc.
Financial Year	The local authority financial year commences on 1st April and finishes on the following 31 March.
General Fund	This is the main revenue fund of the local authority, day-to-day spending on services is met from the fund. Spending on the provision of housing however, must be charged to the separate Housing Revenue Account (HRA).
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.

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Term	Definition
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.

24. REPORT AUTHOR AND CONTACT

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- 24.2. Katharine Nidd, Interim Director of Corporate Resources, 4th Floor Laurence House, 020 8314 6651, Katharine.Nidd@lewisham.gov.uk.

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APPENDIX 1 – SUMMARY OF MTFs ASSUMPTIONS

RESOURCE ENVELOPE			
	Main case	Pessimistic case	Optimistic Case
Notional Revenue Support Grant	<ul style="list-style-type: none"> □ 2021/22 and 2022/23 0% change to 2020/21 levels, thereafter 20% reduction assumed each year 	<ul style="list-style-type: none"> □ 2021/22 0% change to 2020/21 levels, thereafter 20% reduction assumed each year 	<ul style="list-style-type: none"> □ 2021/22 and 2022/23 0% change to 2020/21 levels, thereafter 20% reduction assumed each year
Business Rates	<ul style="list-style-type: none"> □ 5% real terms decrease in 2021/22, then 3% decrease in 2022/23, 1% decrease in 2023/24 and then 0% change in 2024/25 on the rateable value base and top-up □ £3.8m S31 grant in 2021/22 only 	<ul style="list-style-type: none"> □ 5% real terms decrease in 2021/22, then 3% decrease in 2022/23, 1% decrease in 2023/24 and then 0% change in 2024/25 on the rateable value base and top-up □ £3.8m S31 grant in 2021/22 only 	<ul style="list-style-type: none"> □ 3% real terms decrease in 2021/22, then 1% decrease in 2022/23, and then 0% change in 2023/24 and 2024/25 on the rateable value base and top-up □ £3.8m S31 grant in 2021/22 only
Council Tax income	<ul style="list-style-type: none"> □ From 2021/22 1.99% change in Council Tax level (No Social Care precept) □ % increase each year in Council Tax base from 2021/22 onwards is: 0%, 0.5%, 1% and 1.5% □ CT collection rate each year from 2021/22 onwards is: 95%, 96%, 97% and 97% □ CTRS changes increase the cost of the scheme by the following each year from 2021/22: £3m, £2m, £1m, £0m 	<ul style="list-style-type: none"> □ From 2021/22 1.99% change in Council Tax level (No Social Care precept) □ % increase each year in Council Tax base from 2021/22 onwards is: 0%, 0.5%, 0.5% and 1% □ CT collection rate each year from 2021/22 onwards is: 93%, 94%, 95% and 96% □ CTRS changes increase the cost of the scheme by the following each year from 2021/22: £4m, £3m, £2m, and £1m 	<ul style="list-style-type: none"> □ From 2021/22 1.99% change in Council Tax level (No Social Care precept) □ % increase each year in Council Tax base from 2021/22 onwards is: 0%, 0.5%, 1% and 1.5% □ CT collection rate each year from 2021/22 onwards is: 96%, 97%, 98% and 98% □ CTRS changes increase the cost of the scheme by the following each year from 2021/22: £2m, £1m, £0m, £0m
Surpluses/deficits on Collection Fund	<ul style="list-style-type: none"> □ The Covid-19 shortfall to be collected over 3 years is assumed to be from 2021/22: 	<ul style="list-style-type: none"> □ The Covid-19 shortfall to be collected over 3 years is assumed to be from 2021/22: 	<ul style="list-style-type: none"> □ The Covid-19 shortfall to be collected over 3 years is assumed to be from 2021/22:

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	£4m, £4m, £4m, and £1m	£4m, £4m, £4m, and £1m	£1m, £1m, £1m, and £0m
EXPENDITURE			
	Main case	Pessimistic case	Optimistic Case
Pay awards	<input type="checkbox"/> 2% in 2021/22 and 2% each year afterwards	<input type="checkbox"/> 2% in 2021/22 and 2% each year afterwards	<input type="checkbox"/> 2% in 2021/22 and 2% each year afterwards
General price inflation (incl. fees and charges)	<input type="checkbox"/> % increase each year in non-pay budgets from 2021/22 is: 1.5%, 1.75%, 1.75% and 2%	<input type="checkbox"/> % increase each year in non-pay budgets from 2021/22 is: 1.5%, 1.75%, 1.75% and 2%	<input type="checkbox"/> % increase each year in non-pay budgets from 2021/22 is: 1.5%, 1.75%, 1.75% and 2%
Pressures and risks	<input type="checkbox"/> £6.5m growth each year	<input type="checkbox"/> £6.5m growth each year	<input type="checkbox"/> £6.5m growth each year
New legislation	<input type="checkbox"/> Nothing allowed	<input type="checkbox"/> Nothing allowed	<input type="checkbox"/> Nothing allowed
NB the MTFS assumes that any overspending is addressed in-year or met from reserves			

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