



## Mayor and Cabinet

### Medium Term Financial Strategy

**Date:** 14 July 2021

**Key decision:** No

**Class:** Part 1

**Ward(s) affected:** All

**Contributors:** Executive Director for Corporate Resources, Strategic Finance Manager and Director for Corporate Services

### Outline and recommendations

The purpose of this report is to set out the medium term financial position for the Council over the next four years and the assumptions on which it is based, as well as the likely levels of cuts which will be required to present a balanced budget.

Mayor and Cabinet is recommended to:

- Note the risks with regards to current year financial cuts, Covid and the uncertainty of future government funding; and the potential for this to impact negatively on the cuts levels required for 2022/23;
- Agree the 2022/23 to 2025/26 Medium Term Financial Strategy (MTFS) and outline approach being taken to identify cuts proposals required to meet the remaining estimated budget gap of £26m over the next four years; and
- Agree the timetable for bringing forward cuts proposals and building the 2022/23 budget to Full Council in February 2022.

## **Timeline of engagement and decision-making**

3 March 2021 – Budget report to Council

9 June 2021 – Financial Outturn for 2020/21 – report to Mayor & Cabinet (M&C)

7 July 2021 – Medium Term Financial Strategy – report to Public Accounts Select Committee

14 July 2021 – First 2021/22 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 is on top of a decade of austerity which the Council has successfully navigated.
- 1.2. The continuation of the Covid-19 pandemic is driving the country into recession and according to the Office of National Statistics, over the year as a whole, Gross Domestic Product (GDP) contracted by 9.9% in 2020, marking the largest annual fall in UK GDP on record.
- 1.3. However, whilst the possible scale of the economic downturn becomes clear and the pace at which the economy will recover, there is little clarity on what this will mean for the public finances and local government funding in particular at this time. In the immediate term the current level of Covid-19 funding from government may not be sufficient to cover the full costs and lost income experienced by local government, and it is unclear whether more funding will be made available to meet these pressures.
- 1.4. It remains the Government's intention to implement new funding baselines for all local authorities. The new baselines will be based on a 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 continuing pandemic response, it is expected that these changes will be further delayed.
- 1.5. 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. It is hoped that these decisions will reduce the levels of economic and financial uncertainty facing the Council.
- 1.6. Alongside unprecedented levels of economic and fiscal uncertainty the Council is committed to significant budget cuts in 2021/22 and 2022/23 already. These must be delivered in full as planned as any shortfall adds to the funding gap requiring more cuts to be identified.
- 1.7. The Council is setting its medium term financial plan in a continuing global pandemic without the clarity or certainty on the levels of funding it can expect to receive from government in future years. The plan assumptions, set out in the report, will need to be tested and reviewed as future funding announcements and general economic forecasts are themselves revised and updated.

- 1.8. The current base case assumptions produce an assumed budget gap of £26m over the four year period of 2022/23 to 2025/26, with a profile of £2m, £9m, £7m and £8m in each year. The report also presents the assumptions for an optimistic and pessimistic case which, given the number of variables, moves the four year budget gap plus or minus £10m from the base case of £26m.
- 1.9. For the future budget gap, officers have started work on a number of initiatives, firstly in reviewing and confirming that the £10m cuts for 2022/23 and £3m for 2023/24 offered in 2020/21 remain deliverable. Where there are risks to delivery officers will need to identify and bring forward alternative cuts proposals. Sessions of the Senior Leadership Team (SLT) have taken place in the period May - June to reflect on the 2020/21 process and to refine the approach to ensure a focus on the implementation of cuts agreed and looking forward for future cuts needed.
- 1.10. Executive Management Team (EMT) have reviewed the assumptions used and confirmed their intention to continue to use a collaborative and themed approach to developing future cuts proposals. This will involve EMT and SLT working to develop draft officer proposals for cuts to be put to Members for scrutiny in November and decision in December. All services are part of this process.
- 1.11. The timetable to deliver the Budget for 2022/23 is as set out in Table 1 below.

Month	Key Stage
July / August 2021	Continued focus on implementation of cuts to be implemented in 2020/21 and Covid recovery planning.
September / October 2021	Medium term financial planning and monitoring, for the level of cuts needed. Chancellor's Autumn Budget
November / December 2021	Draft Officer cuts proposals presented for scrutiny and decision Provisional Local Government Finance Settlement
January 2022	Council Tax Base agreed by Council Draft Council Budget for 2022/23 prepared
February 2022	Greater London Authority sets their Precept for 2022/23 Council approves Budget & Council Tax for 2022/23

## 2. RECOMMENDATIONS

- 2.1. Mayor and Cabinet are recommended to:
- 2.2. Note the risks with regards to current year financial cuts, Covid and the uncertainty of future government funding; and the potential for this to impact negatively on the cuts levels required for 2022/23;
- 2.3. Agree the 2022/23 to 2025/26 Medium Term Financial Strategy (MTFS) and outline approach being taken to identify cuts proposals required to meet the remaining estimated budget gap of £26m over the next four years; and
- 2.4. Agree the timetable for bringing forward cuts proposals and building the 2022/23 budget to Full Council in February 2022.

### **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. Through the work on Covid recovery these are also supported by the four Future Lewisham themes.

3.2. 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.

3.4. As the Council seeks to support the borough and its businesses and residents through the pandemic and beyond, this recovery is based on the four key themes of Future Lewisham, these are:

- A Greener Lewisham;
- A healthy and well future;
- An economically sound future; and
- A future we all have a part in.

3.5. The Medium Term Financial Strategy will directly support the theme of an economically sound future for the borough and its residents.

#### **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
5. Economic Context
6. MTFS Assumptions
7. Revenue Expenditure Assumptions
8. General Fund Budget Gap
9. Addressing the Budget Gap and Timetable
10. Risks
11. Conclusion
12. Financial Implications
13. Legal Implications
14. Equalities Implications
15. Environmental Implications
16. Crime & Disorder Implications
17. Background Papers
18. Appendices

#### **5. ECONOMIC CONTEXT**

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 2022/23 will be presented to Mayor and Cabinet and full Council in February 2022.

5.2. The key objectives of the four year strategic approach continue to be:

- plan the Council's finances over a four year period to take account of local and national economic considerations and priorities;
- ensure that the Council's corporate priorities continue to drive its financial strategy and resource allocation;
- assist the alignment of service 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
- that the final agreed budget reflects all these considerations.

5.3. 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 not expected to return to pre-pandemic levels for at least two years, 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 2022/23 and future years in line with its statutory obligation to do so.

- 5.4. 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.

### **National Economic Context**

- 5.5. The Chancellor's budget in March 2021 and supporting Office for Budget Responsibility assessments identified that interventions due to Covid will cost over £400bn, GDP contracted by 10% in 2020, borrowing will rise to 17% of GDP for 2020/21, and the national debt is expected to peak at 97% of GDP in 2023/24. Unemployment levels, while rising, are still at historically low levels as a proportion of the workforce and the budget set out £600bn of public investment over the coming five years to boost economic output and support the post pandemic recovery.
- 5.6. The assumptions in the budget for public finances retained the assumption they should be stable and sustainable. The department revenue resources for future years were estimated, after depreciation, to be £341.1bn in 22/23 moving to £386.4bn by 2025/26. The uncertainty in this, without the spending review to allocate resources to departments is estimating the share for local government. However, it is usual for areas of public spending such as health, education, and security to come before local government services in terms of government priorities.
- 5.7. The other area of national economic indicators that have a direct bearing on the Council's financial assumption are in respect of inflation and interest rates. At present the economy is seeing a fast rise in inflation (although it remains low in absolute terms) but it is uncertain how long this will continue and whether it will feed through into interest rate assumptions. At their meeting in June, the Bank of England noted the Consumer Price Index (CPI) had risen above 2% in the year to May and expects it to go above 3% for a temporary period. On this basis interest rates were held at their current historic low of 0.1%.

### **Local Government**

#### Local Government funding reform

- 5.8. 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.
- 5.9. Confirmation of the timing for these changes has not been provided. The later in the

year any changes are made, up to the local government settlement in November / December, the harder planning the allocation of resources to set a balanced budget for 2022/23 becomes.

- 5.10. On business rates, London continued the business rate pool for 2020/21. With the impact of Covid-19 the Council may now need to contribute to the pool. This depends on how the individual boroughs tax bases have been impacted through the period of disruption due to Covid, the business rates income compensation scheme, and how recovery of the tax base evolves. London ceased pooling for 2021/22 with no decision of future years at present.
- 5.11. The other elements of the impact of rolling over spending decisions pending the funding reform has been the rise in annual grants for specific services (e.g. better care fund, social care grant, homelessness grant). This limits councils ability to plan with any certainty and constrains local decision making on how to allocate resources. At the same time councils have been expected to continue to implement above inflationary council tax rises with council tax now providing nearly 50% of the Council's General Fund budget.

## 6. MTFs ASSUMPTIONS

- 6.1. 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)

- 6.2. 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).
- 6.3. The table below shows the forecast SFA over the next four years.

**Table 2: Make-up of Lewisham's 2021/22 and Estimated Settlement Funding Assessment, 2021/22 to 2022/23 to 2025/26**

Settlement Funding Assessment	2021/22 Actual	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Main case	£m	£m	£m	£m	£m
Retained Business Rates	28.15				
Business Rate Top-up	95.15				
Baseline Funding Level (BFL)		120.45	113.90	109.39	106.70
<b>Total SFA</b>	<b>123.30</b>	<b>120.45</b>	<b>113.90</b>	<b>109.39</b>	<b>106.70</b>

### Business rates income

- 6.4. In 2018/19, the government devolved 100% of Business Rates to London local authorities via the pilot pool. In 2019/20, the level of devolved Business Rates was changed to 75%. In London, this was shared between Local Authorities and the

GLA with 48% to local authorities and 27% to the GLA. In the 2019 Spending Round the government announced that other than the established Combined Authorities all sponsored pilots would end and revert to the original business rates system of distribution. Therefore, councils will return to the business rates shares as at 2017-18, which means LAs will retain 30% of Business Rates and the GLA 37%. The RSG has been 'rolled-in' at this stage thereby phasing it out.

- 6.5. 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.
- 6.6. Through Covid-19 the national business rates system has been and continues to be significantly impacted. Given the level of reliefs and other uncertainties, in particular in relation to possible changing rateable valuations and tax collection levels, as the economy resets and recovers from Covid-19 the income assumptions for the Council's budget remain uncertain but assume government interventions will hold an assumed broadly stable position for this tax base for councils.
- 6.7. The forecast now assumes the reforms and the business rates reset will be implemented from 2023/24 although this has still to be confirmed. The government also operates a safety net for business rates with Lewisham's currently £7m below the £95m expected shown above.
- 6.8. As the London pool has been stopped for 2021/22 no assumptions are made in this MTFs on any risks or benefits should it be re-started.

### **The Fair Funding Review**

- 6.9. 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.
- 6.10. The government is undertaking the Fair Funding Review to update the needs formula and set new funding baselines. 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.
- 6.11. The MTFs assumes any impact will now be for the start of 2023/24.

### **Council Tax income**

- 6.12. 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.
- 6.13. As well as decisions about the level of Council Tax, Council Tax income is also affected by growth in the number of properties in the borough, the rate of Council Tax collection, and the Local Council Tax Reduction Scheme (LCTRS).
- 6.14. The government sets annually the limit by which council tax can be increased locally



without triggering the requirement to hold a referendum. Exceptionally this was set at 3% for the two year period 2018/19 and 2019/20. The level then reverted and was set at 2% for both 2020/21 and 2021/22. Lewisham agreed increases for this element of the Council Tax of 1.99% for each of these years (2020/21 and 2021/22). The MTFs main case assumes this arrangement continues over the next four years.

- 6.15. The Social Care Precept is in addition to this. The Social Care precept was introduced by the government from 2016/17, and the percentages available to levy annually have varied over the six year period. In 2021/22 government gave Local Authorities the option of levying a 3% Social Care Precept over two years. This was agreed by the Council and the 3% included in the 2021/22 budget, with no precept assumed for 2022/23, nor for the latter years of the MTFs. This is pending the long awaited government proposals for the sustainable long-term funding of adult social care services which have still not been published. It therefore remains unclear whether and how the government's solution to the longer term funding of social care will include contributions via local authority taxation or grant.
- 6.16. In 2021/22, Council Tax was raised by 4.99% in total, i.e. a 1.99% core increase and the 3% social care precept increase as set out above. This generated additional funding of £5.8m.
- 6.17. For 2022/23, 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 2022/23 and beyond. In addition, the MTFs assumes a 0.5% 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 £13m to the Council Tax income base over the four year period to 2025/26 but remains below the London target for housing supply in the borough. The MTFs also acknowledges the impact on collection rates from Covid-19 which dropped significantly. For each year from 2022/23 onwards the MTFs assumes life time collection rates will recover to pre-pandemic levels as follows: 95%, 96%, 97% and 97% respectively.
- 6.18. Forecast Council Tax income from 2022/23 to 2025/26 is set out in Table 3 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 3: Council Tax Income Future Year Projections**

	2022/23 projection	2023/24 projection	2024/25 projection	2025/26 projection
	£m	£m	£m	£m
Optimistic	125.23	130.73	136.37	140.44
<b>Main</b>	<b>122.92</b>	<b>128.38</b>	<b>133.99</b>	<b>139.02</b>
Pessimistic	119.29	124.69	130.23	136.60

## 7. REVENUE EXPENDITURE ASSUMPTIONS

- 7.1. 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**

- 7.2. A pay award of 2.75% was agreed by the Greater London Provincial Council for 2020/21. The current offer for 2021/22 is 1.5% but this has yet to be agreed. Government has announced a policy of public sector pay restraint for 2021/22 meaning that all civil servants, police, teachers, armed forces, prison officers and the judiciary will receive a zero pay rise. It suggests that local authorities may choose to adopt the same policy, in the event that this is not the case this will be a pressure unfunded by government. However, in light of the expected inflationary pressures, and despite the constraints on public finances, the main model has assumed a 2% pay award for 2022/23 and assumed that pay awards will remain at 2% in future years.

## **General price inflation assumptions**

- 7.3. 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 2022/23 has been estimated at 3% based on Bank of England forecasts returning to 2% by 2025/26.

## **General fees and charges assumptions**

- 7.4. 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**

- 7.5. 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 and further evidenced through the impact of Covid on local communities in 2020/21 which further highlighted the current levels of inequality in society.
- **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** – following the Covid pandemic, with new responsibilities for local government through anticipated funding changes and as councils respond to changes in community need; standards and ways of working are expected to change.

7.6. 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 help residents and the community become more resilient and reduce rather than increase demand.

7.7. 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.

7.8. 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 corporately for growth from demand and other unavoidable pressures in the budget. The model assumes this will continue for future years, but that there is the slow reduction in this funding from the current level of £6.5m assumed for 2022/23 down to £5m in 2025/26.

### **Specific grant assumptions**

7.9. 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 £25.4m in 2021/22, an increase of £0.6m from 2020/21. 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 £23.3m in 2020/21. The Council receives approximately £8.9m of this funding via the local Clinical Commissioning Group (CCG) to support Council led services.
- **Improved Better Care Fund (iBCF)** – In 2021/22, the iBCF was maintained at the 2020/21 level of £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 CCG. The grant is likely to be spent in substantially the same way as in 2020/21.
- **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 pose a greater risk to the Council's budget as they are only annual. These include recent s31 grants which supplement business rates, social care, and special education needs 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**

- 7.10. 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

- 7.11. 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.
- 7.12. The main factors that affect the forecasting of capital financing costs are the level of additional 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 (including S106 and CIL), be charged direct to revenue or borrowing.
- 7.13. 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

- 7.14. 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

- 7.15. 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**

- 7.16. There are further adjustments that are included within the budget projections for future years, funded from the £6.5m corporate provision stated in para 7.8 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 an annual increase of £0.5m for the period 2022/23 to 2025/26. This was decreased in 2021/22 to reflect the impact of Covid on public transport usage, but this is expected to return to previous levels and require additional funding.
  - **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. This expected to be achieved in 2023/24.
  - **Pension Fund Contributions** – It is anticipated that, due to recent court rulings impacting all local government pension schemes and the continuing maturing of the Lewisham fund with fewer members contributing, 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 from the next valuation.
  - **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 due to government policy and funding.

### **New Homes Bonus**

- 7.17. The New Homes Bonus (NHB) was a grant paid via a top slice of the business rates collected nationally (i.e. ring fenced local government monies) for a fixed period by central government to incentivise and reward 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 driven the share of the New Homes Bonus

received.

7.18. 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.

7.19. Over the past two years, as set out in the budget, the NHB received has been used to fund investment in service transformation and change work.

## **8. GENERAL FUND BUDGET GAP**

8.1. Using the medium term resource envelope and revenue expenditure projections stated above, the resulting overall forecast position for the authority is shown in Table 4 below:

**Table 4: Summary of Projected Financial Position**

	Optimistic Case				Main Case				Pessimistic Case			
	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Business Rates Baseline Funding Level	121.401	121.401	116.703	114.083	<b>120.449</b>	<b>113.896</b>	<b>109.392</b>	<b>106.702</b>	112.916	105.700	101.220	98.337
BR S31 Grant and Pool Growth	3.000	3.000	3.000	3.000	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	3.000	3.000	3.000	3.000
Business Rates Collection Fund	(4.000)	(4.000)	(1.000)	0.000	<b>(4.000)</b>	<b>(4.000)</b>	<b>(1.000)</b>	<b>0.000</b>	(4.000)	(4.000)	(1.000)	0.000
Council Tax	126.030	130.527	135.169	139.237	<b>118.29</b>	<b>122.52</b>	<b>127.53</b>	<b>132.02</b>	122.092	126.490	131.031	136.396
Council Tax Collection Fund	(0.800)	0.200	1.200	1.200	<b>(1.800)</b>	<b>(0.800)</b>	<b>0.200</b>	<b>1.200</b>	(2.800)	(1.800)	(0.800)	0.200
Total Resources	245.631	251.127	255.072	257.520	<b>242.367</b>	<b>241.277</b>	<b>245.382</b>	<b>248.719</b>	231.208	229.390	233.451	237.933
Total Revenue Expenditure	254.589	256.434	261.553	265.559	<b>255.045</b>	<b>253.690</b>	<b>252.254</b>	<b>256.436</b>	255.501	243.057	240.927	245.089
Budget Gap	8.958	5.306	6.481	8.039	<b>12.678</b>	<b>12.413</b>	<b>6.872</b>	<b>7.717</b>	24.293	13.667	7.476	7.156
Approved Savings	-10.410	-3.237	0.000	0.000	<b>-10.410</b>	<b>-3.237</b>	<b>0.000</b>	<b>0.000</b>	-10.410	-3.237	0.000	0.000
Additional Annual Savings Required	<b>-1.452</b>	<b>2.069</b>	<b>6.481</b>	<b>8.039</b>	<b>2.268</b>	<b>9.176</b>	<b>6.872</b>	<b>7.717</b>	<b>13.883</b>	<b>10.430</b>	<b>7.476</b>	<b>7.156</b>
Cumulative Savings Required	<b>-1.452</b>	<b>0.617</b>	<b>7.098</b>	<b>15.137</b>	<b>2.268</b>	<b>11.444</b>	<b>18.316</b>	<b>26.033</b>	<b>13.883</b>	<b>24.313</b>	<b>31.789</b>	<b>38.945</b>

- 8.2. Taking the main case scenario as the expected position, the MTFS shows the annual measures required to bridge the budget gap from 2022/23 to 2025/26 as £2.268m, £9.176m, £6.872m, and £7.717m, respectively in each year. A total of £26m over the four years to 2025/26. It is important to note two things. Firstly, any of the pressures not addressed in service spending through 2021/22 will add to the cuts target for 22/23. Secondly that, whilst not formally approved by Mayor & Cabinet, the cuts offered up in 2020/21 for 22/23 and 23/24, £10.4m and £3.2m respectively, are included within these MTFS figures. If these are no longer deliverable then the budget gap increases proportionately.
- 8.3. It is also important to note that the MTFS has been prepared on the basis that all of the circa £7m of delayed savings from 2020/21, plus the £28m of cuts taken for 2021/22 will be delivered, and that there are no overspends. If this is not the case then the relatively small budget gap for 2022/23 will increase proportionately.
- 8.4. 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 2025/26 reduces by approximately £11m to £15.137m. This is based on lower predicted cuts to baseline funding and higher increase in the Council Tax base.
- 8.5. The pessimistic case scenario reflects the impact of certain risks having a more severe impact. The cumulative budget gap to 2025/26 increases by approximately £13m to £39mm. This scenario demonstrates the difficulty the Council could potentially face if the impact of funding cuts are higher and Council Tax base and collection rates are lower than expected, and the future years impact of Covid-19 for service pressures are not supported by government.
- 8.6. The next section of this report looks at how the Council continues to address the gap in order to produce a balance budget.

## **9. ADDRESSING THE BUDGET GAP AND TIMETABLE**

- 9.1. Officers continue to work on implementing delayed cuts from 2020/21 not implemented due to the impact of Covid 19, the £28m of new cuts taken into the budget for 2021/22, while managing the ongoing impact of Covid-19 and recovery from it. This work is discussed more fully in the quarter one financial monitoring reported to Mayor & Cabinet on the 14 July 2021.
- 9.2. Once the current year's financial position is known with greater certainty then it can be established whether a full cuts process will be needed for 2022/23 or it can concentrate on early planning for the years 2023/24 onwards. The timetable below sets out the process over the summer to ensure that this can be fully considered and to allow officers time to put forward ideas as needed.
- 9.3. The initial work by officers will be to review the cuts put forward last year for 2022/23 and 2023/24 to ascertain whether these remain deliverable. If they are then they can be refined or further developed as necessary and brought forward for pre-scrutiny ahead of Mayor and Cabinet as per the timetable.
- 9.4. Where the cuts already identified are no longer deliverable, officers will work over the summer to design alternatives. The intent being to continue to do this in a collaborative and thematic way led by the Senior Leadership Team (SLT) under the guidance of the Executive Management Team (EMT).
- 9.5. 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. 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 any implications, for example legal and equalities. The covering cuts report will then analyse these implications in the round aggregate to support Members assessment of the options and their impact on the Borough as a whole as well as individually.

- 9.6. The themes for bringing forward future year cuts is being reviewed as the Council firms up the Covid recovery priorities through the Future Lewisham themes. They may therefore change. For reference they are currently:

#### **A – Productivity**

- 9.7. Over the past three years the Council has been on a significant journey to improve the availability, flexibility and security of it 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.
- 9.8. The investments to make these changes were also about seeking to streamline decision making, governance and policy frameworks, 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.

#### **B – Joint working**

- 9.9. 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.
- 9.10. This theme explores and pushes the boundaries of how we might work differently within the Council but also how we work with our residents, our communities, our voluntary sector, anchor institutions and strategic partners. A significant strand of this theme is working closer with our health partners.
- 9.11. As well as addressing the immediate financial challenge this work will also lay the foundations for longer term successful working. The intention here is to identify opportunities at less cost with our partners to deliver shared outcomes.

#### **C – Service reconfiguration**

- 9.12. 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 now largely operating online and via the call centre with appointments available where necessary.
- 9.13. 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.
- 9.14. Extending the productivity theme above, there will be opportunities to change how the Council engages with customers and delivers services. For example; our front door services are now 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 and strengthen the organisation's culture.

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## **D – Asset realisation**

- 9.15. 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.
- 9.16. The council has extensive landholdings across the Borough – ranging across a broad base of office, commercial and service/operational estate. While these changes are for future years, through this strategic theme the Council can unlock social, economic and financial benefit from its considerable landholdings within Lewisham.

## **E – Commercial approach**

- 9.17. The Council has been championing the development of greater commercial understanding and rigour in its service offering and contractual relations with third parties. This has been around increasing the rigour and improving contract management and supplier relationships as well as achieving greater social value alongside financial return from engaging in such activities.
- 9.18. On the income side 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.

## **F – Better demand management**

- 9.19. 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.
- 9.20. 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.
- 9.21. The approach to this theme has been to explore opportunities to focus on volume and cost and the means by which they can be reduced, diverted, or shared.

## **TIMETABLE**

- 9.22. The timetable to deliver the necessary cuts and Budget for 2022/23 is as set out below.

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Date / Month	Key Stage
11 June 2021	Budget recap to SLT emphasised risks of not delivering approved cuts. SLT was agreed an earlier start to future cuts helpful.
23 June 2021	MTFS overview presented to EMT
7 July 2021	MTFS presented to PASC
14 July 2021	MTFS presented to M&C
July - October	Services work to confirm: i) that the current £33m of cuts and pressures will be managed and delivered in full; ii) that the £10m of cuts for 2022/23 remain valid and can be formally offered to Members and M&C; iii) that if any of these can't, then alternative cuts are developed and offered instead; and iv) new cuts are identified for any pressures emerging from the recovery to business as usual unsupported by Covid monies
September / October 2021	Medium term financial planning and monitoring. Chancellor's Autumn Budget
2 November 2021	Cuts to Healthier Select Committee
4 November 2021	Cuts to Safer Stronger Communities Select Committee
10 November 2021	Cuts to Sustainable Development Select Committee
18 November 2021	Cuts to Housing Select Committee
25 November 2021	Cuts to Children and Young People Select Committee
November / December 2021	Provisional Local Government Finance Settlement
1 December 2021	Cuts to Public Accounts Select Committee
December	Early work through scrutiny and M&C to agree DSG, HRA, and Capital elements of the budget for January Council meeting.
8 December 2021	Cuts to Mayor and Cabinet
12 January 2022	Council Tax Base agreed by Council Draft Council Budget for 2021/22 prepared Business rate payers consultation launched
27 January 2022	Draft Council Budget 2022/23 to PASC
2 February 2022	Budget 2022/23 to M&C
9 February 2022	Budget 2022/23 Update to M&C (if required)
February 2022	Greater London Authority sets their Precept for 2022/23
23 February 2022	Council approves Budget & Council Tax for 2022/23 (NB this may be pushed back a week depending on the GLA timetable)

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- 9.23. Once the in-year service monitoring position is more certain and the Chancellor's Autumn Budget announced, it may be necessary to bring an updated MTFs forward to update on the assumptions and plans outlined in this report.

## **10. Risks**

- 10.1. There are a number of risks facing the Council in setting its MTFs for the period 2022/23 to 2025/26. The key issues are discussed below.
- 10.2. The full impact of Covid is still yet to be known, both in terms of the financial impact on the Council and its residents, but also in terms of the boroughs residents and its economy. It's clear that whilst the pandemic continues it will be increasingly difficult to separate out our underlying 'business as usual' pressures from those Covid related. Covid may be masking underlying service position in terms of pressures and risk, providing less time and resource to properly plan for and manage these. The regular financial monitoring will be critical in ensuring that this is reported and action taken in a timely manner. Whilst we remain unclear on the levels of Covid funding that we will receive it is realistic to assume that this will not be at the previous year's levels to cover all of the in-year pressures for 2021/22 and any permanent or semi-permanent changes to underlying services.
- 10.3. Funding uncertainty and risk. The Fair Funding review has been delayed previously and is now long overdue, however it is unlikely that Government will be publishing this in 2021 given the continuing distraction of the pandemic. Whilst we can assume that a roll forward in funding from 2021/22 into 2022/23 is likely, as the reality of the scale of economic recovery bites and the national cost of the pandemic crystallises, it can be assumed that Local Government funding will be reduced. This will place even greater dependence on Council Tax and local income or cost reduction measures at a time when all of the Government support measures for residents, such as furlough, have ended.
- 10.4. The scale of the cuts taken in 2021/22, coupled with the persistent overspend still remaining, increases the risk that the current relatively modest budget gap for 2022/23 could increase if the current budget cannot be delivered in full. A number of the cuts were ambitious and required transformation and resources to deliver, much of which has been diverted into our Council's current response to the pandemic.
- 10.5. The progress and outcomes of the capital strategy and programme review work reporting to M&C in July are not yet known. If the capital strategy and its associated risks (given the scale and pace of delivery) put more pressure on the revenue budget (e.g. through abortive costs, overspends, new or extended projects, etc.) this will add to the cuts targets required.

## **11. CONCLUSION**

- 11.1. The Medium Term Financial Strategy sets out initial estimates based on 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 2025/26.
- 11.2. 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

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Council's development of the saving proposals required to balance the Council's budget and timing of these.

- 11.3. The MTFs identifies that the Council may have to make up to £26m of cuts over the next four years, on top of the £10m and £3m already put forward in 2020/21 for 2022/23 and 2023/24.
- 11.4. 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 ensure that those cuts previously offered remain deliverable, returning to Mayor & Cabinet in good time to make further difficult decisions if necessary.
- 11.5. 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, what services local government may be responsible for in future, and how services are expected to transform and change to support the borough and its residents post Covid-19.

## **12. FINANCIAL IMPLICATIONS**

- 12.1. 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.

## **13. LEGAL IMPLICATIONS**

- 13.1. 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.
- 13.2. 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.
- 13.3. 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.

## **14. EQUALITIES IMPLICATIONS**

- 14.1. 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

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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.

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

14.3. 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.

14.4. 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.

## **15. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS**

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

## **16. CRIME AND DISORDER IMPLICATIONS**

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

## **17. HEALTH AND WELLBEING IMPLICATIONS**

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

## **18. BACKGROUND PAPERS**

18.1. Budget Report 2021/22 – Full Council 3 March 2021

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<https://councilmeetings.lewisham.gov.uk/documents/s77544/Council%20Budget%202021-2022.pdf>

- 18.2. Financial Results 2020/21 – Mayor & Cabinet 9 June 2021  
<https://councilmeetings.lewisham.gov.uk/documents/s81077/Financial%20Results%202020-21.pdf>

## 19. GLOSSARY

Term	Definition
<b>Actuarial Valuation</b>	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.
<b>Baseline Funding Level</b>	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.
<b>Budget Requirement</b>	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)
<b>Business Rates Baseline</b>	The business rates baseline is equal to the amount of business rates generated locally in a specific year.
<b>Capital Expenditure</b>	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.
<b>Capital Programme</b>	The Council's plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.
<b>Capital Receipts</b>	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.
<b>Capping</b>	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.

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Term	Definition
<b>CIPFA</b>	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.
<b>Clinical Commissioning Group (CCG)</b>	Clinical Commissioning Groups ( <b>CCGs</b> ) 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.
<b>Collection fund</b>	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.
<b>Collection Fund surplus (or deficit)</b>	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.
<b>Contingency</b>	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.
<b>Council Tax Base</b>	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.
<b>CPI and RPI</b>	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.

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<b>Term</b>	<b>Definition</b>
<b>Dedicated schools grant (DSG)</b>	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.
<b>Financial Regulations</b>	These are a written code of procedures set by a local authority, which provide a framework for the proper financial management of the authority. They cover rules for accounting and audit procedures, and set out administrative controls over the authorisation of payments, etc.
<b>Financial Year</b>	The local authority financial year commences on 1st April and finishes on the following 31 March.
<b>General Fund</b>	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).
<b>Gross Domestic Product (GDP)</b>	GDP is defined as the value of all goods and services produced within the overall economy.
<b>Gross Expenditure</b>	The total cost of providing the Council's services, before deducting income from government grants, or fees and charges for services.
<b>Housing Revenue Account (HRA)</b>	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.
<b>Individual authority business rates baseline</b>	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.
<b>Levies</b>	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.
<b>Local share</b>	This is the percentage share of locally collected business rates that will be retained by local government, currently 50%.
<b>Net Expenditure</b>	This is gross expenditure less services income, but before deduction of government grant.

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Term	Definition
<b>New Homes Bonus</b>	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.
<b>Prudential Borrowing</b>	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.
<b>Revenue Expenditure</b>	The day-to-day running expenses on services provided by Council.
<b>Revenue Support Grant (RSG)</b>	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.
<b>Section 151 officer</b>	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.
<b>Settlement Funding Assessment (SFA)</b>	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.
<b>Specific Grants</b>	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.

## 20. REPORT AUTHOR AND CONTACT

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## APPENDIX 1 – SUMMARY OF MTF5 ASSUMPTIONS

RESOURCE ENVELOPE			
	Main case	Pessimistic case	Optimistic Case
Notional Revenue Support Grant	<ul style="list-style-type: none"> <li>□ 2022/23 0% change to 2021/22 levels, thereafter 20% reduction assumed each year</li> </ul>	<ul style="list-style-type: none"> <li>□ 2022/23 -20% change to 2021/22 levels, and thereafter 20% reduction assumed each year</li> </ul>	<ul style="list-style-type: none"> <li>□ 2022/23 and 2023/24 0% change to 2020/21 levels, thereafter 20% reduction assumed each year</li> </ul>
Business Rates	<ul style="list-style-type: none"> <li>□ 3% real terms decrease in 2022/23, then 1% decrease in 2023/24, 0% decrease in 2024/25 and then +1% change in 2025/26 on the rateable value base and top-up</li> <li>□ £3m S31 grant in each year</li> </ul>	<ul style="list-style-type: none"> <li>□ 5% real terms decrease in 2022/23, then 3% decrease in 2023/24, -1% decrease in 2024/25 and then 0% change in 2025/26 on the rateable value base and top-up</li> <li>□ £3m S31 grant in each year</li> </ul>	<ul style="list-style-type: none"> <li>□ 2% real terms decrease in 2022/23, then 0% change in 2023/24, +1% increase in 2024/25 and then +2% change in 2025/26 on the rateable value base and top-up</li> <li>□ £3m S31 grant in each year</li> </ul>
Council Tax income	<ul style="list-style-type: none"> <li>□ From 2022/23 1.99% change in Council Tax level (No Social Care precept)</li> <li>□ % increase each year in Council Tax base from 2021/22 onwards is: 0%, 0.5%, 0.5% and 1.0%</li> <li>□ CT collection rate each year from 2022/23 onwards is: 95%, 96%, 97% and 97%</li> <li>□ CTRS changes increase the cost of the scheme by the following each year from 2022/23: £3m, £2m, £1m, £0m</li> </ul>	<ul style="list-style-type: none"> <li>□ From 2022/23 1.99% change in Council Tax level (No Social Care precept)</li> <li>□ % increase each year in Council Tax base from 2021/22 onwards is: 0%, 0.5%, 0.5% and 1.0%</li> <li>□ CT collection rate each year from 2022/23 onwards is: 93%, 94%, 95% and 95%</li> <li>□ CTRS changes increase the cost of the scheme by the following each year from 2022/23: £4m, £3m, £2m, £1m</li> </ul>	<ul style="list-style-type: none"> <li>□ From 2022/23 1.99% change in Council Tax level (No Social Care precept)</li> <li>□ % increase each year in Council Tax base from 2021/22 onwards is: 0%, 0.5%, 0.5% and 1.0%</li> <li>□ CT collection rate each year from 2022/23 onwards is: 96%, 97%, 98% and 98%</li> <li>□ CTRS changes increase the cost of the scheme by the following each year from 2022/23: £2m, £1m, £0m, £0m</li> </ul>

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<b>RESOURCE ENVELOPE</b>			
	<b>Main case</b>	<b>Pessimistic case</b>	<b>Optimistic Case</b>
Surpluses/deficits on Collection Fund	<input type="checkbox"/> The Covid-19 shortfall to be collected over 3 years is assumed to be from 2021/22: £4m, £4m, £4m, and £1m	<input type="checkbox"/> The Covid-19 shortfall to be collected over 3 years is assumed to be from 2021/22: £4m, £4m, £4m, and £1m	<input type="checkbox"/> The Covid-19 shortfall to be collected over 3 years is assumed to be from 2021/22: £1m, £1m, £1m, and £0m
<b>EXPENDITURE</b>			
	<b>Main case</b>	<b>Pessimistic case</b>	<b>Optimistic Case</b>
Pay awards	<input type="checkbox"/> 2% in 2022/23 and 2% each year afterwards	<input type="checkbox"/> 2% in 2022/23 and 2% each year afterwards	<input type="checkbox"/> 2% in 2022/23 and 2% each year afterwards
General price inflation (incl. fees and charges)	<input type="checkbox"/> % increase each year in non-pay budgets from 2022/23 is: 3%, 2.5%, 2.5% and 2%	<input type="checkbox"/> % increase each year in non-pay budgets from 2022/23 is: 3.5%, 3%, 3% and 2.5%	<input type="checkbox"/> % increase each year in non-pay budgets from 2022/23 is: 2.5%, 2%, 2% and 1.5%
Pressures and risks	<input type="checkbox"/> £6.5m growth in 2022/23, £6m in 2023/24, £5.5m in 2024/25 and £5m in 2025/26	<input type="checkbox"/> £6.5m growth in 2022/23, £6m in 2023/24, £5.5m in 2024/25 and £5m in 2025/26	<input type="checkbox"/> £6.5m growth in 2022/23, £6m in 2023/24, £5.5m in 2024/25 and £5m in 2025/26
New legislation	<input type="checkbox"/> Nothing allowed	<input type="checkbox"/> Nothing allowed	<input type="checkbox"/> Nothing allowed
<b>NB</b> the MTFS assumes that any overspending is addressed in-year or met from reserves			

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