

Chapter 5

Finance

The way we use our financial resources has a major impact on strategic planning and performance improvement. This chapter provides the financial context for our performance plan and demonstrates how, as a provider of public services, we work to ensure that budgets are effectively managed to meet the Council's commitments and strategic priorities.

This chapter:

- contains details of the revenue budget and capital programme for 2006/07 with comparative information for 2005/06
- explains how we have managed the Council's finances in 2005/06 to ensure our ability to deliver service commitments
- outlines demands on the Council's finances for 2006/07
- summarises our future spending plans to deliver the Council's corporate and service strategies and the implications of those spending plans for council tax payers
- sets out our plans for investing in improvements to buildings and other assets in 2006/07, so that services can continue to be effectively and economically provided into the future.

Achieving better service delivery

The revenue budget and capital programme are our primary means to achieving better service delivery and should be viewed as part of an integrated approach to continuous service improvement.

Revenue expenditure

Revenue expenditure funds the day-to-day provision and delivery of services and our own running costs. Main items of expenditure include salaries, the running costs of buildings, vehicles and the maintenance of facilities like parks and roads. Revenue expenditure also meets the cost of payments to suppliers where services have been contracted out, as well as costs related to the financing of capital spending.

Council tax is collected on behalf of the Greater London Authority (GLA) and includes funding for the Metropolitan Police and the London Fire and Emergency Planning Authority.



Capital expenditure

Capital expenditure allows us to purchase large assets of benefit to the community over many years. The capital programme consists of the housing capital programme and the 'other services capital programme', the latter being all non-housing capital schemes.

The revenue budget strategy

We have a rolling three-year, medium-term financial strategy. This enables us to ensure that budget plans are consistent with policy objectives and to take on board the longer term impact of decisions being made now.

We have developed and refined a process which enables us to align service and budget planning using our performance management framework (see chapter 3). In identifying the savings proposals for 2006/07, options were considered and weighted against key policy priorities and impacts.

The Council considers areas for funding which would deliver on the key national and local policy drivers impacting on the borough. They focus on the strategic challenges and opportunities facing the borough in order to enable us to deliver high-quality, cost-effective services in partnership with colleagues in the public, private and voluntary sectors. Funding proposals are evaluated against *Community Strategy* and corporate priorities, policy issues and impacts and linked to performance improvement and any relevant capital bids or areas for cross-directorate joint working.

The Council's approach to service and financial planning was commended during the corporate performance assessment (CPA) and we received a score of 3 out of 4 for 'use of resources' in 2005 (see chapter 14).

Best Value reviews enable us to identify service improvements that can impact on budget allocations in future years. Each Best Value review must produce recommendations with a plan designed to deliver demonstrable improvements to cost and quality. We want to ensure that our work to align service and budget planning also considers the recommendations of Best Value reviews and other inspections, assessments and audits.

As an Education Authority, the schools' budget is outside the scope of our Best Value reviews, although, like the rest of the Council, schools are expected to deliver value for money.

The Council is continuing to review the way it allocates resources to capital projects. A Best Value review of asset management is looking at how we manage our assets in the future in terms of the structure, resources, processes and operations behind delivery.

This work involves extensive reviews of the condition of assets. It also requires clarity in how service plans translate into a requirement for new assets and the way changing service priorities may release other assets which can then be used for other purposes or sold, enabling the Council to fund additional priority projects. Under the prudential regime for capital finance in local authorities introduced under the Local Government Act 2003, the Council is required to set a number of prudential indicators for its capital and treasury activities prior to the start of the financial year. This will enable the Council to accurately determine the affordability of investment proposals and associated priorities which would maximise the benefits for the community.

How we have managed the Council's resources in 2005/06

For 2005/06 the overall budget for the cost of services was set at £384.5 million. The Council has managed any pressures and potential overspends through a strict regime of ongoing budget monitoring and a culture of responsibility around financial monitoring.

Another key aspect to effectively managing the Council's financial resources is the monitoring and management of our capital programme and setting levels of over and under-programming for the housing investment programme and other services capital programme.

Table 5.1 outlines how we have managed the Council's financial resources in 2005/06.

An analysis of the outturns for each directorate is shown in Table 5.2. The actual outturn will be included in the Council's *Annual Statement of Accounts*, to be published later in 2006.

Table 5.2 outlines how the money was spent in 2005/06.

In accordance with the CIPFA guidelines for information to be contained within performance plans, we are required to report the TUPE outcomes around any tendering exercises. In 2005/06 the authority undertook two tendering exercises which involved the transfer of five staff under the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE).

Table 5.1: How we have managed the Council's financial resources in 2005/06

Directorate	Original Budget 2005/06	Revised Budget 2005/06	Increase or (decrease)		
	£000s	£000s	£000s	Explanations for differences	£'000
Children & Young People	234,350	233,665	(685)	Adjustment of Capital Charges	0
				Deferred Charges	0
				Pooling of budgets	(685)
Community Services	92,830	91,866	(964)	Adjustment of Capital Charges	0
				Deferred Charges (inc HIP)	0
				Pooling of budgets	(964)
Customer Services	15,087	15,690	603	Adjustment of Capital Charges	0
				Deferred Charges	0
				Pooling of budgets	603
Regeneration	43,714	44,900	1,186	Adjustment of Capital Charges	0
				Deferred Charges	0
				Pooling of budgets	1,186
Resources	(1,491)	(1,631)	(140)	Adjustment of Capital Charges	0
				Deferred Charges	0
				Pooling of budgets	(140)
Totals	384,490	384,490	0		0

Note: The Original Budget for 2005/06 is after the restructure of Lewisham's four directorates into five. The pooling of budgets includes final redistribution of general fund budgets resulting from the Council's restructure and the Housing Revenue Account.

Table 5.2: How the money was spent in 2005/06

General Fund Services	Original Budget 2005/06 (see Note 1)	Revised Budget 2005/06 as at 28th Feb 2006	Provisional Outturn 2005/06 forecasted variance	Forecast Outturn Overspend (Underspend)	Variance Analysis Overspend (Underspend)	Explanation of the forecast variance
	£'000	£'000	£'000	£'000	%	
Children & Young People	234,350	233,665	(2,321)	231,344	99.01	The main area of underspend in the Children & Young People Directorate, is in the Children's Social Care Division. In the main this is due to the fall in the number of placements.
Community Services	92,830	91,866	1,736	93,602	101.89	The main areas of overspending in the Community Services Directorate are in the Adults Social Care and Culture, Community & Libraries Divisions. The main area of overspending in Adults Social Care is in Domiciliary Care services and the main area of overspending in Culture, Community & Libraries Division is in Community Education Lewisham (CEL).
Customer Services	15,087	15,690	2	15,692	100.01	The main areas of underspending in Customer Services Directorate are in the Public Services and Asylum Seekers Divisions.
Regeneration	43,714	44,900	473	45,373	101.05	The Directorate's net overspend is mainly due to pressures in the Environment Division which are offset by the impact of a recruitment freeze and improved income from dangerous structure work in the Business Regulatory Services Division.
Resources	(1,491)	(1,631)	95	(1,536)	94.18	The main area of overspend is in the Partnerships & Investments Division, in part attributable to the additional transaction costs in taking some of the existing PFIs schemes to financial close.
Total General Fund Services	384,490	384,490	(15)	384,475	100.00	

Note 1: The original budget for 2005/06 is after the restructure of Lewisham's four directorates into five.

Meeting the costs of demands on council finances in 2006/07

In determining our budget for 2006/07 we have:

- amended our three-year forward spending plan in the light of the latest proposals for government support
- considered the results of our 2006/09 financial survey undertaken in July 2005
- identified a number of efficiency savings through the budget process towards meeting our budget savings target
- decided how to use the resources to be achieved through efficiency savings
- considered the policy decisions and priorities which determine what our spending plans should be.

Forward spending plans

The Council's plans for spending on services look forward three years. These plans are dependent on the Government's proposals for financial support to local government, as formula grant supports about two-thirds of our net expenditure.

The financial year 2006/07 will see the introduction of a new formula for distributing Revenue Support Grant, known as 'the 4 Block Model'. This arrangement greatly increases ministers' power to direct grant between authorities, so from 2006/07 onwards Government will have more discretion about how grant allocations are made.

The Revenue Support Grant settlement included an increase in formula grant for Lewisham in 2007/08 of 3.36% on the figure for 2006/07, but this is subject to change. The Government intends to announce provisional grant settlement figures for 2008/09 and 2010/11 once the Comprehensive Spending Review concludes at the earliest in November 2007.

Population figures are produced by the Office of National Statistics (ONS) and influence the distribution of government public sector grants. The latest ONS figure takes Lewisham back to roughly the same population level as mid-2000. Losses into the future are even more difficult to predict, but should nothing change, we could expect losses of grant to be up to £3m in 2006/07 and up to £25m to 2013/14, until the new census counts are used. Lewisham, along with many other local authorities, has major concerns around the robustness of the methodology used to calculate the mid-year population estimates. ONS has expressed a commitment to undertake further research on this issue.

The Housing Revenue Account (HRA) is a statutory account which is ring-fenced so that no contributions can be made to or from the Council's General Fund (GF), and it must not be allowed to operate at a deficit. The Council's spending plans for 2006/07 are based on the existing arrangements, with all council properties being managed either in-house or with existing partners.



The Government has set a target of 2010 for all councils to bring all of their homes up to the Decent Homes Standard. Like most councils, Lewisham cannot meet this target from existing resources. The Government has specified three options to provide the funds needed to meet the Decent Homes Standard. These are Arms Length Management Association (ALMO), Housing Private Finance Initiative (PFI) and Stock Transfer. In order to meet the Decent Homes Standard, the Council is considering a range of stock options which will have implications for both the HRA and GF budget. It is expected that there will be a significant impact on support services and other areas of council activity resulting from the options currently being appraised.

Table 5.3 provides a summary of income and expenditure compared with 2005/06. Estimated income (excluding the Housing Revenue Account) and gross expenditure for each directorate is summarised in Table 5.3.

Table 5.3: Summary of Directorate Income and Expenditure

Directorate Expenditure	2005/06 Revised Budget	2006/7 Gross Expenditure	2006/7 Gross Income	2006/7 Net Revenue Expenditure
	£'000	£'000	£'000	£'000
Children & Young People	233,665	110,263	(26,699)	83,564
Community Services	91,866	159,537	(60,909)	98,628
Customer Services	15,690	230,655	(214,432)	16,223
Regeneration	44,900	91,361	(44,820)	46,541
Resources	(1,631)	82,554	(84,670)	(2,116)
Total	384,490	674,370	(431,529)	242,840
Financed From				
Revenue Support Grant	221,404			25,090
Business Rates	82,754			134,707
Collection Fund Deficit	(239)			21
Council Tax	80,571			83,022
Total	384,490			242,840

The reduction in budget allocation is due to the change in funding schools. Schools spending is no longer financed through the formula grant but through a ring fenced Dedicated Schools Grant. The grant announced for Lewisham for 2006/07 is £160.588m.

The HRA income and expenditure has been excluded from the above figures.

Improved organisational efficiency

Our three-year financial strategy includes schemes which will enable us to use our financial resources more effectively by improving efficiency. We aim to do this by challenging how services and functions operate and using Best Value reviews, inspections, assessments and audits to develop ambitious performance targets.

The Council defines efficiency savings as services providing more of their activities using the same amount of resources, or the same level of activities with fewer resources.

The Council's annual budget process identifies proposals from services to make base budget reductions. In addition, there are a number of council-wide projects that should facilitate our work to improve organisational efficiency, leading to cost reductions with some achievable council-wide savings over the medium to long term. These have been brought together in what is known as the 'Efficiency Programme' outlined in chapter 6 of this document and are a feature of the way we determine our budget strategy. Our annual budget process includes the identification of both cashable and non-cashable efficiency gains.

There is growing national pressure to deliver further efficiencies of a more strategic nature within and across authorities and their partners. The Council has recognised that there is much value in looking at multi-year efficiency targets as being a key driver to the 2007/08 budget and future budgets. This would involve completing and delivering existing strategic projects like ICT, procurement and WorkSmart, but it would also require new and more fundamental reviews of service provision.



Our spending plans for 2006/07

Our own efficiency savings will enable us to spend 3% more in real terms in 2006/07 than we spent in 2005/06. Our plans to spend these funds are influenced by national and local priorities for the expansion and improvement of services.

Table 5.4 shows the budget for spending by services in 2006/07 as agreed by the Council.

Table 5.4: Our Spending Plans for 2006/07

Directorate	Revised Net Budget 2005/06 £000s	Net Budget 2006/7 £000s	Increase or (decrease) £000s	Increase or (decrease) %	Explanations for differences	£'000
Children & Young People	233,665	83,564	(150,101)	(64)	Direct Schools Grant (funded directly by DfES) 06/07 Growth ongoing Reversal of once-off budget changes Savings Inflation Other adjustments	(151,275) 45 1,043 (1,564) 1,638 12
Community Services	91,866	98,629	6,763	7	06/07 Growth ongoing Reversal of once-off budget changes Savings Inflation Other adjustments	3,605 27 (1,675) 2,152 2,654
Customer Services	15,690	16,223	533	3	06/07 Growth ongoing Reversal of once-off budget changes Savings Inflation	827 43 (590) 253
Regeneration	44,900	46,541	1,642	4	06/07 Growth ongoing Reversal of once-off budget changes Savings Inflation Other adjustments	943 (288) (1,282) 653 1,616
Resources	(1,631)	(2,117)	(487)	30	06/07 Growth ongoing Reversal of once-off budget changes Savings Inflation Other adjustments	90 (825) (1,863) 1,273 838
Totals	384,490	242,840	(141,650)	(37)		

Note 1: The Directorate budget totals differ from those shown in the summary of service performance and Council Tax booklet due to the reallocation of various budgets

Note 2: The net budget for 2006/07 excludes school spending

Implications of the 2006/07 spending plans for council tax payers

The Council is committed to providing high-quality, affordable services and for 2006/07 has agreed a below average (for comparable authorities) increase in council tax of 2.5% for Lewisham's element. The calculation of the total amount to be collected from council tax is shown in Table 5.5.

The council tax requirement (including the GLA) for 2005/06 was £102,301,000. This means that the 2006/07 requirement of £ is an increase of % over the previous year. Allowing for changes in the council tax base and the collection rate, this becomes % for each property band.

Table 5.6 shows the council tax for 2006/07 compared to 2005/06.

Table 5.5: Amount to be raised from council tax

	£,000
Total cost of Lewisham services	242,840
collection fund (surplus)/deficit	(21)
Council tax subsidy contribution	0
Less government grants:	
revenue support grant	(25,090)
business rates	(134,707)
cost of Lewisham services to be paid by council tax	83,022
Other services (precepts)	
Greater London Authority	24,761
total cost of all services to be paid by council tax	107,783

Table 5.6: Council tax bands

Band	Council Tax 2005/06 (£)	Council Tax 2006/07 (£)
A	799.15	837.54
B	932.34	977.13
C	1,065.53	1,116.72
D	1,198.72	1,256.31
E	1,465.10	1,535.49
F	1,731.48	1,814.67
G	1,997.87	2,093.85
H	2,397.44	2,512.62



Our plans for investing in improvements to the Council's buildings and other assets in 2006/07

In addition to the money we spend on day-to-day services (reflected in the revenue budget), the Council also invests for the future in its buildings and the infrastructure of the area (capital expenditure). Our capital budget provides funds for expenditure on the construction and refurbishment of buildings, such as schools and leisure facilities, or on major works to roads and bridges. We also give financial assistance to others carrying out works that will benefit the local population. The expenditure is financed from government grants, contributions from other agencies like the National Lottery, proceeds from the sale of surplus assets and by borrowing within approved limits set out by the Government.

It is important to have long-term plans for capital expenditure. Investment in buildings and other assets can have a significant impact on running costs, for example by improving energy efficiency or minimising the need for repairs and maintenance.

The Local Government Act 2003 introduced a new 'prudential' system of financial control enabling local authorities to borrow or invest so long as their capital spending plans are affordable, prudent and sustainable. In order to demonstrate this the Council must approve, revise and monitor a range of prudential indicators for 2006/07 to 2008/09. These indicators summarise the expected activity or introduce limits on the activity and reflect the underlying capital control systems.

Asset management planning aims to channel resources into those areas where they will most effectively deliver the Council's objectives. The Government expects local authorities to have a process for linking service strategies to capital strategies to determine how capital resources are generated and allocated and an asset management plan to determine how assets are managed.

The development of improved asset management planning, which focuses on life-cycle cost and integrates both revenue and capital costs into the decision-making process, is fundamental to the Council's ability to take advantage of the prudential guidelines for borrowing.

The Council has an extensive process for managing and monitoring its capital programme. There is full quarterly capital monitoring by Mayor and cabinet. The Mayor's quarterly and Executive Management Team briefings include a report on key projects identified as 'at a red risk'. These project management reports come from the Project Review Group established in each directorate and the Corporate Project Board which coordinates the overall process.

Table 5.7 outlines the planned financing of capital programme expenditure for 2006/07.

Table 5.8 outlines planned capital programme expenditure for 2006/07 excluding the housing major repairs allowance scheme.

Table 5.7: Planned financing of Capital programme expenditure for 2006/07

Capital Resources 2006/07			
	Housing	OSCP	Total
	£'000	£'000	£'000
Supported Capital Expenditure	5,726	6,305	12,031
Prudential Borrowing	0	3,000	3,000
Capital Grant	1,420	21,872	23,292
Capital Receipts	11,867	7,541	19,408
Revenue	0	9,742	9,742
Housing major repairs allowance	19,710	0	19,710
Resources Available	38,723	48,460	87,183

Table 5.8: Planned capital programme expenditure for 2006/07

Overall Capital programme 2006/07	
OSCP	£'000
Community Services	4,593
Children & Young People	16,259
Resources & Corporate	12,268
Regeneration	15,992
Customer Services	60
Subtotal	49,172
Housing Investment Programme	45,431
Total Capital Programme	94,603

