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Public Accounts Select Committee Supplementary Agenda

Wednesday, 25 January 2017
7.00 pm,
Civic Suite
Catford
SE6 4RU

For more information contact: Timothy Andrew (Tel: 0208 31 47916)

This meeting is an open meeting and all items on the agenda may be audio recorded and/or filmed.

Part 1

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PUBLIC ACCOUNTS SELECT COMMITTEE			
REPORT TITLE	2017/18 Budget - DRAFT		
KEY DECISION	Yes	ITEM No.	7
WARD	All		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date	25 January 2017

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

Urgency: The report is urgent and cannot wait until the next meeting of the Public Accounts Select Committee as their feedback on this this report will influence the preparation of the budget report for Mayor and Cabinet on the 8 February.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. PURPOSE OF THE REPORT

1.1. To present the draft budget report and supporting appendices for scrutiny by the PASC before it is presented to Mayor and Cabinet on the 8 and 15 of February and to Council on the 22 February 2017.

1.2. The budget report sets out how the Council will meet its statutory responsibility to set a balanced budget annually in respect of the General Fund. In particular, this involves setting the Council Tax level for the year.

1.3. It also puts the budget in context of the wider economic indicators and government policy in respect of local government financing and establishes the Capital Programme, Housing Revenue Account (including rent levels), Dedicated Schools Grant, and Treasury Management Strategy for 2017/18.

1.4. In respect of the Treasury Management Strategy the mid-year update for 2016/17, as presented to Mayor & Cabinet in December 2016 is also appended to this report for completeness.

2. RECOMMENDATION

2.1. Members are asked to note the draft budget report and supporting appendices as appended to this covering report.

3. BACKGROUND

3.1. It is an annual statutory requirement for the Council to set a balanced budget that reflects the priorities and values of the Council. The budget is set in the context of the Medium Term Financial Strategy approved by members, government funding announcements for the sector, and identified local pressures and risks.

3.2. The report allows for the Council Tax to be agreed and housing rents to be set for 2017/18. It sets the Capital Programme for the next four years and the Council's Treasury Strategy for 2017/18. Provides an update on the latest financial monitoring forecast to December 2016 and the latest estimates for the Dedicated Schools Grant and Pupil Premium allocations for 2017/18.

3.3. The report also provides summary information on the revenue budget savings proposals that were presented at Mayor & Cabinet on 28 September 2016. The approval and successful delivery of these savings are required in order to help balance the budget for 2017/18 and to address the budget requirements for future years.

3.4. The report is draft because it has been prepared on the provisional local government finance settlement with the final due in early February and on the draft Greater London Authority precept estimates pending their budget being approved. In addition, consideration of the risks and pressures in the budget based on the latest monitoring information will also be reflected in the final budget and may therefore change. These will be ready for and reflected in the February report for Mayor and Cabinet and onto Council.

4. FINANCIAL IMPLICATIONS

4.1. The financial implications are as presented in the budget report appended to this covering report. Members should note these are currently draft as the report is draft and has been prepared on the basis of the provisional local government finance settlement and may therefore change prior to submission to Mayor and Cabinet.

5. LEGAL IMPLICATIONS

5.1. The legal implications are as presented in the budget report appended to this covering report. Members should note these are currently draft as the report is draft and has been prepared on the basis of the provisional local government finance settlement and may therefore change prior to submission to Mayor and Cabinet.

6. HUMAN RESOURCES

6.1. The human resources implications are as presented in the budget report appended to this covering report.

7. CRIME AND DISORDER

7.1. The crime and disorder implications are as presented in the budget report appended to this covering report.

8. EQUALITIES

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

8.2. 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.

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

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

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

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

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

8.6. The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:

The essential guide to the public sector equality duty

Meeting the equality duty in policy and decision-making

Engagement and the equality duty: A guide for public authorities

Objectives and the equality duty. A guide for public authorities

Equality Information and the Equality Duty: A Guide for Public Authorities

8.7. The essential guide provides an overview of the equality duty requirements including the general equality duty, the specific duties and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice. Further information and resources are available at:

https://www.equalityhumanrights.com/en/advice-and-guidance/public-sector-equality-duty-guidance#h1

9. CONCLUSION

9.1. This report provides members with the most up to date draft version of the budget report to be presented to Council on the 24 February.

BACKGROUND DOCUMENTS AND FURTHER INFORMATION

For further information on this report, please contact:

David Austin, Head of Corporate Resources on 020 8314 9114

MAYOR & CABINET			
REPORT TITLE	2017/18 Budget - DRAFT		
KEY DECISION	Yes	**Item No.**	
WARD	All		
CONTRIBUTORS	Head fo Corporate Resources		
CLASS	Part 1	**Date**	

1. EXECUTIVE SUMMARY

1.1 This report sets out the range of budget assumptions which Council is required to agree to enable it to set a balanced budget for 2017/18. These include the following:

- The proposed Capital Programme (General Fund and Housing Revenue Account) budget for 2017/18 to 2020/21 of £336.6m, of which £123.6m is for 2017/18;

- The proposed rent decrease of 1.0% (an average of £0.97 per week) in respect of dwelling rents, 1.0% (average £0.35 per week) in respect of hostels, and a range of other proposed changes to service charges. The proposed annual expenditure for the Housing Revenue Account is £149.9m, including the capital and new build programme, for 2017/18;

- The provisional Dedicated Schools Grant allocation of £290.7m and a separate Pupil Premium allocation expected to be £16.0m for 2017/18.

- In respect of the General Fund, the assumed net revenue expenditure budget of £232.746m. This is made up of provisional Settlement Funding from government of £135.019m (revenue support grant and business rates), forecast Council Tax receipts including an increase in Council Tax of 4.99%, and a surplus from growth in the Council Tax base and on collection of Council Tax in previous years from the Collection Fund.

- The changes to the prior year General Fund position to meet the 2017/18 net revenue budget of £232.746m are proposed on the basis of the following assumptions:
  - £22.236m of revenue budget savings have been previously agreed for 2017/18;
  - £1.000m reduction in the annual budget for corporate risks and pressures;
  - £6.500m of corporate budget for risks and pressures in 2017/18; of which it is being recommended that £4.376m of specific identified budget pressures be funded now and £2.124m be set aside for identified but as yet un-quantified risks;
  - £5.0m use of the New Homes Bonus reserve for revenue purposes for one year with the position to be reviewed for 2018/19;

- Once-off reserves are used to fund the current savings shortfall of £0.027m for 2017/18 to balance the budget, pending further proposals from the Lewisham Future Programme in 2017/18 to make this up; and
- An assumed 4.99% increase in Band D Council Tax for Lewisham's services for 2017/18; including the 3% increase announced in the Local Government Finance Settlement for Social Care.

1.2 The report also looks to the medium term financial outlook and notes the prospects for the budget in 2018/19, savings required, and the continued work of the Lewisham Future Programme to meet identified potential budget shortfalls in future years. These are estimated at circa £32.6m over the following two years, 2018/19 and 2019/20.

1.3 The report updates the Council's Treasury Management strategy for both borrowing and investments. The proposed approach and levels of risk the Council takes in its treasury functions remain broadly the same. However, officers continue to explore the opportunity and timing to undertake debt restructuring to reduce balance sheet risk.

2. PURPOSE

2.1 The purpose of this report is to set out the overall financial position of the Council in relation to 2016/17 and to set the Budget for 2017/18. This report allows for the Council Tax to be agreed and housing rents to be set for 2017/18. It sets the Capital Programme for the next four years and the Council's Treasury Strategy for 2017/18.

2.2 The report also provides summary information on the revenue budget savings proposals that were presented at Mayor & Cabinet on 28 September 2016 and those agreed in previous budgets for implementation in 2017/18. The approval and successful delivery of these savings are required in order to help balance the budget for 2017/18 and to address the budget requirement for 2018/19.

3. RECOMMENDATIONS

3.1 It is recommended that the Mayor considers the comments of the Public Accounts Select Committee of 25 January 2017.

3.2 That, having considered the views of those consulted on the budget, and subject to consideration of the outcome of consultation with business ratepayers, and subject to proper process and consultation, as required, the Mayor:

Capital Programme

3.3 notes the 2016/17 Quarter 3 Capital Programme monitoring position and the Capital Programme potential future schemes and resources as set out in section 5 of this report;

3.4 recommends that Council approves the 2017/18 to 2020/21 Capital Programme of £336.6m, as set out in section 5 of this report and attached at Appendices W1 and W2;

3.5 recommends that Council agrees to write-off debt totalling £282,759.34 related to Building Control works at the former Hatcham Temple Grove School. Further detail is provided in Appendix W3;

Housing Revenue Account

3.6 note the consultation report on service charges to tenants' and leaseholders in the Brockley area, presented to area panel members on 13 December 2016, as attached at Appendix X2;

3.7 note the consultation report on service charges to tenants' and leaseholders and the Lewisham Homes budget strategy presented to area panel members on 15 December 2016, as attached at Appendix X3;

3.8 set a decrease in dwelling rents of 1.0% (an average of £0.97 per week) – as per the requirements from government as presented in section 6 of this report;

3.9 set a decrease in the hostels accommodation charge by 1.0% (or £0.35 per week), in accordance with Government requirements;

3.10 approve the following average weekly increases/decreases for dwellings for:

3.9.1 service charges to non-Lewisham Homes managed dwellings (Brockley);

- caretaking 3.00% (£0.13)
- grounds 3.00% (£0.06)
- communal lighting 3.00% (£0.02)
- bulk waste collection 3.00% (£0.04)
- window cleaning 3.00% (£0.01)
- tenants' levy no change

3.9.2 service charges to Lewisham Homes managed dwellings:

- caretaking 1.99% (£0.12)
- grounds 0.69% (£0.01)
- window cleaning no change
- communal lighting 3.33% (£0.04)
- block pest control 1.88% (£0.03)
- waste collection -4.17% (-£0.02)
- heating & hot water no change
- tenants' levy no change
- bulk waste disposal -5.00% (-£0.04)
- sheltered housing 1.00% (£0.24)

3.10 approve the following average weekly percentage changes for hostels and shared temporary units for;

- service charges (hostels) – caretaking etc.; 2.00% (£1.42)
- energy cost increases for heat, light & power; 8.93% (£0.49)
- water charges increase; 5.56% (£0.01)

3.11 approve an increase in garage rents by Retail Price Inflation (RPI) of 2.00% (£0.23 per week) for Brockley residents and 2.00% (£0.23 per week) for Lewisham Homes residents;

3.12 note that the budgeted expenditure for the Housing Revenue Account (HRA) for 2017/18 is £149.9m which includes the capital and new build programmes;

3.13 endorse the HRA budget strategy savings proposals in order to achieve a balanced budget in 2017/18, as attached at Appendix X1;

Dedicated Schools Grant and Pupil Premium

3.14 Agree, subject to final confirmation of the allocation, that the provisional Dedicated Schools Grant allocation of £290.7m be the Schools' Budget for 2017/18 and

- note the proposed fair funding formula consultation on both the schools block and high needs block
- note the position on the early years block
- note the position on the schools block
- to agree that a PFI factor should be introduced to the schools funding formula for Lewisham.
- note the latest financial position in schools
- note the likely future cost pressures on schools
- the estimated pupil premium of £16.0m
- note the position on the Education Services Grant

General Fund Revenue Budget

3.15 notes and asks Council to note the projected overall variance against the agreed 2016/17 revenue budget of £11.6m as set out in section 8 of this report and that any year-end overspend will have to be met from reserves;

3.16 endorses and asks Council to endorse the previously approved revenue budget savings of £16.2m for 2017/18 and budget savings proposals of £6m as per the Mayor and Cabinet meeting of the 28 September 2016, as set out in section 8 of the report and summarised in Appendix Y1 and Y2;

3.17 agrees and asks Council to agree the transfer of £5.0m in 2017/18 from the New Homes Bonus reserve to the General Fund for one year to meet funding shortfalls and that the position be reviewed again for 2018/19;

3.18 agree the use of £0.027m reserves to meet the budget gap in 2017/18;

3.19 agrees and asks Council to agree to a saving of £1m per year for three years from 2017/18 (£3m in total) from the reduction of the corporate risks and pressures budget to £6.5m;

3.20 agrees and asks Council to agree to fund budget pressures in the sum of £1.874m in 2017/18 from the £6.5m for corporate risks and pressures;

3.21 agrees and asks Council to agree to create a fund in respect of as yet un-quantified revenue budget risks in the sum of £4.626m in 2017/18 (the balance of the £6.5m for corporate risks and pressures), allowing the Executive Director for Resources & Regeneration to hold these resources corporately in case these pressures emerge during the year, and authorises the Executive Director for Resources and Regeneration to allocate these funds to meet such pressures when satisfied that those pressures cannot be contained within the Directorates' cash limit;

3.22 agrees to recommend to Council that a General Fund Budget Requirement of £232.746m for 2017/18 be approved, based on a 4.99% increase in Lewisham's Council Tax element. This will result in a Band D equivalent Council Tax level of £1,157.68 for Lewisham's services and £1,437.70 overall. This represents an overall increase in Council Tax for 2017/18 of 4.28% and is subject to the GLA precept for 2017/18 being increased by £4.02 (i.e. 1.5%) from £276.00 to £280.02**,** in line with the GLA's draft proposal;

3.23 notes and asks Council to note the Council Tax Ready Reckoner which for illustrative purposes sets out the Band D equivalent Council Tax at various levels of increase. This is explained in section 8 of the report and set out in more detail in Appendix Y3;

3.24 asks that the Executive Director for Resources & Regeneration issues cash limits to all Directorates once the 2017/18 Revenue Budget is agreed;

3.25 notes that the Chief Financial Officer's Section 25 Statement will be presented in the Budget Update Report on the 15 February 2017 for approval;

3.26 agrees the draft statutory calculations for 2017/18 as set out at Appendix Y5;

3.27 notes the prospects for the revenue budget for 2018/19 and future years as set out in section 9;

3.28 agrees that officers continue to develop firm proposals and bring them forward as soon as possible as part of the Lewisham Future Programme to help meet the future forecast budget shortfalls;

Other Grants (within the General Fund)

3.29 notes the adjustments to and impact of various specific grants for 2017/18 on the General Fund as set out in section 8 of this report;

Treasury Management Strategy

3.30 agrees and recommends that Council approves the prudential indicators and treasury limits, as set out in section 10 of this report;

3.31 agrees and recommends that Council approves the 2017/18 treasury strategy, including; the potential for debt restructuring and opportunity to invest for longer than one year in property products (including pooled property funds and AAA Residential Backed

Mortgage Securities), along with the investment strategy and the credit worthiness policy, as set out at Appendix Z3;

3.32 agrees and recommends that Council approves the revised Minimum Revenue Provision (MRP) policy which delegates authority to the Executive Director for Resources and Regeneration on consideration of the risks to waive the setting aside the provision of MRP on borrowing where sufficient collateral and security is held against the relevant borrowing, as set out in section 10 of this report.

3.33 agrees and recommends that Council agrees to delegate to the Executive Director for Resources & Regeneration authority during 2017/18 to make amendments to borrowing and investment limits provided they are consistent with the strategy and there is no change to the Council's authorised limit for borrowing;

3.34 agrees and recommends that Council approves the credit and counterparty risk management criteria, as set out at Appendix Z3, the proposed countries for investment at Appendix Z4, and that it formally delegates responsibility for managing transactions with those institutions which meet the criteria to the Executive Director for Resources & Regeneration; and

3.35 agrees and recommends that Council approves a minimum sovereign rating of AA-.

4. STRUCTURE OF THE REPORT, POLICY CONTEXT, AND BACKGROUND

4.1 The 2017/18 Budget Report is structured as follows:

Section 1 Executive Summary

Section 2 Purpose

Section 3 Recommendations

Section 4 Structure of the Report, Policy Context, and Background

Section 5 Capital Programme

Section 6 Housing Revenue Account

Section 7 Dedicated Schools Grant and Pupil Premium

Section 8 General Fund Revenue Budget, Savings, and Council Tax

Section 9 Other Grants and Future Years' Budget Strategy

Section 10 Treasury Management Strategy

Section 11 Consultation on the Budget

Section 12 Financial Implications

Section 13 Legal Implications

Section 14 Human Resources Implications

Section 15 Crime and Disorder Implications

Section 16 Equalities Implications

Section 17 Environmental Implications

Section 18 Conclusion

Section 19 Background Documents and Further Information

POLICY CONTEXT

4.2 The Council's strategy and priorities drive the Budget with changes in resource allocation determined in accordance with policies and strategy. The Council's vision "together, we will make Lewisham the best place in London to live, work and learn" was adopted by the Lewisham Strategic Partnership as part of the Sustainable Community Strategy, along with six over-arching priorities:

<u>Sustainable Community Strategy</u>

- **Ambitious and achieving**: where people are inspired and supported to their potential.
- **Safer**: where people feel safe and live free from crime, antisocial behaviour, and abuse.
- **Empowered and responsible**: where people are actively involved in their local area and contribute to supportive communities.
- **Clean, green, and liveable**: where people live in high quality housing and can care for and enjoy their environment.
- **Healthy, active and enjoyable**: where people can actively participate in maintaining and improving their health and well-being.
- **Dynamic and prosperous**: where people are part of vibrant communities and town centres, well connected to London and beyond.

<u>Corporate Priorities</u>
The Council's ten 'enduring' priorities were agreed by full Council and are the principal mechanism through which the Council's performance is reported and through which the impact of saving and spending decisions are assessed. The Council's priorities also describe the Council's contribution to the delivery of Lewisham's Sustainable Community Strategy priorities.

- **Community Leadership and Empowerment**: developing opportunities for the active participation and engagement of people in the life of the community.
- **Young people's achievement and involvement**: raising educational attainment and improving facilities for young people through partnership working.
- **Clean, green, and liveable**: improving environmental management, the cleanliness and care for roads and pavements, and promoting a sustainable environment.
- **Safety, security, and a visible presence**: partnership working with the police and others to further reduce crime levels and using Council powers to combat anti-social behaviour.
- **Strengthening the local economy**: gaining resources to regenerate key localities strengthen employment skills and promote public transport.
- **Decent Homes for all**: investment in social and affordable housing to achieve the decent homes standard, tackle homelessness, and supply key worker housing.
- **Protection of children**: better safeguarding and joined up services for children at risk.

- **Caring for adults and older people**: working with health services to support older people and adults in need of care.
- **Active, healthy citizens**: leisure, sporting, learning, and creative activities for everyone.
- **Inspiring efficiency, effectiveness, and equity**: ensuring efficiency and equity in the delivery of excellent services to meet the needs of the community.

<u>Values</u>

4.2 Values are critical to the Council’s role as an employer, regulator, securer of services and steward of public funds. The Council’s values shape interactions and behaviours across the organisational hierarchy, between officers, and members, between the council and partners and between the council and citizens. In taking forward the Council's Budget Strategy, we are guided 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.

4.3 As noted in the 2016/17 budget, the Council’s strong and resilient framework for prioritising action has served the organisation well in the face of austerity and on-going cuts to local government spending. This continues to mean, that even in the face of the most daunting financial challenges facing the Council and its partners, we continue to work alongside our communities to achieve more than we could by simply working alone.

4.4 This joint endeavour helps work through complex challenges, such as the pressures faced by health and social care services, and to secure investment in the borough, for new homes, school improvements, regenerating town centres, new and renewed leisure opportunities and improvement in the wider environment. This work has and continues to contribute much to improve life chances and life opportunities across the borough through improved education opportunities, skills development and employment. Of course, there is still much more that can be done to realise our ambitions for the future of the borough; ranging from our work to bring the Bakerloo Line extension here to support housing supply and businesses grow through to our nationally recognised programmes of care and support to some of our most vulnerable and troubled families.

4.5 However, it remains clear that the Council cannot do all that it once did, nor meet all those expectations that might once have been met, for we are in a very different financial position than just a few years ago. Very severe financial constraints have been imposed on Council services with cuts to be made year on year on year, and this on-going pressure is addressed here in this report, incorporating further budget savings for 2017/18 and noting the continued outlook for austerity to at least 2020/21.

BACKGROUND

4.6 At a national level the requirement to rebalance the public finances, and therefore the financial outlook for the Council, remains extremely challenging with significant real term reductions in local government resources forecast to continue into the next parliament (i.e. beyond 2020/21).

4.7 In the Autumn Statement, the Chancellor of the Exchequer announced the Government is no longer on course to balance the budget during the current Parliament and has formally dropped this ambition in a significant loosening of its fiscal targets. Public sector net borrowing is now expected to fall more slowly than forecast in March 2016, primarily reflecting weak tax receipts so far this year and a more subdued outlook for economic growth as the UK negotiates a new relationship with the European Union.

4.8 The Office for Budget Responsibility (OBR) provides independent analysis of the UK's public finances. However, given the uncertainty following the EU Referendum result in June 2016 surrounding the choices and trade-offs that the Government may have to make, and the consequences of different outcomes as the UK prepares to leave the European Union (Brexit), the OBR has made limited judgements on the effect the outcome of Brexit will have on the economy and assumptions on GDP growth, unemployment etc.. The government has retained some borrowing headroom (£26bn) to provide some flexibility to meet these uncertainties. Any specific impacts for the local government sector remain unknown at the present time.

4.9 Based on these assumptions the OBR forecast the economy will grow more slowly than expected in March 2016 and has revised Gross Domestic Product (GDP) growth in 2017 down from 2.2% to 1.4% and cumulative growth over the whole forecast to 2020 revised down by 1.4%. A weaker outlook for investment and therefore productivity growth is the main cause. Inflation, measured by the Consumer Price Index (CPI), is forecast to peak at 2.6% and unemployment to rise modestly to 5.5 per cent during 2018. Subdued earnings growth and higher inflation will mean that real income growth stalls in 2017, putting pressure on household budgets. The budget deficit has been revised up by £12.7 billion for 2016/17, primarily due to weakness in income tax receipts that largely pre-dates the referendum. The weaker growth outlook means that their pre-policy-measures forecast revision rises to £18.1 billion by 2020-21.

4.10 The provisional Local Government Finance Settlement was announced on 15 December 2016, with the final settlement expected in early February 2017. Following the four year settlement offer in 2016, which 97% of councils have accepted (including Lewisham), the settlement for 2017/18 confirms the resource allocations consistent with the 2016 four year offer.

4.11 Along with the settlement announcement, the Government confirmed the continuation of the Adult Social Care (ASC) precept created last year to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on Social Care. Councils can raise the ASC precept on average by 2% per year for each of the four years from 2016/17 to 2019/20. New for 2017/18 in the settlement was some additional flexibility to allow councils to raise the ASC precept sooner by being able to raise up to 3% in each of 2017/18 and 2018/19 but by no more that 6% in total over the three years 2017/18 to 2019/20. The details of this were presented to Mayor & Cabinet in the budget update report on the 11 January. For Lewisham, taking the flexibility to add 3% for the ASC precept to Council Tax in 2017/18 will provide additional funding of £2.68m in 2017/18 for Social care.

4.12 Separate from the ASC precept implications for Council Tax, the settlement also confirmed the referendum principle for any Council Tax increase remains at 2%, i.e. any increase in Council Tax of 2% or more must be put to a full local referendum to be agreed before the budget can be confirmed.

4.13 More widely the direction of travel for local government finance continues, including:

- Government's intention to phase out the Revenue Support Grant;
- Encouragement but no structured process (other than with requirement for Mayoral governance arrangements) for increased local devolution arrangements;
- Changes to the Business Rates regime in anticipation of this moving to be 100% devolved to local government by 2020;
- Changes, 'sharpening the incentives', to the New Homes Bonus (NHB) scheme (reducing payments from six to four years, introducing a minimum baseline growth threshold, and excluding properties for which planning is granted on appeal);
- Establishing more financial support for Social Care services; including, via the ASC precept mentioned above and redirecting the monies from NHB into an 'improved Better Care Fund' paid direct to local authorities.

4.14 Leaving all other previous assumptions (from the July 2016 Medium Term Financial Strategy) unchanged, the provisional estimate is that the forecast savings required in 2017/18 is now at £28.263m (before measures).

4.15 The Lewisham Future Programme Board was established to determine and progress cross-cutting and thematic reviews to deliver the savings required. The Council has already made savings of £138.4m to meet its revenue budget requirements since May 2010 and is proposing further savings of £23.2m in 2017/18.

4.16 Assuming the measures proposed and the 2017/18 budget as set out in this report are agreed, it is expected that the Council will need to identify further savings of circa £32.6m for the following two years, 2018/19 to 2019/20. This will bring the total savings in cash terms made by the Council in the decade to 2020 to just shy of £200m.

4.17 This rest of the report sets out the position of the financial settlements as they impact on the Council's overall resources:

- Capital Programme for 2016/17 to 2019/20;
- Housing Revenue Account and level of rents for 2017/18;
- Dedicated Schools Grant for 2017/18;
- General Fund Revenue Budget for 2017/18;
- Other Grants for 2017/18;
- Council Tax level for 2017/18; and
- Treasury Management Strategy for 2017/18.

5 CAPITAL PROGRAMME

5.1 In considering the Council's overall financial position, the Capital Programme is considered first. This is to ensure that any revenue implications of capital decisions are taken into account. The Capital Programme budget for 2017/18 to 2020/21 is proposed at £336.6m, of which £123.5m is for 2017/18.

5.2 This section of the report is structured as follows:

- Update on 2016/17 Capital Programme;
- Proposed Capital Programme 2017/18 to 2020/21; and

- Future schemes and resources.

Update on 2016/17 Capital Programme

5.3 Progress in delivering the 2016/17 Capital Programme has been reported to Mayor & Cabinet and the Public Accounts Select Committee regularly throughout the year. The latest forecast projection was that the revised budget allocated for the year of £87.4m, reported to Mayor and Cabinet on 19 October 2016, would be delivered this year. However, at this stage, the revised budget shows a slight decrease of £2.6m to £84.8m from the last reported budget figure. This change is mainly due to the reduction of the 2016/17 Schools Places Programme budgets.

5.4 The capital programme for 2016/17 has seen a number of schemes progress well with the main areas of capital spend involving the provision of school places and housing.

Proposed Capital Programme 2017/18 to 2020/21

5.5 The Council's proposed Capital Programme for 2017/18 to 2020/21 is currently £336.6m, as set out in Table A1:

Table A1: Proposed Capital Programme for 2017/18 to 2020/21

	16/17 £m	**17/18 £m**	**18/19 £m**	**19/20 £m**	**20/21 £m**	**4 Year Total £m**
General Fund						
Building Schools for the Future	2.8	0.0	0.0	0.0	0.0	**0.0**
Schools – Primary Places and other Capital Works	14.3	20.6	14.1	0.0	0.0	**34.7**
Highways, Footways and Bridges	8.5	3.5	3.5	3.5	3.5	**14.0**
Major Regeneration Schemes	11.7	10.1	0.5	9.0	0.0	**19.6**
Town Centres and High Street Improvements	0.3	0.0	3.5	0.0	0.0	**3.5**
Asset Management Programme	1.5	3.8	3.9	2.5	2.5	**12.7**
Other Schemes	9.0	7.5	2.6	2.8	2.0	**14.9**
	48.1	**45.5**	**28.1**	**17.8**	**8.0**	**99.4**
Housing Revenue Account	**36.7**	**78.0**	**68.2**	**40.4**	**50.6**	**237.2**
Total Programme	**84.8**	**123.5**	**96.3**	**58.2**	**58.6**	**336.6**

5.6 The resources available to finance the proposed Capital Programme are as set out in Table A2 below:

Table A2: Proposed Capital Programme Resources for 2017/18 to 2020/21

	16/17 £m	17/18 £m	18/19 £m	19/20 £m	20/21 £m	4 Year Total £m
General Fund						
Prudential Borrowing	4.6	5.3	4.0	9.0	0.0	**18.3**
Grants and Contributions	19.3	21.0	15.0	0.7	0.7	**37.4**
Specific Capital Receipts	7.2	6.1	0.0	0.8	0.0	**6.9**
General Capital Receipts / Reserves / Revenue	17.0	13.1	9.1	7.3	7.3	**36.8**
	48.1	**45.5**	**28.1**	**17.8**	**8.0**	**99.4**
Housing Revenue Account						
Prudential Borrowing	0.0	0.0	0.0	0.0	0.0	**0.0**
Grants	0.0	0.0	0.0	0.0	0.0	**0.0**
Specific Capital Receipts	20.7	15.1	34.8	6.0	0.0	**55.9**
Reserves / Revenue	16.0	62.9	33.4	34.4	50.4	**181.3**
	36.7	**78.0**	**68.2**	**40.4**	**50.6**	**237.2**
Total Resources	**84.8**	**123.5**	**96.3**	**58.2**	**58.6**	**336.6**

5.7 Members will note that the General Fund resources available to finance capital projects decrease over the term of the Programme. This reflects the Council's prudent approach to long-term planning; with grants for later years not taken into account until they have been confirmed and capital receipts only being taken into account when they have been received or are reasonably certain of being received. The Council prudently avoids entering into long-term expenditure commitments until there is more certainty as to how they can be financed.

5.8 The Highways and Footways programme of £3.5m per year, agreed by Mayor & Cabinet, has been included. A full list of changes to the Programme is shown in Appendix W2.

5.9 No changes are proposed at this stage to the existing General Fund revenue contributions to capital (CERA) of £2.0m per year from General Fund. However, the £1.2m per year contribution from schools will cease with effect from 2017/18. The revenue funding line also includes amounts transferred to reserves in previous years for schemes which, at that time, had not been delivered.

5.10 The Capital Programme will be further updated to include future grants, once these are known and will also include the year-end outturn expenditure and resourcing. This is expected to be reported to Members before the summer recess and will not impact on delivery of the Programme for 2017/18.

Future schemes and resources

5.11 During 2015/16, the Council established the Regeneration and Capital Programme Delivery Board comprising key officers involved in the planning and delivery of the capital programme. This Board has responsibility and accountability for the delivery of all regeneration and capital projects and programmes of the built environment and is also responsible for ensuring that all projects and programmes are adequately and appropriately resourced.

5.12 The key objectives of the Board are to ensure that a consistent and corporate approach is taken to the development and authorisation of all project and programme initiation documents and the associated financing and funding of projects and programmes. It meets every two months and ensures that a corporate approach is taken to the monitoring, management and delivery of all projects and programmes. It reports through to the Regeneration Board which is chaired by the Executive Director for Resources and Regeneration.

5.13 During the latter part of 2016, the Regeneration and Capital Programme Delivery Board invited officers to put forward bids for capital funding. Proposals totalling £43.3m were received, and can be broadly grouped into schemes that are 'invest to save' schemes, 'growth to existing' schemes, or new schemes that would help to achieve 'corporate priorities'. The total funding required to fully deliver the proposed schemes is shown in table A3 below.

Table A3: Summary of proposed future schemes

	2017/18	2018/19	2019/20	Total
	£'000	£'000	£'000	£'000
Invest to save schemes	13,811	8,000	8,000	29,811
Growth to existing schemes	120	765	0	885
Corporate priority schemes	2,542	1,340	8,760	12,642
TOTAL	**16,473**	**10,105**	**16,760**	**43,338**

5.14 The 'invest to save' schemes include those that would improve the offer of the Council's leisure centres to help maintain and increase revenue generation and schemes that could help the Council generate income through housing delivery. The 'growth to existing' schemes relate to environmental and housing schemes already underway but where further funding may be required to achieve the full potential. The 'corporate priority' schemes are those which could help the Council better achieve its environmental, housing and educational objectives.

Resources available to finance future schemes

5.15 The Council is forecasting capital receipts of £42m over the next three years. £26m of this will be applied to finance already approved schemes, leaving a balance of £16m available to finance new schemes. It is important to note, however, that actual amounts of capital receipts may differ from the forecasts as a result of future events and market conditions.

5.16 It is expected that section 106 receipts and CIL will be able to finance £1.6m in relation to invest to save and corporate priority schemes.

5.17 There is then a shortfall of approximately £25.5m between the value of the schemes that have been proposed for funding, and the estimated available future resources, as per the table A4 below:

Table A4: estimated financial resources for future schemes

	2017/18 £'000	2018/19 £'000	2019/20 £'000	Total £'000
Future scheme proposals (see table A3)	**16,473**	**10,105**	**16,760**	**43,338**
Capital Receipts	7,380	1,580	7,300	16,260
S106 / CIL	1,618			1,618
Resources available	**8,998**	**1,580**	**7,300**	**17,878**
Resource shortfall (Gap)	**7,475**	**8,525**	**9,460**	**25,460**

5.18 During 2017/18, updates on the Capital Programme will be reported to Mayor & Cabinet and the Public Accounts Select Committee on a regular basis. As capital receipts and other resources come in to the Council, it may be possible to bring some of the future scheme proposals into the programme. These additions to the programme will be put forward for approval by members as part of the Capital Programme update reports.

5.19 In addition to the above, officers are recommending the write off of £283k irrecoverable debt which represents the Authority's proportion of uninsurable and irrecoverable losses relating to Hatcham Temple Grove School. Full details are set out in Appendix W3.

Summary

5.20 The proposed 2017/18 to 2020/21 Capital Programme totals £336.6m (General Fund £99.4m and HRA £237.2m) and includes all the Council's capital projects. It sets out the key priorities for the Council over the four year period and will be reviewed regularly. The Capital Programme is set out in more detail in Appendices W1 and W2.

6. HOUSING REVENUE ACCOUNT

6.1 This section of the report considers the Housing Revenue Account (HRA). The budgeted expenditure for the HRA in 2017/18 is £149.9m, including the capital and new build programme.

6.2 It is structured as follows:

- Update on the HRA financial position for 2016/17
- Update on the HRA Business Plan
- Future Years' Forecast

Update on the HRA financial position for 2016/17

6.3 The HRA is budgeted to spend over £100.0m in 2016/17. The latest forecast on the HRA for 2016/17, is that net expenditure can be contained within budget by the year end. There are currently minimal reported pressures which can, if necessary, be mitigated by the use of once-off contingencies, reserves and revenue working balances. Expenditure against repairs & maintenance budgets is expected to be contained within the sums allocated.

Update on the HRA Business Plan

6.4 The Housing self-financing system was implemented on 1 April 2012 when the HRA subsidy scheme was abolished. The 30 year financial model has been developed based on current management arrangements and rental income estimates, updated for efficiency savings and cost pressures. In addition, policy objectives such as sheltered housing and new build plans are incorporated into the modelling.

6.5 The plan has undergone a major revision following the Government's announcement in the July 2015 budget statement to legislate for a 1% reduction in social rents to be applied each year for the next four years from 2016/17. The legislation was passed in March 2016.

6.6 The impact of the change in policy is a total reduction of forecast rental income within the business plan of £2.62m in 2017/18 (£1.90m for 2016/17). The expected cumulative rent reduction over the four years 2016/17 to 2019/20 is £25.0m, with £374.0m being lost over the life of the 30 year business plan.

6.7 As the Government's proposals are enacted by legislation, the authority has no choice other than to implement the rent reduction. In order to protect the business plan to provide the same level of investment and services, the reduction in income will need to be off-set though increased efficiencies and reprioritisation of investment requirements.

6.8 A review of current investment needs and priorities has been undertaken, based on updated surveys and inflation estimates. This includes assumptions on future liabilities, programmes, savings, and other requirements. These assumptions will be used to inform the resource need and identify potential gaps in funding and opportunities for additional income and grants.

6.9 The plan also contains costs associated with new build units and a target of 500 additional units by the end of the Mayor's current term. Table B1 provides an illustration of the expected HRA budget for the next 5 years, which includes the current 1% rent reduction estimates.

Table B1: HRA Income and Expenditure Estimates

HRA Income & Expenditure Estimates - 5 year Forecast	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Income					
Rental income	-70.7	-69.6	-70.0	-71.8	-73.3
Tenants service charge income	-5.9	-5.9	-6.1	-6.2	-6.3
Leasehold service charge income	-4.3	-4.5	-4.6	-4.7	-4.8
Hostel charges and grant income	-1.3	-1.4	-1.4	-1.4	-1.4
Major Works recoveries	-4.9	-5.8	-6.1	-9.8	-9.3
Other income	-1.5	-1.5	-1.5	-1.4	-1.4

HRA Income & Expenditure Estimates - 5 year Forecast	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Interest earned on balances	-0.9	-0.7	-0.7	-0.5	-0.4
Total Income	**-89.5**	**-89.4**	**-90.4**	**-95.8**	**-96.9**
Expenditure					
Management costs	35.4	35.5	35.7	36.1	36.5
Repairs & maintenance	15.6	15.7	15.9	16.0	16.2
PFI Costs	5.8	6.2	6.7	7.2	7.7
Interest & other finance costs	3.9	3.8	3.8	3.8	3.8
Depreciation	33.2	33.6	34.0	34.4	34.9
Revenue Contribution to Capital	0.0	0.0	0.0	0.0	4.2
Total Expenditure	**93.9**	**94.8**	**96.1**	**97.5**	**103.1**
Surplus/(deficit)	**-4.4**	**-5.4**	**-5.7**	**-1.7**	**-6.4**
Opening HRA reserves	34.5	30.1	24.7	19.0	17.3
Drawdown from reserves	-4.4	-5.4	-5.7	-1.7	-6.4
Closing HRA Reserves	**30.1**	**24.7**	**19.0**	**17.3**	**10.9**
Forecast Capital Programme & Funding	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
Capital programme (including decent Homes)	30.2	35.8	37.4	52.3	48.4
New Build construction & on-going costs	25.8	-0.6	-1.2	0.4	0.4
Total Capital Expenditure	**56.0**	**35.2**	**36.2**	**52.7**	**48.8**
Capital Programme Funded By:					
MRR Opening Balance	-54.6	-31.9	-30.2	-28.0	-9.7
Revenue Contribution to Capital	0.0	0.0	0.0	0.0	-4.2
Depreciation	-33.2	-33.6	-34.0	-34.4	-34.9
Borrowing	0.0	0.0	0.0	0.0	0.0
Total Capital Funding	**-87.9**	**-65.5**	**-64.2**	**-62.4**	**-48.8**
Capital shortfall	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
HRA - Actual Debt Level (Forecast)	74.8	74.8	74.8	74.8	74.8
HRA Self-financing Settlement Debt Level	127.3	127.3	127.3	127.3	127.3

6.10 As can be seen from the above table, the expected total expenditure, before financing, for the HRA in 2017/18 is £149.9m, compromising £93.9m operational costs & £56.0m capital and new build costs.

6.11 The Council continually considers how best to respond to the challenges and opportunities of the HRA self-financing system. The combination of the new system and the significant housing pressures may, in due course, cause the Council to adopt new management arrangements in order to optimise delivery of policy objectives.

Future Years' Forecast

6.12 The key purpose of the proposed HRA budget is to ensure that there are sufficient resources to support lifecycle works, such as; repairs and maintenance, the Decent Homes programme and delivery of new homes in the borough.

6.13 There is an ongoing process to identify opportunities for savings and efficiencies to deliver services for improved value for money and this is described in Appendix X1. Although no direct savings have been identified so far for 2017/18, any savings and efficiencies delivered against the HRA business model and future budgets can be re-invested to off-sent constrained rent rises or to help bridge any investment gap identified. Discussions are ongoing to identify appropriate savings and 'target' management and maintenance costs per unit. For example, there is already an assumed reduction in the Lewisham Homes fee in 2017/18 to reflect stock losses through Right to Buy Sales.

6.14 Separate reports which set out in detail the proposals relating to service charges for Brockley and Lewisham Homes residents are attached at Appendix X2 and Appendix X3, respectively.

<u>Rental Income and allowances</u>

6.15 The average weekly rent is currently £97.58 in 2016/17.

6.16 Due to the requirements to comply with Government legislation, rents are expected to reduce by 1% each year for a four year period starting 2016/17.

6.17 A 1% reduction in average rents for 2017/18 will equate to an average decrease of £0.97 over a 52 week period. This will reduce the full year average dwelling rent for the London Borough of Lewisham from £97.58 to £96.61 per week (pw). The proposed decrease will result in a loss of £0.722m of rental income to the HRA against 2016/17 income levels.

6.18 It is not yet clear what rent regime will be in place once the rental contraction requirements have been completed. However, for the purpose of business and financial planning, it is assumed that rental charges will be increased in line with prior Government guidance of CPI + 1%. Any variation to this could put additional pressure on the financial forecasts for the HRA.

6.19 A rent rise higher than the limit rent calculation, set by Government, will result in additional recharges to the HRA via the Housing Benefit (HB) subsidy limitation charges. Any rise above this level will be lost through additional limitation recharges and therefore result in no benefit to the HRA.

6.20 Tenants were asked to provide comments and feedback on the proposed rent changes and illustration for inclusion in the Mayor & Cabinet budget report at meetings held with Brockley PFI and Lewisham Homes tenants.

6.21 No comments were received from Lewisham Homes residents concerning the proposals for rents and service charges.

6.22 No comments were received from RB3 Brockley concerning the proposals for rents and service charges.

6.23 No comments were received from tenants in hostels or from the Excalibur TMO.

6.24 Details of the options for the rent & service charge changes for 2017/18 were presented to the Housing Select Committee on 10th January 2017. Members noted the contents.

6.25 Having regard to the outcomes of the consultations held in December 2016 as set out above (and with more detail in Appendices X1, X2 and X3), the Mayor is asked to make a recommendation to full Council that a rent decrease be agreed to accord with Government requirements. The new average rent for 2017/18 is likely to be in the region of £96.61pw, a reduction of approximately £0.97pw from 2016/17 levels.

<u>Other Associated Charges</u>

6.26 There are a range of other associated charges. These include: garage rents, tenants levy, hostels, Linkline, private sector leasing, heating and hot water. These charges and any proposed changes to them for 2017/18 are set out in detail in Appendix X4.

Summary

6.27 The gross budgeted expenditure for the HRA in 2017/18 is £149.9m. Council is asked to approve a rent decrease having considered Government requirements and tenant's feedback following consultation held in December 2016. The current average weekly rent is £97.58 in 2016/17. This will reduce to £96.61pw in 2017/18.

7. DEDICATED SCHOOLS GRANT AND PUPIL PREMIUM

7.1 This section of the report considers the Dedicated Schools' Grant (DSG) and level of Pupil Premium for 2017/18. This grant is formula based, calculated by the Government with the Council passing it onto schools. The respective budgets for 2017/18 are £290.70m and £16m.

7.2 It is structured as follows:

- Update on 2016/17 Dedicated Schools' Grant
- Dedicated Schools' Grant for 2017/18
- Pupil Premium
- Funding Consultation
- Cost Pressures in schools
- Early Years Funding
- Education Services Grant

Update on 2016/17 Dedicated Schools' Grant

7.3 The level of the Dedicated Schools' Grant (DSG) for 2016/17 is £284.7m. This will be revised later to take account of the pupil count which for early years children is undertaken in January 2017.

7.4 There are no budget pressures in the DSG apart from the individual school budgets. The central spend of the grant is expected to balance at the year end.

7.5 At the end of the 2015/16 financial year there were 11 schools that had deficits. Out of these three schools that had a license deficit agreement in place for the year end.

7.6 There are 9 schools who have submitted deficit budget plans this year.
Looking further ahead the returns show another 8 schools going into deficit in 2017/18. There are 45 schools who are operating an in-deficit in 2016/17, having balanced their budget by using their carry forward. There are 26 schools reporting a zero balance at the year end.

Dedicated Schools' Grant for 2017/18

7.7 The DSG for 2017/18 has provisionally been set by the Department for Education (DfE) at £290.70m, although this will change during the year to reflect updated pupil numbers. The DSG is now approximately £58m (or 25%) larger than the Council's Net General Fund budget.

7.8 In comparison with last year, there is a £6.0m increase (1.5%) in the DSG. This is due to the following:

- An increase of £0.4m driven by the estimated increase in pupil numbers, largely in the primary age group, while the amount per pupil has been frozen in cash terms.
- Nationally an extra amount of £130m has been added to the High Needs Block. Lewisham will receive an extra £0.5m or 1.7% of this extra amount.
- As detailed below there has been a transfer from the Education Services Grant for retained duties of £0.6m
- Extra funding of £2.8m has been built into the settlement to provide 30 hours of childcare for working parents. This is effective from 1 September 2017.
- There is a transfer of £1.7m from the Education Funding Agency for the funding of High Needs pupils in FE institutions which will need to be met from the DSG in the future.

7.9 Individual Schools' Budgets (ISBs) vary year on year mainly due to changes to pupil numbers. The DfE's schools' Minimum Funding Guarantee (MFG) has been set at a negative figure of minus 1.5%, which relates to the funding level per pupil (i.e. the per-pupil funding in a school cannot fall by more than 1.5%).

7.10 The schools Forum met on 17 January 2017 and recommended that the Mayor introduce a PFI funding factor into the schools funding formula for 2017/18. The PFI factor will fund any annual cost of a PFI scheme which equates to more than 10% of the school's individual formula budget

7.11 Under the regulations the Schools Forum decides:

- Whether some elements of funding given to schools should no longer be delegated but instead managed centrally. This includes contingency funds, the administration of free meals, supply cover, and insurance.
- The budget level of central spend which includes growth funds, early years expenditure, admissions, and capital expenditure from revenue. The budget of the latter, under the funding regulations, is capped at the 2015/16 level.

7.12 The Council has to consult the Schools Forum on arrangements for SEN children. The Forum's powers extend to giving a view but the final decision lies with the Council.

7.13 The projection for 2017/18 is an overspend of £1.7m on the High Needs Block through an annual forecast growth in pupil numbers of 110 children with Education, Health and Care plans.

7.14 The Schools Forum set up a task group to review the High Needs Pupils costs in 2013. This group made a number of recommendations to the Forum which met on the 8 December 2016 to consider them. The Forum agreed savings of to cover the £1.7m by

- A reduction in Special Schools' (excludes New Woodlands) budgets of £0.5m
- That £1.0m of the capital expenditure from revenue (CERA) budget in the Schools Block of the DSG is used to offset the pressure *
- the saving agreed last year on Alternative Provision of £0.2m covering both Abbey Manor College and New Woodlands

*The national regulations stipulate that this funding cannot be used for capital now.

7.15 The SEND Strategy 2016 to 2019 set out the local authority commitment to children and young people with SEND. As part of the action plan for the delivery of the strategy it was agreed that a review of the current banding system of high needs pupil should be undertaken to ensure equity, transparency and fairness across all schools sectors and that the banding levels should be based on the needs of pupils.

7.16 One of the key principles of the banding review was that any proposals should be cost neutral over the total budget across all special schools, although there may be impact on individual schools. The other main principle was to ensure that there is greater clarity in the system of which band a pupils fits into and to make sure that the system was easy to moderate. This clarity will be provided by ensuring the banding system is transparent, equitable and fair. To help this it was agreed there should be a single banding systems for all schools (special, mainstream and resource base) rather than having separate banding models for each of the three types of provision.

7.17 The Forum on the 8 December 2017 agreed the revised bandings, the funding rates for each band and set the implementation date as the 1 April 2017. An application has been made to the DFE to dis-apply the minimum funding guarantee as some schools lose more than the 1.5%

Pupil Premium

7.18 In addition to the DSG, schools will continue to receive the pupil premium. The majority of the pupil premium is allocated to schools on the basis of the number of children on roll who were entitled to a free school meal in the past six years.

7.19 In 2017/18 the rate of funding is set at the same level as 2016/17. This is £1,320 per primary child, £935 per secondary child and £1,900 per child in Looked After Care. The DfE no longer provide forecasts of the total pupil premium. Officer's calculations are for £16m for 2017/18, which is now the expected level for 2016/17.

Funding Consultation

7.20 The Department for Education issued on the 14 December 2016 their response to the national school funding reform consultation that took place in the spring. Sitting alongside the response is a further consultation which runs to the 22 March 2017. This gives greater details of the impact of the national funding formula for schools and high needs by both local authority and by school.

7.21 The impact is less severe than original anticipated due to

- The introduction of at least £200m of additional funding in 2018/19 and 2019/20.
- The inclusion of a 3 per cent funding floor.
- Additional funding for high needs, ensuring that no LA loses high needs funding as a result of the new formula.

7.22 The full implementation date is set for April 2018 where individual schools funding will be delivered by national funding rates.
Overall the position in Lewisham is:

		Total £m	**Change £m**	
2016/17 baseline (£m)	Schools block	208.764		
	High needs block	48.652		
	Central school services block	1.424		
	Total	258.841		
Illustrative NFF funding in first year of transition	Schools block	205.870	- 2.89	- 1.39%
	High needs block	48.652	-	
	Central school services block	1.459	0.03	
	Total	255.981	- 2.86	
Illustrative NFF if fully implemented in 2016-17	Schools block	203.006	- 5.76	- 2.76%
	High needs block	48.652	-	
	Central school services block	1.513	0.09	
	Total	253.171	- 5.67	

7.23 The typical size Lewisham schools will see the following type of reductions over the two year period

	£'000
Large Secondary	200
Small Secondary	150
Large Primary	75
Medium Primary	50
Small Primary	30

The percentage reduction is standard at 2.8%. The reduction will be split evenly over the next two years.

Cost pressures in Schools

7.24 The Department for Education estimates that mainstream schools will have to find savings of £3.0 billion (8.0%) by 2019-20 to counteract cumulative cost pressures, such as pay rises and higher employer contributions to national insurance and the teachers' pension scheme. It expects that schools will need to make efficiency savings through better procurement (estimated savings of £1.3 billion) and by using their staff more efficiently (the balance of £1.7 billion). This is broadly in line with local estimates. With the proposed national funding formula reductions of 3% and the cost pressures above, schools will have to find over the next three reductions of 11%. For or largest secondary schools who have income of around £10m will mean savings of £1m.

Early Years Funding

7.25 The DFE have issued a new funding formula for Early Years providers. While all providers will fare differently under the Government proposals the overall outcome will be that Nursery schools will see very significant reductions in funding, Maintained school nursery classes will see some reduction, generally in the region of £9k and the private, voluntary and independent sector will see increases.

7.26 The proposed national funding formula for funding local authorities will receive is made up of

- 89.5% Pupil numbers
- 8% KS1 FSM numbers
- 1.5% EAL numbers
- 1% DLA numbers
- There is an area cost adjustment based on general labour market costs and rates bills.

7.27 Unlike schools funding, early years funding will continue to be distributed by Local Authorities through a local formula. The most significant change to the local funding formula used by local authorities to distribute the funding to providers is that there can only be one universal base hourly rate for all types or providers. Currently this is not the case in Lewisham. The rates we used are:

- £7.70 Nursery schools

- £4.85/£5.13 Primary schools (dependent upon OFSTED)
- £3.84/£4.67 PVI's (dependent upon OFSTED)

7.28 The schools forum set up a task group to look at the proposals in more detail. The Schools Forum has agreed that the Universal Base Rate can be deferred until April 2018. This would enable phasing in the school's reductions, but at the expense of PVI rates.

7.29 Currently additional hours are allocated to children deemed to have social needs. This will be reduced to a third of its current provision. Currently 279 children receive this and the budget is £900k. In the longer term it will not be permissible for Local Authorities to fund additional hours for these type of children.

7.30 The proposals include details of the implementation extra 30 hours of childcare from September 2017. This increase will only be available to working parents.

Educations Services Grant (ESG)

7.31 In 2016/17 the allocation of ESG for Lewisham is £3.5m. It is made up of two elements: a so called general fund which is referred to in this section of the paper as the ESG Central Fund (to avoid confusion with Lewisham's own General Fund which is used to fund core services) of £2.9m and a retained duties element of £0.6m.

7.32 The ESG central funding rate for local authorities in the 2016 to 2017 financial year is £77 per pupil in mainstream schools and £288.75 and £327.25 per place in pupil referral units and special schools respectively. This funding has been discontinued from September 2017.

7.33 The retained duties funding rate for local authorities is a flat rate of £15 per pupil **in all state funded schools**, which includes academies. There is no differential funding for Special Schools and pupil referral units for the retained duties element of the ESG.

The total ESG grant is to cover the following services

- School improvement
- Statutory and regulatory duties
- Education welfare service
- Central support services
- Asset management
- Premature retirement costs/redundancy costs (new provisions)
- Therapies and other health-related services
- Monitoring national curriculum assessment.

7.34 The funding previously allocated through the ESG retained duties rate (£15 per pupil) will be transferred into the schools block for 2017 to 2018. The DFE will allow local authorities to retain some of their schools block funding to cover the statutory duties that they carry out for maintained schools which were previously funded through the ESG. The amount to be retained by the local authority needs has to be agreed by the maintained schools members of the Schools Forum. Lewisham Schools Forum did this on the 8 December 2016.

7.35 School Improvement Grant - The Department for Education have announced a separate grant that will be allocated to local authorities (LAs) to continue to monitor and broker school improvement provision for low-performing maintained schools and intervene in certain cases. That was previously met from the Education Services Grant. The grant for Lewisham is £187k and covers the period from September 2017 to March 2018.

8 GENERAL FUND REVENUE BUDGET AND COUNCIL TAX

8.1 This section considers the General Fund revenue budget and Council Tax. The General Fund budget for 2017/18, assuming a Council Tax increase of 4.99%, is £232.746m. Details of the savings anticipated for 2017/18 are provided at Appendices Y1 and Y2.

8.2 It is structured as follows:

- Update on 2016/17 Revenue Budget;
- The Budget Model;
- Saving proposals;
- Council Tax for 2017/18; and
- Overall Budget Position for 2017/18.

Update on 2016/17 Revenue Budget

8.3 The Council's revenue budget for 2016/17 was agreed at Council on 24 February 2016. The general fund budget requirement was set at £236.218m.

8.4 During the financial year, monthly monitoring is undertaken by officers and these monitoring reports have been presented quarterly to Mayor and Cabinet and scrutinised by the Public Accounts Select Committee. Significant attention continues to be directed towards volatile budget areas. These are those areas where small changes in activity levels can drive large cost implications. These include, for example: Looked After Children, No Recourse to Public Funds; Nightly Paid Accommodation; and Adult Social Care. These areas of activity are also informed by risk assessments which are continually reviewed.

8.5 Budget holders have been continually challenged to maintain tight control on spending throughout the year through the continuation and strengthening of Directorate Expenditure Panels (DEPs) and the additional layer of scrutiny added through the operation of the Corporate Expenditure Panel (CEP).

8.6 An initial projected overspend of £7.7m was reported at the end of May 2016. However, since this positon was first reported, the position has worsened. This is in spite of the continued management attention given to seek the containment of costs and, where possible, accelerating service changes to reduce costs.

8.7 The current projected overspend at as the end of November 2016 is £11.6m. The most significant increases during this time has been in the area of adult social care, which has seen its overspend projection increase by nearly £2.5m. This is due to a number of factors, including the significant pressure being felt on the placements budget through the increased costs of residential care in older adults' placements and changes associated with the re-letting of contracts for home care. Increases elsewhere relate to children's social care and increased transport costs in the environment division.

8.8 Overall, this remains a significant overspending projection, and stringent management action must continue for the remainder of this year to help bring the projected overspend down.

8.9 It should be noted that a sum of £3.75m was held corporately as part of setting the 2016/17 budget for managing 'risks and other budget pressures' which emerge during the year. As in previous years, the Executive Director for Resources and Regeneration gives due consideration as to when it might be appropriate to apply this sum. To date during the year the Executive Director has committed £1m to address the ongoing cost pressures in the dry recycling contract, leaving a balance of £2.75m. If allocated in full this will have the effect of reducing the current projected overspend to £8.8m.

Directorates

8.10 Table C1 sets out the latest forecast budget variances on the General Fund by Directorate, before applying the sum for 'risks and other budget pressures'

Table C1: Forecast outturn for 2016/17 as at end of November 2016

Directorate	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/ (under) spend Nov. 2015
	£m	£m	£m	£m
Children & Young People	61.6	(14.0)	47.6	5.3
Community Services	170.0	(76.9)	93.1	3.4
Customer Services	101.5	(57.0)	44.5	3.3
Resources & Regeneration	73.9	(46.9)	27.0	(0.4)
Directorate Totals	**407.0**	**(194.8)**	**212.2**	**11.6**
Corporate Items	24.0	0.0	24.0	0.0
Net Revenue Budget	**431.0**	**(194.8)**	**236.2**	**11.6**

Corporate Financial Provisions

8.11 Corporate Financial Provisions are budgets that are held centrally for corporate purposes and which do not form part of the controllable expenditure of the service directorates. They include Capital Expenditure charged to the Revenue Account (CERA), Treasury Management budgets such as Interest on Revenue Balances (IRB) and Debt Charges, Corporate Working Balances and various provisions for items such as early retirement and voluntary severance. The spend on Corporate Financial Provisions is expected to be contained within budget by the year-end.

8.12 Consideration is now being given to employing the use of corporate measures to balance the budget at year end. It is proposed to meet any 2016/17 budget overspend from reserves.

The Budget Model

8.13 This section of the report sets out the construction of the 2017/18 base budget. This section is structured as follows:

- Budget assumptions, including: Savings, Council Tax, and Inflation;
- New Homes Bonus;
- Budget pressures to be funded; and
- Risks and other potential budget pressures to be managed.

<u>Budget assumptions, including: Savings, Council Tax, and Inflation</u>

8.14 The Council has made substantial reductions to its expenditure over the last seven years. On all credible economic forecasts, it will continue to need to make further reductions for at least the next three to four years. This section of the report summarises a series of proposals that would enable the Council to set a balanced budget for 2017/18 as part of a sustainable financial strategy to 2019/20. Looking beyond 2019/20 very much depends on the financial implications for the Council from government policy in the next parliament, the next Comprehensive Spending Review (including the impact from Brexit), details for how the introduction of 100% of business rates will be implemented and any related developments in respect of more devolution to London.

<u>*Council Tax*</u>

8.15 The assumption used in the model for preparing the 2017/18 budget, subject to confirmation by Council, is for the maximum 4.99% Council Tax increase (a 3% increase for the revised social care precept and a 1.99% increase under the referendum principle). This is consistent with the government's financial models for local government funding to 2019/20.

8.16 If Council choose to set a different Council Tax increase they will need to be mindful that any increase below this recommendation will result in additional budget pressures, resulting in a higher savings requirement. And any increase above this recommendation would require support in a local referendum due to the limit set by the Secretary of State.

8.17 Further information on the options for Council when setting the Council Tax is set out in more detail towards the end of this section.

<u>*Inflation*</u>

8.18 The Government's inflation target for the United Kingdom is defined in terms of the Consumer Price Index (CPI) measure of inflation which excludes mortgage interest payments. Since April 2011, the CPI has also been used for the indexation of benefits, tax credits, and public service pensions.

8.19 In December 2016, the Office for National Statistics (ONS) reported that the rate of Gross Domestic Product (GDP) growth in the economy was greater than 2% with CPI inflation in the UK at 1.6% in December. The November Office of Budget Responsibility

(OBR) forecasts for inflation, which were published alongside the Chancellor's Autumn Statement, are a rise to a peak of 2.6% in 2018 before returning to near the UK target of 2% annually thereafter, with GDP growth falling to 1.4% in 2017 before returning to 2% throughout the period to 2019/20.

8.20 For financial planning purposes, the Council has previously assumed an average pay inflation of 1% per annum, which equates to approximately £1.1m. In December 2015, a final offer was made to the unions of a 1% pay award for 2017/18 by the National Joint Council (NJC) for Local Government Services, with staff on very low pay being offered increases that will bring them up to the new National Living Wage (NLW) introduced by the government in 2015. The NLW is currently set at £7.50/hr from April 2017. Lewisham's lowest pay band well exceeds this amount and therefore a provision of 1% per annum for 2017/18 has been made.

8.21 The Council currently applies a non-pay inflation rate of 2.5% per annum. This is close to the forecast inflation rates for 2017 and reflects the underlying commitments in Council contracts. This equates to approximately £2.5m per annum (net). This figure was put forward as an efficiency saving for three years starting from 2015/16, with 2017/18 being the final year of this measure.

New Homes Bonus

8.22 The New Homes Bonus (NHB) sits alongside the Council's planning system and is designed to create a fiscal incentive to encourage housing growth. The Department for Communities and Local Government (DCLG) is paying the NHB as un-ringfenced grant to enable local authorities to decide how to spend the funding. The scheme design sets some guidance about the priorities that spend should be focused on, in that it is being provided to 'help deliver the vision and objectives of the community and the spatial strategy for the area and in line with local community wishes'.

8.23 The NHB has historically been paid each year for six years. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

8.24 In the provisional Local Government Finance Settlement statement, the Secretary of State announced that in 2017/18 and 2018/19 NHB legacy payments will be changed to five and four years respectively. The funding released by doing this will be re-invested back into local government to support social care and will be distributed on a needs basis. Going forward a baseline level of 0.4% growth will also be applied for which NHB will not be paid and the government is finalising the consultation which is expected to confirm that NHB will not be paid on properties for which planning is granted on appeal.

8.25 The provisional allocation for 2017/18 in Lewisham, including on-going payments, is £10.139m, with the years 1 and 2 allocations of £1.664m dropping out and with the allocation for Year 7 (2017/18) delivery being £2.071m. The impact of the changes noted above will be to reduce the level of NHB the Council receives by at least a third form the original scheme going forward.

8.26 The cumulative nature of the NHB is set out in summary in Table C6 below.

Table C6 – New Homes Bonus Allocation Profile

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Yr 1 - 6 yrs paid in full	0.706	0.706	0.706	0.706	0.706	-
Yr 2 – limited to 5 yrs	0.958	0.958	0.958	0.958	0.958	0
Yr 3 – limited to 5 yrs		2.150	2.150	2.150	2.150	2.150
Yr 4 – limited to 4 yrs			2.629	2.629	2.629	2.629
Yr 5 – limited to 4 yrs				1.399	1.399	1.399
Yr 6 – limited to 4 yrs					1.889	1.889
Yr 7 – limited to 4 yrs						2.072
Total Allocation	**1.664**	**3.814**	**6.443**	**7.842**	**9.731**	**10.139**
Less: London LEP Top slice	**0**	**0**	**0**	**-2.218**	**0**	**0**
Lewisham Total	**1.664**	**3.814**	**6.443**	**5.624**	**9.731**	**10.139**

8.27 The Council produces an Annual Monitoring Report (AMR) which assesses the level of development which has taken place and reviews the performance on plan making and related steps being undertaken to progress the regeneration of the borough. The AMR provides a housing trajectory and identifies the anticipated amount of residential development over the coming years.

8.28 A significant amount of planned growth for the borough is yet to come. The AMR provides an update on the progress of strategic sites within the regeneration and growth areas, including Deptford and New Cross, Lewisham Town Centre and Catford Town Centre. Overall, strategic sites are progressing and are generally being constructed within anticipated timescales. The bringing forward of housing supply in London is a priority for the Council and the London Mayor. The AMR provides a housing trajectory and identifies the anticipated amount of residential development over the coming years.

8.29 In view of the planned growth in housing and associated infrastructure in the borough in future years it was agreed to commit £0.65m of the NHB allocation per annum to provide delivery support for this. This represents a year-on-year commitment for the Council. Given the planned growth in the Borough over the coming years, the funding will be used to support work to improve the borough's town centres, increase the number of jobs in the borough, provide improved transport links to the rest of London, and build upon the necessary infrastructure such as schools, health facilities, and open spaces.

8.30 While initially being held with a view to funding future capital works, a review of the NHB has been conducted consistent with the government's commitment that NHB will continue (albeit at a reduced level) for the remainder of the parliament and the expectation that councils use their reserves. Given the pressures on the overall budget, and as in 2016/17, it is now proposed to use some of the NHB for revenue funding shortfalls. This will be effected by releasing £5.0m of the accumulated reserve balance from the NHB scheme to the General Fund for 2017/18 only.

<u>Budget Pressures to be funded</u>

<u>2017/18</u>

8.31 In previous years, £7.5m of funds were set aside in the budget model to meet specific identified budget pressures and identified potential budget risks. Of this £7.5m in the 2016/17 budget £3.75m was allocated to services to fund quantified pressures, leaving £3.75m unallocated and held by the Executive Director for Resources and Regeneration against identified risks. As noted above in the 2016/17 financial forecast monitoring, £1m of this was allocated in the year for Dry Recycling, leaving £2.75m of corporate risks and pressures unallocated.

8.32 The Executive Director for Resources and Regeneration is proposing to reduce the budget for pressures and risks in 2017/18 to £6.5m, creating a £1.0m saving in the budget requirement. This saving can be offered as for the last three years £1.0m has been committed to support the Council's deficit pension fund position. Following the triennial actuarial valuation of the Pension Fund in 2016 this lump sum contribution is no longer required from April 2017, at least for the next three years. Not having to fund this pressure in the General Fund over this period will provide a saving of £3m in total, £1.0m each year from 2017/18 to 2019/20.

8.33 The budget pressures anticipated in 2017/18 have been reviewed by the Executive Director for Resources & Regeneration and it is recommended that a number of these specific identified pressures are recovered or funded now.

8.34 In terms of accounting for these, it is proposed that the Executive Director for Resources & Regeneration recover these where appropriate and then allocate them to corporate provisions and the relevant Directorates when determining the cash limits.

8.35 Table C2 provides a summary of the corporate risk and pressures budget and those pressures and risks that are being recommended to be recovered or funded.

Table C2: Summary of 2017/18 budget pressures to be funded

Description	£'000	£'000
2017/18		
Opening budget for 2017/18	6,500	
Prior year corporate budget no longer required		
Concessionary fares	500	
No Recourse to Public Funds - costs	250	
Risk & Pressures budget available in 2017/18		**7,250**
Previously committed		
Highways & Footways (year 4 of 10)	-350	
Licensing arrangements (year 2 of 5)	-200	
No Recourse to Public Funds - operations	-500	
Arising from policy changes		
Business rates appeals	-500	
Apprenticeship levy	-400	
Unachieved elements of previous years savings		
CYP	-400	
Environment	-500	
R&R advertising and wireless income	-350	
Demand pressures		
Looked After Children	-1,200	

Leaving Care CYP Transport	-200 -500	
Risks & Pressures recommended to be funded		**-5,100**
Risks & Pressures budget recommend to be held against possible overspends in 2017/18		**2,150**

Concessionary Fares - £0.50m to be recovered corporately

8.36 London Councils have advised on the expected Lewisham's Freedom Pass costs for 2017/18. The figure is £0.5m lower than in 2016/17. As this funding, previously committee from corporate resources, will no longer be required in 2017/18 it is being returned to the corporate budget for risks and pressures.

No Recourse to Public Funds, costs - £0.25m to be recovered corporately

8.37 As reported in previous budgets, the rise in number and costs of No Recourse to Public Funds cases has created significant pressures on the s17 budget in the Children and Young People Directorate in recent years. In 2014/15 the Council reorganised and created a team to pilot new ways of working and interventions focused solely on this area to bring costs down. Corporately these pressures were also recognised in the budgets of 2015/16 and 2016/17 with £4.1m of risk and pressures monies committed to this area.

8.38 The work of the team to ensure effective and fair assessments and control costs where families are accepted is working and an underspend on the No Recourse to Public Funds s17 costs is forecast in 2016/17. As these funds are no longer required it is proposed they are returned to the corporate budget for risks and pressures in 2017/18.

Highways and Footways pressure – £0.35m

8.39 The ten year investment programme for the resurfacing of highways and footways in the Borough came to an end in 2013/14 and future funding arrangements had to be established. In 2014/15 it was agreed that an ongoing highways resurfacing budget of £3.0m be established over a ten year period. In the first year, this was funded by a combination of pressures funding, reserves, and the release of existing prudential borrowing budgets as debt was repaid.

8.40 Corporate funding of £0.3m for 2017/18 will be provided with an additional £0.3m being added to the budget until 2020/21 and a balance of £0.1m in 2021/22. Therefore, the total allocation over the period is £2.2m, although this will eventually be offset by £0.8m of released budget arising from repaid prudential borrowing over the period 2024/25 to 2033/34.

8.41 It was also agreed in 2014/15 to create an ongoing budget of £0.5m for the replacement of footways over a ten year period 2014/15 until 2023/24. For 2017/18, a budget allocation of £0.05m will be needed with an additional £0.05m being added to the budget for each of the years to 2023/24.

Additional Licensing Scheme £0.20m

8.42 In 2015/16 Mayor and Cabinet approved the introduction of an "additional" licensing scheme in Lewisham to improve conditions of private rented flats above commercial premises (primarily over shops) across the borough.

8.43 The scheme agreed was at a cost of £1.0m over five years. This is the second of the five years of contributions.

No Recourse to Public Funds, operations – £0.50m

8.44 As noted above, the Council created a new team to focus on and manage the assessment of No Recourse to Public Fund cases. To date it has been funded in-year on an rolling annual basis as a pilot scheme from corporate resources.

8.45 The results and benefits of this approach are now understood and, while costs are being better controlled, this is still an area experiencing considerable demand. It is therefore proposed to fund this work on a permanent basis by providing an ongoing operational budget to the Customer Services Directorate.

Business Rate appeals - £0.5m

8.46 The Valuation Office continues to hear appeals on valuations from the 2010 list. Any of these that are upheld will require the Council to return the backdated overpayment and reduce the ongoing level of rates to be collected. This cost can be amortised over five years.

8.47 In 2017 the new valuations from the 2015 list will be applied and, given the 36% rise in valuations for Lewisham, it is anticipated there will be a number of appeals under the new 'check, challenge, appeal' arrangements that will take time to be considered. The business rate base in Lewisham also has some particular concentrations, in particular round rateable values for technology infrastructure and the public sector assets, where there continues to be change.

8.48 Recognising these uncertainties and the real risk from business rates appeals in 2017/18 and the coming years, it proposed this be recognised and funded.

Apprenticeship Levy - £0.4m

8.49 The chancellor's Autumn Statement in November 2016 confirmed that, from April 2017, employers with a wage bill of more than £3 million will have to pay a 0.5 per cent levy to fund apprenticeships training.

8.50 In Lewisham for the non-schools pay bill that falls to the General Fund this levy equates to £0.4m.

Previous years unachieved savings - £1.28m

8.51 As is noted elsewhere in this report the Council has brought forward and implemented significant savings since 2010/11 and will continue to need to do so until at least 2020/21. In doing so not all of the savings are delivered in full, either in terms of timing or value, as the savings targets have been stretching in the face of the ambition and challenge the Council faces to live within its budget.

8.52 Where this arises the first action is for management to try to address the obstacles and find solutions so that the agreed savings are delivered. This is monitored through the financial forecast reporting and the management actions being taken to effect budgetary control. However, it may not always be possible to fully resolve the pressure and where this is the case it should be recognised.

8.53 Looking at the persistent overspends in the financial forecasts from the impact of partially unachieved savings identifies the following where it is now proposed to inject corporate resource to reduce the budget pressures. This will release management attention so that for 2017/18 the focus can be on developing new savings proposals to address the remaining savings gap in the Medium Term Financial Strategy. By Directorate these include, with the original savings reference in brackets, the following:

- Children & Young People Directorate are reporting a mix of various overspends resulting from the partial achievement of prior year savings totalling £0.4m. These include savings for: Attendance to Welfare (J2b), Occupational Therapy (Q3d), Educational Psychologists (Q3c), and Multi Agency Planning work (Q3f).
- Environment Services are reporting pressures on the cost of waste services as the number of properties in the Borough grows (as seen the in the Council Tax Base) and shortfalls in the income hoped to be generated from parks (N1 and N6). It is proposed to add £0.5m to these budgets to meet these pressures.
- Regeneration, Assets and Place are pursuing income from using more of the Council's assets to generate advertising income (G2a) and a return from supporting wireless connectivity (G2b) across the Borough. Despite this work the full income target is not going to be achieved and it is proposed to add £0.35m to these budgets for 2017/18.

8.54 In working to achieve the savings required to balance the 2017/18 budget the Council will need to use some of the accumulated NHB reserve. There remains a small amount of £26k which, rather than account for from earmarked reserves, it is proposed to meet here from the corporate risks & pressures monies as an unachieved saving.

Looked After Children and Children Leaving Care – £1.40m

8.55 The Looked After Children service provides social work support to all the children who are looked after by the London Borough of Lewisham. It performs all the statutory functions, including care planning and ensuring that their health and education needs are met. And that they are also supported when the time comes to leave care safely.

8.56 At the start of 2010, the number of Looked After Children peaked and then they started to decline. This continued until the summer of 2011 from when numbers were fairly stable. However, the numbers started to rise again in April 2013 and in 2016 are consistently above 400, often with extensive and expensive support costs required. Young People are the fastest growing section of Lewisham's population. The current demographics indicate that the pupil population is growing by 2.5% which, all other things being equal, roughly projects to an increase in the Looked After Children of one a month.

8.57 Even though the work to manage the budget pressure through effective and economic placement decisions, overall spend on these services is exceeding the available budget. It is therefore proposed to fund this service area by an additional £1.4m from 2017/18.

Transport Costs - £0.50m

8.58 There is an ongoing project to review the transport passenger service the Council provides. It is revisiting the options available to provide this service and looking at the best service configurations to drive down costs. This project has a savings target of £1.0m, half in 2016/17 and half in 2017/18.

8.59 It is recognised from the financial monitoring that a barrier to making this saving is that, in the Children & Young People Directorate in particular, there is already a demand pressure that is driving significant overspends year on year. It is therefore proposed to put an additional £0.5m into the transport budget to ensure the focus can be on the new ways of working and delivering the agreed saving.

Risks and other potential budget pressures to be managed

8.60 Following the review of budget pressures within Directorates, there are a number of other risks and issues which, although difficult to quantify with absolute certainty, could prove significant should they materialise.

8.61 Officers continue to undertake work to fully assess and monitor these risks. These risks and other potential budget pressures are discussed in more detail below:

- Adult Social Care and Transition
- Child Sexual Exploitation
- National / London Living Wage
- Redundancy
- Unachieved savings
- Invest to save

Adult Social Care and Transition demands

8.62 The population of the Borough is forecast to increase by a net 3,000 annually for the foreseeable future. This is driving the need for additional school places and housing with all the associated services (environment, health and care) such growth brings. However, this growth combined with the demographic change being experienced nationally for people to live longer lives, even with severe disabilities, is creating particular pressure on health and social care services.

8.63 In respect of adult social care, the Council is experiencing an increase in the transfer of high cost packages and placements for young people with a learning disability from the Children & Young People's directorate to Adult Social Care. Increases in other client groups are lower but the number of the most elderly in the borough appears to be increasing too, along with their needs and the costs of providing them. Additional provision also has to be made for a few new physical disability placements a year (brain injuries and other accidents). The 2016/17 forecast outturn position on the budget for these services is an overspend of £3.5m.

Child Sexual Exploitation

8.64 This is a risk area across London which may, if the number of cases locally grows significantly, become a pressure in the future. At present the service is managing this risk by refocusing existing resources within their current budget and expects to be able to do through 2016/17. Given these uncertainties it is not possible to fully evaluate the risk at this time.

National / London Living Wage

8.65 In 2015 the Chancellor announced the obligation for all employers to pay at least a national living wage. The Council has for some years now ensured it pays the London Living Wage to staff and contractors where this has been possible to contract for. However, there have remained some areas where this has not always been possible – for example; sub-contractors on some facilities contracts and contracting for some care services. New European procurement rules and the introduction of the national living wage go some way to closing this remaining gap to ensure all employees are paid a fair wage. The government has also confirmed that the minimum and living wages will rise faster than inflation to at least 2020.

8.66 The budget impact of these changes is a risk of additional costs to the Council. These will vary according the contract and areas of spend depending on past practice and how suppliers elect to pass on some or all of these costs. The risk cannot therefore be easily quantified at this time.

Redundancy

8.67 The Council will seek to minimise the impact of savings on services and jobs. However, a significant proportion of the Council's budget goes on staff salaries and wages, so it will not be possible to make significant savings over the next four years without an impact on jobs. The cost of redundancy depends on age, seniority, and length of service of the individuals affected, and it is not possible to calculate the overall financial impact at this stage.

Unachieved savings

8.68 For those savings agreed there is a risk, as the detailed work to implement them progresses, of delay or changes to the proposals in response to consultations or other factors. These changes may impact the value of the saving that can be achieved, either in total or more often in terms of achieving a full year's financial impact.

8.69 Where these have been identified from savings for earlier years these are addressed in the funded pressures above. However, while management actions continue to be taken or in the case of savings still to be fully implemented for the coming year, such pressures cannot be easily quantified at this stage. Should these pressures arise in the year and are not be able to be contained with Directorate budgets, they could be met from the risk fund or become an additional call on reserves.

Invest to Save

8.70 Through the work of the Lewisham Future Programme (LFP), the Council continues to review all areas of expenditure to identify and bring forward savings proposals that match the priorities and risk profile for the levels and performance of Council services. There are no easy 'efficiencies' remaining and the changes required to make further savings are more complex. They require greater transformation in culture, ways of working and the infrastructure to support them.

8.71 The savings means they often take longer to implement, the outcomes are more uncertain, and (from the financial perspective) require an element of upfront investment. The areas where this investment is currently being considered include: the digital transformation work to assist with more flexible ways of working, the restack of Laurence House to rationalise the corporate estate, and updates to the Council's key systems to improve efficiencies and control.

8.72 These investments are considered based on detailed business cases to assess the opportunity and return. They will be funded from corporate funds, either from the risks and pressure budget or earmarked reserves.

Summary of Budget Pressures

8.73 In conclusion, it is a matter of good budgeting to make a general allowance for risk and uncertainty, particularly at such a time of rapid change in the local government sector.

8.74 There are some pressures to be funded, which can be quantified within a reasonable range. There are also a number of other risks and potential budget pressures to consider which are less easy to quantify with any certainty.

8.75 After allowing the allocation of corporate risk & pressures to be funded in 2017/18 as summarised in Table C2 above, an unallocated balance of £2.15m would remain. It is proposed that the Executive Director for Resources & Regeneration hold this fund corporately. This fund would be used to allocate resources to fund emergent budget pressures during the year (such as those described above) which cannot be quantified with certainty at this moment in time.

Saving proposals

8.76 On the 28 September 2016 the Mayor:

- Endorsed previously agreed savings proposals from the 2015/16 and 2016/17 budgets for implementation in 2017/18, totalling £16.3m.
- Agreed and delegated £4.915m of saving proposals for 2017/18, and requested a further £1,084 worth of proposals be progressed and necessary consultations undertaken to then return to Mayor and Cabinet for decision.

8.77 The total savings included in the 2017/18 budget calculation is £23.236m (including the £1m reduction in budget pressures recommended in this report). The savings must be achieved in order to maintain a balanced budget. The final approval and delivery of these savings will be monitored, any shortfall will have to be covered, in the short term, by the Executive Director for Resources and Regeneration through the use of reserves.

8.78 As anticipated in the Medium Term Financial Strategy (July 2016) and following the provisional Local Government Finance Settlement (December 2016), the Executive Director for Resources & Regeneration has been considering options to bridge a budget shortfall in order to balance the budget for 2017/18. It is proposed to use a small amount of corporate reserves (£0.027m) with the bulk of the gap being met from use of £5.0m of the New Homes Bonus reserve in 2017/18.

8.79 Estimates for Revenue Support Grant in 2018/19 to 2019/20 have been provided by the Government which has offered to provide a four year settlement on Revenue Support Grant from 2016/17 up to 2019/20. The Council submitted a four year efficiency plan in

October 2016. The prospects for future years' budgets based on the provisional settlement figures are set out in more detail in section 9 of this report.

Council Tax for 2017/18

8.80 In setting the Council's annual budget, Members need to make decisions in respect of the Council Tax.

Collection Fund

8.81 Collection Fund surpluses or deficits reflect whether the Council over or under achieves its Council Tax collection targets. Therefore, this requires a calculation to be made of how much the Council has already received for the Council Tax in the current and past years and how much of the outstanding debt it expects to collect.

8.82 The statutory calculation was carried out for the 15 January (date prescribed by the relevant statutory instrument). This calculation showed there is an estimated surplus on the Collection Fund in respect of Council Tax, for the years 1994/95 to 2016/17 of £4.818m.

8.83 This surplus is shared with the precepting authority, the Greater London Authority (GLA), in proportion to relative shares of budgeted Council Tax income in the current financial year. This means that £3.853m of the £4.818m surplus has to be included in the calculation of Lewisham's budget as the additional Council Tax owed and collected in year. The remaining balance of £0.964m will be allocated to the GLA.

8.84 Members should note that the Council agreed on the 18 January 2016 to maintain the Council Tax Reduction Scheme (CTRS) approach of previous years, which is for the Council to continue to pass on the cumulative Settlement Funding Assessment cut from the previous years since the scheme's introduction. This now stands at 33%. This means that everyone of working-age has to pay a minimum of 33% of their council tax liability.

Council Tax Levels

8.85 The current position is still that Council Tax may not be increased by 2% or more (inclusive of levies) without a referendum. In addition, there is also the opportunity to increase Council Tax by up to a further 3% under the social care precept (2% in 2016/17). The government's assumptions in the local government financial settlement to 2019/20 include the raising of both Council Tax and the social care precept in each and every year to meet the recognised funding pressures faced by the sector.

8.86 In 2017/18, the Social care precept will work by giving local authorities the flexibility to raise council tax in their area by up to 3% above the existing referendum threshold. In Lewisham this will provide additional funding of £2.68m, ring fenced for adult social care spend in 2017/18. If implemented this charge has to be identified on the face of the Council Tax bill and made clear in the accompanying guidance for rate payers.

8.87 At the same time a general increase in Council Tax of 1.99% (i.e. within the limit of the 2% referendum threshold) would also provide additional funding of £1.78m.

8.88 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 for 2017/18 and their general responsibilities to steward the Council's finances over the medium term.

8.89 In 2016/17, the Band D Council Tax in Lewisham is £1,378.66 on a base of 78,528.58 Band D equivalent properties. Of this, £276 relates to the activities of the GLA which the Council pays over to them on collection.

8.90 The GLA is consulting on a precept of £280.02 for 2017/18, an increase of £4.02, or approximately 1.5% and a final decision is expected from them on or after the 20 February 2017. The entire precept increase will be applied to the policing budget.

8.91 For 2017/18, the Band D Council Tax in Lewisham is recommended to be £1,437.70 on a base of 81,087.65 Band D equivalent properties (the base was approved at Council on the 18 January). Of this, £280.02 relates to the activities of the GLA which the Council will pay over to them on collection.

8.92 Table C3 below shows, for illustrative purposes, the Council Tax payable by a Lewisham resident in a Band D property in 2017/18 under a range of possible Council Tax increases, and the financial implications of this for the Council. A full Council Tax Ready Reckoner is attached at Appendix Y3.

8.93 The starting point is for an assumed 4.99% increase in Council for 2017/18. Any reduction from this level of increase will reduce the level of income the Council collects and will increase the draw on reserves for 2017/18 and the savings gap in future years.

Table C3 – Band D Council Tax Levels for 2017/18

	Amounts payable by residents – Band D				Lewisham
Change in Council Tax	**Lewisham element**	**GLA element**	**Total**	**Change in total**	**Annual income forgone**
	£	**£**	**£**	**%**	**£m**
4.99% increase	**1,157.68**	**280.02**	**1,437.70**	**+4.28%**	**0.00**
4.50% increase	1,152.28	280.02	1,432.30	+3.89%	0.438
4.00% increase	1,146.76	280.02	1,426.78	+3.49%	0.886
3.50% increase	1,141.25	280.02	1,421.27	+3.09%	1.333
3.00% increase	1,135.74	280.02	1,415.76	+2.69%	1.780
2.50% increase	1,130.22	280.02	1,410.24	+2.29%	2.227
2.00% increase	1,124.71	280.02	1,404.73	+1.89%	2.674
1.50% increase	1,119.20	280.02	1,399.22	+1.49%	3.121
1.00% increase	1,113.68	280.02	1,393.77	+1.09%	3.568
0.50% increase	1,108.17	280.02	1,388.19	+0.69%	4.015
Council Tax Freeze	1,102.66	280.02	1,382.68	+0.29%	4.462

Overall Budget Position for 2017/18

8.94 For 2017/18, the overall budget position for the Council is an assumed General Fund Budget Requirement of £232.746m, as set out in Table C4 below.

Table C4 - Overall Budget Position for 2017/18

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Settlement Funding Assessment (SFA) for 2017/18	(135.019)	
Council Tax 2017/18 at 4.99% increase	(93.874)	
Surplus on Collection Fund	(3.853)	
Assumed Budget Requirement for 2017/18		**(232.746)**
Total Resources available for 2017/18		
Base Budget for 2016/17	236.218	
Plus: Reversal of reserves drawn in 16/17 (once off)	10.943	
Plus: additional Pay inflation	0.978	
Plus: Non-pay Inflation	2.500	
Plus: Grant adjustments for changes 16/17 to 17/18	2.870	
Plus: Budget pressures to be funded from 17/18 fund	4.376	
Plus: Risks and other potential budget pressures	2.124	
Less: Previously agreed savings for 2017/18	(16.237)	
Less: September approved savings for 2017/18	(5.999)	
Less: Use of New Homes Bonus reserve	(5.000)	
Less: Once off use of Corporate reserves	(0.027)	
Total		**232.746**

Use of Provisions and Reserves

8.95 Should all the above proposals be agreed, then this would leave a remaining gap of some £5.027m to be funded by the once off use of NHB and Corporate reserves in 2017/18. This has been set out in the Table C4 above.

8.96 If the need should arise to balance the budget for any in-year pressures using reserves, the Executive Director for Resources & Regeneration advises that on going measures should be identified to rectify this position as quickly as possible and in any event, by the following year. The use of once off resources is therefore just delaying the need to make an equivalent level of saving in the following year.

9 OTHER GRANTS AND FUTURE YEARS' BUDGET STRATEGY

9.1 This section of the report considers three other funding streams which the Council currently receives and implications for future years. These other funding streams are Public Health, Better Care Fund, and various other grants. This section of the report is structured as follows:

- Better Care Fund 2017/18
- Public Health Grant 2017/18
- Various other grants 2016/17 – reduced with net impact £1.4m
- Future Years' Budget Strategy 2016/17 onwards

Better Care Fund

9.2 The national Better Care Fund (BCF) was announced by the Government in the June 2013 Spending Round, to support transformation and integration of health and social care services to ensure local people receive better care. The BCF is a pooled budget paid to the National Health Service (NHS) that shifts resources into social care and community services for the benefit of the NHS and local government. The BCF does not represent an increase in funding but rather a realignment of existing funding streams with new conditions attached.

9.3 For Lewisham the value in 2016/17 is £21.218m out of a national total of £3.9bn. The local plan was approved by NHS England and the 2017/18 plan is currently being developed. In particular, the 2017/18 plan will take into account those service areas where spend has been lower than expected in 2016/17, with funds redirected to areas of greater need. Individual allocations have not yet been announced but as no significant increase is expected in the national total any local increase is likely to be limited to an adjustment for inflation.

9.4 The Fund must be used in accordance with our final approved plan and through a section 75 pooled fund agreement. The full value of the element of the Fund linked to non-elective admissions reduction target is be paid over to Lewisham Clinical Commissioning Group (CCG) at the start of the financial year. However, the CCG may only release the full value of this funding into the pool if the proposed admissions reduction target is met. If the target is not met, the CCG may only release into the pool a part of that funding proportionate to the partial achievement of the target. Any part of this funding that is not released into the pool due to the target not being met must be dealt with in accordance with NHS England requirements. The partners have agreed contingency arrangements to address this risk and they will continue into 2017/18.

Public Health Grant

9.5 In 2016/17 the Council's allocation for Public Health Grant is £25.298m, including an increase of £7.6m to match the transfer of financial responsibility for health visiting but a reduction of £2.08m as part of a reduction in the level of grant nationally. Further national reductions of 2.6% annually have been announced for the next three financial years and the 2017/18 Lewisham allocation is £24.967m.

9.6 The grant remains ring-fenced and the agreed commitment of these funds will therefore need to be reviewed annually and rebalanced to ensure the reductions are met and funds are directed to those services and activities with the greatest public health benefit. The report to M&C in September 2016 brought forward the savings for agreement to ensure this happens. There were agreed subject to a £260k shortfall which will need to managed in 2017/18 or addressed along with the other savings due in 2017/18 to make the next year's reductions and keep spending in-line with the available grant.

Other Grants and Levies David

9.7 Certain specific grants have changed for 2017/18. The main ones are:

- The removal of the ESG (£3.5m in 2016/17) with £0.6m now rolled into the DSG. This is set out in detail in section 7 above.
- The changes to the NHB funding (£9.7m in 2016/17), the details for which are set out in section 8 above.

9.8 In 2017/18 the government is also introducing the improved Better Care Fund (iBCF) to work alongside the BCF which is described above. The iBCF for Lewisham is expected to be £1.2m in 2017/18. This funding is intended for meeting the costs of social care and supporting the integration work between health and social care systems. Also, there is a one off Adult Social Care grant for 2017/18 which for Lewisham will be £1.4m. Both of these grants in 2017/18 will be funded nationally from the reduction in NHB following the changes made to that grant.

9.9 As the NHB incentives sharpen and depending on the demand for adult social care in future years in Lewisham it is expected that the shift from NHB to iBCF experienced through these funding streams will increase.

9.10 It is expected that, as the funding on specific grants changes, the related cost of service provision will also be adjusted to ensure the Directorates manage their activities within the available resources.

9.11 The Council is also required to levy monies totalling in the region of £1.6m for other bodies, in addition to the Council Tax collected on behalf of the GLA (see Collection Fund). These bodies are the London Pension Fund Agency, Lee Valley Regional Park, and Environment Agency. At present the final amounts for 2017/18 have yet to be confirmed and it is therefore assumed these will stay at or close to their 2016/17 levels which are set out in Appendix Y5. Any variations will be absorbed in the corporate provisions and corrected for the following year.

Future Years' Budget Strategy 2017/18 onwards

<u>Revenue Budget</u>

9.12 The Medium Term Financial Strategy was reported to Mayor & Cabinet in July 2016. This set out that an estimated £45m of savings required from 2017/18 to 2019/20 over and above £16m savings already agreed at that time for 2017/18. This position has been superseded by the savings proposals submitted to Mayor and Cabinet in September 2016, the provisional local government finance settlement announced in December 2016 and annual review of the statutory calculation for the Collection Fund.

9.13 The revised profile for savings required is now broadly;

- £22m to be implemented in 2017/18;
- £5m gap remaining for 2017/18 to be met from reserves;
- £16m gap for 2018/19 against which £5m of outline proposals were set out in September and now need to firmed up and extended; and
- £11m gap for 2019/20 against which £9m of outline proposals were set out in September and now need to be firmed up and brought forward if possible.

9.14 If the budget for 2017/18, as set out in this report, is agreed the expected additional savings required are circa £32.6m by 2019/20. The Lewisham Future Programme (LFP) was established to carry out cross-cutting and thematic reviews to deliver these savings. The savings report received by the Mayor in September 2016 alongside this budget report presents the LFP work to date. This continues and further savings proposals will be bought forward in 2017/18 to close the budget gaps identified above.

9.15 In 2017/18 officers will update the MTFS and look to extend the planning horizon to 2021/22 to include the impact of moving to the 100% retention of business rates.

10. TREASURY MANAGEMENT STRATEGY

10.1 This section sets out the Council's Treasury Management Strategy for 2017/18 and is structured as follows:

- Capital Investment Plans
- Prudential Indicators
- Minimum Revenue Provision (MRP) Policy
- Borrowing Strategy including Treasury Indicators
- Debt Rescheduling
- Annual Investment Strategy
- Credit Worthiness Poilcy
- Prospects for Investment Returns

10.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department for Communities and Local Government guidance on Minimum Revenue Provision (MRP) and Investments and the CIPFA Treasury Management Code. The Council uses Capita Asset Services as its external treasury management advisors. The Council recognises that responsibility for Treasury Management decisions remain with the Council at all times and will ensure that undue reliance is not placed upon external service providers.

Capital Investment Plans

10.3 The Treaury Management Strategy for 2017/18 incorporates the capital plans of the Council, as set out in section 5 of this report.

10.4 The Council's cash position is organised in accordance with the relevant professional codes to ensure that sufficient funds are available to meet its obligations. This involves both the organisation of the cash flow and, where capital plans require, the arrangement of approporiate borrowing facilities.

10.5 The Council's expected treasury portfolio position at 31 March 2017, with forward projections is summarised below. Table D1 compares the actual external debt against the Capital Financing Requirement (CFR) which is the underlying capital borrowing need. This table illustrates over/(under) borrowing.

Table D1 – External Debt Projections

	2015/16 Actual £m	2016/17 Expected £m	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m
External Debt at 1 April	190.4	191.3	190.9	236.9	226.9
Change in External Debt	0.9	(0.4)	46.0	(10.0)	0
Other Long-Term Liabilities	247.8	243.8	236.2	228.3	220.7
Gross Debt at 31 March	**439.1**	**434.7**	**428.1**	**455.2**	**447.6**
Capital Financing Requirement at 31	**489.5**	**487.1**	**477.2**	**466.8**	**463.0**

March*					
Borrowing – over / (under)	**(50.4)**	**(52.4)**	**(4.1)**	**(11.6)**	**(15.4)**

*****The Capital Financing Requirement includes the prudential borrowing figures shown in Table A2 of Section 5 - Capital Programme.

Prudential Indicators

10.6 The prudential indicators comprise two parameters of external debt, the operational boundary, and authorised limits, which ensure that the Council operates its activities within well defined limits. The Council needs to ensure that its gross debt does not exceed the total of the CFR in the preceding year, plus the estimates of any additional CFR for the current and following two financial years. This allows some flexibility for limited early borrowing for future years and ensures that borrowing is not undertaken for revenue purposes.

10.7 The Executive Director for Resources and Regeneration reports that the Council has complied with this prudential indicator in the current year to date and does not envisage any difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report. The operational boundary and the authorised limits for external debt are described in further detail in the following paragraphs.

<u>The Operational Boundary for External debt</u>

10.8 This is the limit which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR, but may be lower depending on the levels of actual gross debt anticipated. The Council's operational boundary is set out in Table D2.

Table D2: Operational Boundary

	2016/17 Expected £m	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m
Maximum External Debt at 31 March	190.9	236.9	226.9	226.9
Other Long-Term Liabilities	243.8	236.2	228.3	220.7
Operational Boundary for Year	**434.7**	**473.1**	**455.2**	**447.6**

<u>The Authorised Limit for External Debt</u>

10.9 This key prudential indicator represents a constraint on the maximum level of borrowing and is a statutory limit determined under Section 3(1) of the Local Government Act 2003. The Government retains the power to control either the total of all Councils' plans, or those of a specific Council.

10.10 This is the limit beyond which external debt is prohibited and needs to be set by full Council. It represents the level of external debt which, while not desired, could be afforded in the short-term (i.e. up to one month), but is not sustainable in the longer term. The Council is asked to approve the following authorised limits as set out in Table D3.

Table D3 – Authorised Limits

	2016/17 Expected £m	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m
Operational Boundary for Year	**434.7**	**473.1**	**455.2**	**447.6**
Provision for Non Receipt of Expected Income	56.0	56.0	56.0	56.0
Authorised Limit for Year	**490.7**	**529.1**	**511.2**	**503.6**

10.11 In addition, the Council is also limited to a maximum Housing Revenue Account (HRA) CFR by the DCLG through the self-financing regime. Table D4 sets out this limit:

Table D4 – HRA Debt Limit

	2016/17 Expected £m	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m
HRA Debt "Cap" (Statutory)	127.3	127.3	127.3	127.3
HRA Debt (CFR) at 31 March	(74.8)	(74.8)	(74.8)	(74.8)
HRA Borrowing "Headroom"	52.5	52.5	52.5	52.5

Minimum Revenue Provision (MRP) Policy

10.12 A proportion of the Council's capital expenditure is not immediately financed from its own resources. This results in a debt liability which must be charged to the Council Tax over a period of time. This repayment, the Minimum Revenue Provision (MRP) must be determined by the Council as being a prudent provision having regard to the CIPFA Prudential Code for Capital Finance.

10.13 The MRP is the amount the Council charges to the revenue account and does not correspond to the actual amount of debt repaid, which is determined by treasury related issues. Historically the Council has applied a consistent MRP policy which comprises prudential borrowing being repaid over the useful life of the asset concerned and previous borrowing being repaid at the rate of 4% (equivalent to 25 years) of the outstanding balance.

10.14 In 2016/17 this policy was changed to reflect the useful lives of the specific asset classes on the Council's balance sheet. It moved to:

- A straight line MRP of 14% equivalent to seven years for plant and equipment (such as IT and vehicles).
- A straight line MRP of 2.5% equivalent to forty years for property (such as land and buildings).

10.15 The Authority is proposing to borrow and provide loan(s) to its Arms Length Management Organisation (ALMO) in 2017/18. The cash advances will be used by the ALMO to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party.

10.16 The Authority's Capital Financing Requirement (CFR) will increase by the amount of loans advanced and under the terms of the contractual loan agreements these funds are due to be returned in full at the term of the loan, with interest paid thorough out the live of the loan in line with the terms on which the Council borrows the funds. Once funds are returned to the Authority, they are classed as a capital receipt, and will be off-set against the CFR, which will reduce accordingly. As the funds will be returned in full and collateral as security to the loans advanced has been agreed, there is no need to set aside a prudent provision to repay the debt liability in the interim period, so there is no MRP application.

10.17 The risk is that at some point during the term of the loan the collateral held as security by the ALMO is not sufficient to meet the obligations recorded by the Council. The outstanding loan/CFR position will therefore be reviewed on an annual basis and if the likelihood of default increases, a prudent MRP policy will commence as a charge to the Council's revenue.

10.18 To enable this to happen it is proposed to add a variation to the Councils MRP policy as adopted in 2016/17 which adds a third element – no MRP need be charged on capital expenditure where the Council has assessed that sufficient collateral is held at a current valuation to meeting the outstanding CFR liability and that should it be determined at any point that insufficient collateral is held to match the Council's CFR liability a prudent MRP charge will commence.

Borrowing Strategy (including Treasury Indicators)

10.19 The Council's external debt as at 31 March 2017, gross borrowing plus long term liabilities, is expected to be £434.7m. The Council's borrowing strategy is consistent with last year's strategy. The Council is currently maintaining an under-borrowed position in that the CFR is not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as an alternative funding measure. In the current economic climate, this strategy is considered prudent while investment returns are low, counterparty risk is higher than historic averages, and borrowing rates are still relatively high.

10.20 The Executive Director for Resources and Regeneration will continue to monitor interest rates in the financial markets and adopt a pragmatic and cautious approach to changing circumstances. For instance, if it was felt that there was a significant risk of a sharp fall in medium to long-term interest rates (e.g. due to a marked increase of risks around a relapse into recession or risks of deflation in the economy), then long term borrowings will be postponed and potential rescheduling from fixed rate funding into short-term borrowing considered. Any such decisions would be reported to Mayor & Cabinet and subsequently Council, at the next available opportunity.

10.21 Alternatively, if it was felt that there was a significant risk of a sharp rise in medium to long-term interest rates than currently forecast (perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases or in world economic activity driving inflation up), then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn, whilst interest rates are still lower than forecast. Once again, any such decisions would be reported to Mayor & Cabinet and subsequently Council, at the next available opportunity.

10.22 Members should note that the Council's policy is not to borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within the approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Treasury Indicators

10.23 There are three debt related treasury activity limits which restrain the activity of the treasury function within certain limits. The purpose of these is to manage risk and reduce the impact of any adverse movement in interest rates. These limits need to be balanced against the requirement for the treasury function to retain some flexibility to enable it to respond quickly to opportunities to reduce costs and improve performance.

10.24 The debt related indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

10.25 Council is asked to approve the following treasury indicators and limits:

Table D5: Treasury Indicators and Limits

Interest rate exposures	2016/17	2017/18	2018/19
	Upper	**Upper**	**Upper**
Limits on fixed interest rates:			
• **Debt only**	100%	100%	100%
• **Investments only**	80%	80%	80%
Limits on variable interest rates			
• **Debt only**	15%	15%	15%
• **Investments only**	75%	75%	75%
Maturity structure of fixed interest rate borrowing 207/18			
		Lower	**Upper**
Under 12 months		0%	10%
12 months to 2 years		0%	10%
2 years to 5 years		0%	10%
5 years to 10 years		0%	25%
10 years to 20 years		0%	20%
20 years to 30 years		0%	25%
30 years to 40 years		0%	50%
40 years to 50 years		0%	60%

Maturity structure of variable interest rate borrowing 207/18		
	Lower	**Upper**
30 years to 40 years	0%	60%
40 years to 50 years	0%	40%

The maturity structure guidance for Lender Option Borrower Option (LOBO) loan defines the maturity date as being the next call date.

Debt Rescheduling

10.26 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during 2016/17. However, the Council continues to explore opportunities in respect of the financing of its PFIs and external loans.

10.27 The current Treasury indicators reflect that the existing fixed interest rate borrowing profile has been stable. This needs updating to recognise that the existing borrowing continues to mature. At the same time, following advice from our Treasury Advisors, it is proposed to introduce some headroom and flexibility in the indicators (i.e. so they add up to more than 100%). This will enable the Authority to take on additional borrowing with an appropriate level of maturity for the purposes the borrowing is required. The table below sets out the changes.

10.28 The Council has £114m of LOBO loans (Lender's Option Borrower's Option) of which £25m will be in their call period in 2017/18. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also the option of repayment of the loan without penalty.

10.29 The Council currently holds balances which are invested and has borrowing, for capital purposes. The Council continuously reviews the debt position to optimise its cashflow. Consideration is therefore being given to rescheduling of debt which will be reported to Mayor & Cabinet and subsequently to Council at the earliest meeting following its action.

<u>Annual Investment Strategy</u>

Investment Policy

10.30 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

10.31 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

10.32 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors in producing its colour codings which show the varying degrees of suggested institution creditworthiness. This has been set out in more detail at Appendix Z3.

10.33 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

10.34 Investment instruments identified for use in the financial year are listed in Appendix Z3, under the ‘specified’ and ‘non-specified’ investments categories. The proposed counterparty limits for 2017/18 are presented to Council for approval in this same appendix.

10.35 In accordance with guidance from the Department for Communities and Local Government and CIPFA, and in order to minimise the risk to investments, officers have clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. This has been set out at Appendix Z3. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published information by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency.

10.36 Other information sources used include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

10.37 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoid a concentration of risk.

Credit Worthiness policy

10.38 The Council’s Treasury Management Team applies the creditworthiness service provided by its treasury management advisors Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies, Fitch, Moody’s and Standard and Poor’s. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

10.39 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 2 years *

- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

**for UK Government debt, or its equivalent, constant net asset value money market funds and collateralised deposits where the collateral is UK Government debt*

The Council's creditworthiness policy has been set out at Appendix Z3.

Country limits

10.40 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix Z4. This list will be added to, or deducted from, by officers should country ratings change in accordance with this policy.

Investment Policy

10.41 Investments will be made with reference to the core balances and cashflow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 24 months). In order to maintain sufficient liquidity, the Council will seek to utilise its instant access call accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest. The remainder of its investments will be placed in fixed term deposits of up to 24 (previously 12 months) months to generate maximum return. The Council will not invest in any fixed term deposit facility exceeding 2 years.

10.42 This increase from 1 to 2 years is as a result of improved bank regualtion and stability following stronger recent UK and European stress testing which the banks have passed.

10.43 In the light of the continued predictions for low savings rates for sometime to come, the Council, with support from it advisors, is assessing the potential risk and return offered by investing for longer (five or more years) in pooled asset funds. This policy is set with regard to the Council's liquidity requirements and to reduce the risk of a forced sub-optimal early sale of an investment.

10.44 The Treasury Policy is therefore amended to enable this type of investment to be entered into if, within the forecast cashflow for the Council, it would meet the objectives of the policy for security, liquidity and return.

Prospects for Investment Returns

10.45 The Bank Rate is forecast to remain unchanged at 0.25% before starting to rise from quarter 2 of 2019. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%

10.46 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:

- 2016/17 0.90%
- 2017/18 1.50%
- 2018/19 2.00%
- 2019/20 2.25%
- 2020/21 2.50%
- 2021/22 3.00%
- 2022/23 3.00%
- Later years 3.00%

10.47 The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk. A more extensive table of interest rate forecasts for 2017/18, including Public Works Loan Board (PWLB) borrowing rate forecasts is set out in Appendix Z1.

Summary

10.48 This section, in accordance with statutory requirements, sets out the Council's Treasury Management Strategy for 2017/18. The approach remains broadly the same as last year.

10.49 At the end of the financial year, the officers will report to the Council on investment activity for the year as part of its Annual Treasury Report (included in the Council's outturn report).

11 CONSULTATION ON THE BUDGET

11.1 In setting the various budgets, it is important to have extensive engagement with citizens to consider the overarching challenge facing public services in Lewisham over the next few years. To this end, the Council has undertaken a range of engagement and specific consultation exercises. The specific consultation exercises were:

Rent Setting and Housing Panel

11.2 As in previous years, tenants' consultation was in line with Residents' Compact arrangements. This provided tenant representatives of Lewisham Homes with an opportunity on 15th December 2016 at the joint Housing Panel meeting to consider the positions and to feedback any views to Mayor & Cabinet. Tenant representative of Brockley convened their Brockley Residents' Board on 13th December 2016 to hear the proposals and fed back.

11.3 Details of comments from the residents' meetings have been set out in Appendix X2.

Business Ratepayers

11.4 Representatives of business ratepayers are being consulted online on Council's outline budget between 18 January and 3 February 2017. The results of this consultation will be made available in the Budget Report Update presented to Mayor and Cabinet on 15 February 2017.

12. FINANCIAL IMPLICATIONS

12.1 This entire report deals with the Council's Budget. Therefore, the financial implications are explained throughout.

13. LEGAL IMPLICATIONS

13.1 Many legal implications are referred to in the body of the report. Particular attention is drawn to the following:

Capital Programme

13.2 Generally, only expenditure relating to tangible assets (e.g. roads, buildings or other structures, plant, machinery, apparatus and vehicles) can be regarded as capital expenditure. (Section 16 Local Government Act 2003 and regulations made under it).

13.3 The Local Government Act 2003 introduced a prudential system of financial control, replacing a system of credit approvals with a system whereby local authorities are free to borrow or invest so long as their capital spending plans are affordable, prudent, and sustainable. Authorities are required to determine and keep under review how much they can afford to borrow having regard to CIPFA's Prudential Code of Capital Finance in Local Authorities. The Code requires that in making borrowing and investment decisions, the Council is to take account of affordability, prudence, and sustainability, value for money, stewardship of assets, service objectives, and practicality.

13.4 Section 11 Local Government Act 2003 allows for regulations to be made requiring an amount equal to the whole or any part of a capital receipt to be paid to the Secretary of State. Since April 2013 there has been no requirement to set aside capital receipts on housing land (SI2013/476). For right to buy receipts, the Council can retain 25% of the net receipt (after taking off transaction costs) and is then entitled to enter an agreement with the Secretary of State to fund replacement homes with the balance. Conditions on the use of the balance of the receipts are that spending has to happen within three years and that 70% of the funding needs to come from Council revenue or borrowing. If the funding is not used within three years, it has to be paid to the Department for Communities for Local Government, with interest.

Housing Revenue Account

13.5 Section 24 of the Housing Act 1985 provides that a local authority may make such reasonable charges as they determine for the tenancy or occupation of their houses. The Council must review rents from time to time and make such charges as circumstances require.

13.6 Under the Local Government and Housing Act 1989, the Council is obliged to maintain a separate HRA (Section 74) and by Section 76 must prevent a debit balance on that account. Rents must therefore be set to avoid such a debit.

13.7 By Schedule 4 of the same Act where benefits or amenities arising out of a housing authority functions are provided for persons housed by the authority but are shared by the community, the Authority must make such contribution to the HRA from their other revenues to properly reflect the community's share of the benefits/amenities.

13.8 The process for varying the terms of a secure tenancy is set out in Sections 102 and 103 of the Housing Act 1985. It requires the Council to serve notice of variation at least four weeks before the effective date; the provision of sufficient information to explain the variation; and an opportunity for the tenant to serve a Notice to Quit ending their tenancy.

13.9 Where the outcome of the rent setting process involves significant changes to housing management practice or policy, further consultation may be required with the tenants' affected in accordance with section 105 of the Housing Act 1985.

13.10 Part 7 of the Localism Act 2011 abolished HRA subsidy and moved to a system of self financing in which Councils are allowed to keep the rents received locally to support their housing stock. Section 174 of the same Act provides for agreements between the Secretary of State and Councils to allow Councils not to have to pay a proportion of their capital receipts to the Secretary of State if he/she approves the purpose to which it would be put.

<u>Balanced Budget</u>

13.11 Members have a duty to ensure that the Council acts lawfully. It must set and maintain a balanced budget each year. The Council must take steps to deal with any projected overspends and identify savings or other measures to bring the budget under control. If the Capital Programme is overspending, this may be brought back into line through savings, slippage, or contributions from revenue. The proposals in this report are designed to produce a balanced budget in 2016/17.

13.12 In this context, Members are reminded of their fiduciary duty to the Council Tax payer, effectively to act as trustee of the Council's resources and to ensure proper custodianship of Council funds.

<u>An annual budget</u>

13.13 By law, the setting of the Council's budget is an annual process. However, to enable meaningful planning, a number of savings proposals for 2017/18 were anticipated in the course of the budget process. They were the subject of full report at that time and they are now listed in Appendix Y1 and Appendix Y2. Members are asked now to approve and endorse those reductions for this year. This report is predicated on taking all of the agreed and proposed savings. If not, any shortfall will have to be met through adjustments to the annual budget in this report.

13.14 The body of the report refers to the various consultation exercises (for example with tenants' and business) which the Council has carried out/is carrying out in accordance with statutory requirements relating to this budget process. The Mayor must consider the outcome of that consultation with an open mind before reaching a decision about his final proposals to Council. It is noted that the outcome of consultation with business rate payers will only be available from the 6 February 2017 and any decisions about the

Mayor's proposals on the budget are subject to consideration of that consultation response.

Referendum

13.15 Sections 72 of the Localism Act 2011 and Schedules 5 to 7 amended the provisions governing the calculation of Council Tax. They provide that if a Council seeks to impose a Council Tax increase in excess of limits fixed by the Secretary of State, then a Council Tax referendum must be held, the results of which are binding. The Council may not implement an increase which exceeds the Secretary of State's limits without holding the referendum. Were the Council to seek to exceed the threshold, substitute calculations which do not exceed the threshold would also have to be drawn up. These would apply in the event that the result of the referendum is not to approve the "excessive" rise in Council Tax. Attention is drawn to the statement of the Secretary of State that the Council may impose a precept of 3% on the Council Tax, ring-fenced for social care provision, and may impose an additional increase of less than 2% without the need for a referendum. The maximum proposed Council Tax increase is 4.99% and therefore below the combined limit.

13.16 In relation to each year the Council, as billing authority, must calculate the Council Tax requirement and basic amount of tax as set out in Section 31A and 31B of the Local Government Finance Act 1992. These statutory calculations appear Appendix Y5.

Robustness of estimates and adequacy of reserves

13.17 Section 25 of the Local Government Act 2003 requires, when the authority is making its calculations under s32 of the Local Government Finance Act 1992, the Chief Finance Officer to report to it on:-
(a) the robustness of the estimates made for the purposes of the Calculations; and
(b) the adequacy of the proposed financial reserves.

13.18 The Chief Financial Officer's section 25 statement will be appended to the Budget Report update to Mayor & Cabinet on 15 February 2017.

Treasury Strategy

13.19 Authorities are also required to produce and keep under review for the forthcoming year a range of indicators based on actual figures. These are set out in the report. The CIPFA Treasury Management Code of Practice says that movement may be made between the various indicators during the year by an Authority's Chief Finance Officer as long as the indicators for the total Authorised Limit and the total Operational Boundary for external debt remain unchanged. Any such changes are to be reported to the next meeting of the Council.

13.20 Under Section 5 of the 2003 Act, the prudential indicator for the total Authorised Limit for external debt is deemed to be increased by an amount of any unforeseen payment which becomes due to the Authority within the period to which the limit relates which would include for example additional external funding becoming available but not taken into account by the Authority when determining the Authorised Limit. Where Section 5 of the Act is relied upon to borrow above the Authorised Limit, the Code requires that this fact is reported to the next meeting of the Council.

13.21 Authority is delegated to the Executive Director for Resources & Regeneration to make amendments to the limits on the Council's counterparty list and to undertake Treasury Management in accordance with the CIPFA Treasury Management Code of Practice and the Council's Treasury Policy Statement.

Constitutional provisions

13.22 Legislation provides that it is the responsibility of the full Council to set the Council's budget. Once the budget has been set, save for those decisions which he is precluded from, it is for the Mayor to make decisions in accordance with the statutory policy framework and that are not wholly inconsistent with the budget. It is for the Mayor to have overall responsibility for preparing the draft budget for submission to the Council to consider. If the Council does not accept the Mayor's proposals it may object to them and ask him to reconsider. The Mayor must then reconsider and submit proposals (amended or unamended) back to the Council which may only overturn them by a two-thirds majority.

13.23 For these purposes the term "budget" means the "budget requirement (as provided for in the Local Government Finance Act 1992) all the components of the budgetary allocations to different services and projects, proposed taxation levels, contingency funds (reserves and balances) and any plan or strategy for the control of the local authority's borrowing or capital expenditure." (Chapter 2 statutory guidance).

13.24 Authorities are advised by the statutory guidance to adopt an inclusive approach to preparing the draft budget, to ensure that councillors in general have the opportunity to be involved in the process. However it is clear that it is for the Mayor to take the lead in that process and proposals to be considered should come from him. The preparation of the proposals in this report has involved the Council's select committees and the Public Accounts Select Committee in particular, thereby complying with the statutory guidance.

Statutory duties and powers

13.25 The Council has a number of statutory duties which it must fulfil by law. It cannot lawfully decide not to carry out those duties. However, even where there is a statutory duty, the Council often has discretion about the level of service provision. Where a service is provided by virtue of a Council power rather than a duty, the Council is not bound to carry out those activities, though decisions about them must be taken in accordance with the decision making requirements of administrative law. In so far as this report deals with reductions in service provision in relation to a specific service, this has been dealt with in the separate savings report that accompanies this budget report.

Reasonableness and proper process

13.26 Decisions must be made reasonably taking into account all relevant considerations and ignoring irrelevancies. Members will see that in relation to the proposed savings there is a summary at Appendix Y2. If the Mayor decides that the budget for that service must be reduced, the Council's reorganisation procedure applies. Staff consultation in accordance with that procedure will be conducted and in accordance with normal Council practice, the final decision would be made by the relevant Executive Director under delegated authority.

Staff consultation

13.27 Where proposals, if accepted, would result in 100 redundancies or more within a 90 day period, an employer is required by Section 188 of the Trade Union and Labour Relations (Consolidation) Act 1992 as amended, to consult with the representatives of those who may be affected by the proposals. The consultation period is at least 45 days. Where the number is 20 or more, but 99 or less the consultation period is 30 days. This requirement is in addition to the consultation with individuals affected by redundancy and/or reorganisation under the Council's own procedure.

Best Value

13.28 Under section 3 of the Local Government Act 1999, the Council is under a best value duty to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness. It must have regard to this duty in making decisions in relation to this report.

Integration with health

13.29 Members are reminded that provisions under the Health and Social Care Act 2012 require local authorities in the exercise of their functions to have regard to the need to integrate their services with health.

14 HUMAN RESOURCES IMPLICATIONS

14.1. There are no specific human resources implications arising from this report. Any such implications were considered as part of the revenue budget savings proposals presented to Mayor & Cabinet on 28 September 2016. A summary of the savings proposals are attached at Appendix Y2 to this report.

15. CRIME AND DISORDER

15.1. Section 17 of the Crime and Disorder Act 1998 requires the Council when it exercises its functions to have regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.

15.2. There are no specific crime and disorder implications arising from this report.

16. EQUALITIES

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

16.2. 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.

16.3. The duty continues to be a "have regard duty", and the weight to be attached to it is a matter for the Mayor, bearing in mind the issues of relevance and proportionality. It is not an absolute requirement to eliminate unlawful discrimination, advance equality of opportunity or foster good relations. Assessing the potential impact on equality of proposed changes to policies, procedures and practices is one of the key ways in which the Council can demonstrate that they have had 'due regard'.

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

16.5. The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:

1. The essential guide to the public sector equality duty
2. Meeting the equality duty in policy and decision-making
3. Engagement and the equality duty
4. Equality objectives and the equality duty
5. Equality information and the equality duty

16.6. The essential guide provides an overview of the equality duty requirements including the general equality duty, the specific duties, and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice. Further information and resources are available at: http://www.equalityhumanrights.com/advice-and-guidance/public-sector-equality-duty/guidance-on-the-equality-duty/

16.7. The EHRC has also issued Guidance entitled "Making Fair Financial Decisions". It appears at Appendix Y6 and attention is drawn to its contents.

16.8. Assessing impact on equality is not an end to itself and it should be tailored to, and be proportionate to, the decision being made. Whether it is proportionate for the Council to conduct an Equalities Analysis Assessment of the impact on equality of a financial decision or not depends on its relevance to the Authority's particular function and its likely impact on people from protected groups, including staff.

16.9. Where savings proposals are anticipated to have an impact on staffing levels, it will be subject to consultation as stipulated within the Council's Employment/Change Management policies, and services will be required to undertake an Equalities Analysis Assessment (EAA) as part of their restructuring process.

16.10. It is also important to note that the Council is subject to the Human Rights Act, and should therefore, also consider the potential impact their particular decisions could have on human rights. Where particular savings have such implications, they are dealt with in relation to those particular reports.

17. ENVIRONMENTAL IMPLICATIONS

17.1. Section 40 of the Natural Environment and Rural Communities Act 2006 states that: ‘every public authority must, in exercising its functions, have regard, so far as is consistent with the proper exercise of those functions, to the purpose of conserving biodiversity’. No such implications have been identified in relation to the reductions proposals.

17.2. There are no specific environmental implications arising from this report.

18. CONCLUSION

18.1. This report sets out the information necessary for the Council to set the 2017/18 budget. Updates will be made to this report at Mayor & Cabinet on 15 February 2017. Final decisions will be taken at the meeting of full Council on 22 February 2017.

19. BACKGROUND DOCUMENTS AND FURTHER INFORMATION

Short Title of	Date	Location	Contact
Medium Term Financial Strategy	13 July 2017 (M&C)	5th Floor Laurence House	David Austin
Savings Proposals for 2017/18	28 September 2016 (M&C) 24 February 2016 (Council)	5th Floor Laurence House	David Austin
Setting the Council Tax Base & Discounts for Second Homes and Empty Properties	11 January 2017 (Council)	5th Floor Laurence House	David Austin

For further information on this report, please contact:

Janet Senior
Executive Director for Resources & Regeneration on 020 8314 8013

David Austin
Head of Corporate Resources on 020 8314 9114

Shola Ojo
Principal Accountant, Strategic Finance on 020 8314 7778

20. APPENDICES

Capital Programme

W1 2016/17 to 2020/21 Capital Programme – Major Projects
W2 Proposed Capital Programme – Original to latest Budget
W3 Hatcham Temple Grove School – Debt Write-off

Housing Revenue Account

X1 Proposed Housing Revenue Account Savings 2017/18
X2 Leasehold and Tenants charges consultation 2017/18
X3 Leasehold and Tenants charges and Lewisham Homes Budget Strategy 2017/18
X4 Other associated housing charges for 2017/18

General Fund

Y1 Summary of previously agreed budget savings for 2017/18
Y2 Summary of Proposed Revenue Budget savings 2017/18
Y3 Ready Reckoner for Council Tax 2017/18
Y4 Chief Financial Officer's Section 25 Statement – *To follow M&C 15th February 2017*
Y5 Council Tax and Statutory Calculations
Y6 Making Fair Financial Decisions

Treasury Management

Z1 Interest Rate Forecasts 2016 – 2019
Z2 Economic Background
Z3 Credit Worthiness Policy (Linked to Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management)
Z4 Approved countries for investments
Z5 Requirement of the CIPFA Management Code of Practice

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APPENDIX W1: 2016/17 to 2020/21 Capital Programme – Major Projects

Major Projects over £2m	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	£m	£m	£m	£m	£m	£m
GENERAL FUND						
BSF - Sydenham (D&B)	2.2					2.2
Schools - Primary Places Programme	9.7	14.4	14.1			38.2
Schools – Minor Works Capital Programme	3.0	3.3				6.3
Schools - Other Capital Works	2.1	2.9				5.0
Highways & Bridges - TfL	5.0					5.0
Highways & Bridges - LBL	3.5	3.5	3.5	3.5	3.5	17.5
Catford TC (inc Broadway & Milford Towers) Regeneration	0.6	4.0	4.0			8.6
Asset Management Programme - Non Schools	1.5	3.8	3.9	2.5	2.5	14.2
Excalibur Regeneration	3.0	1.1				4.1
Heathside & Lethbridge Regeneration	2.1	5.0				7.1
Lewisham Homes – Property Acquisition	3.0			9.0		12.0
Acquisitions – Hostels Programme	2.3			0.8		3.1
Disabled Facilities Grant	1.0	0.7	0.7	0.7	0.7	3.8
Private Sector Grants and Loans	0.7	0.6	0.6	0.6	0.6	3.1
Other Schemes	8.4	6.2	1.3	0.7	0.7	17.3
	48.1	**45.5**	**28.1**	**17.8**	**8.0**	**147.5**
HOUSING REVENUE ACCOUNT						
Aids and Adaptations	0.0	0.4	0.4	0.4	0.4	1.6
Hostels Programme	0.4	0.4	0.4	0.4	0.4	2.0
Housing Matters Programme	14.8	40.8	34.1	4.5		94.2
Decent Homes Programme (LH)	21.5	36.4	33.3	35.1	49.8	176.1
	36.7	**78.0**	**68.2**	**40.4**	**50.6**	**273.9**
TOTAL PROGRAMME	**84.8**	**123.5**	**96.3**	**58.2**	**58.6**	**421.4**

APPENDIX W2: Proposed Capital Programme – Original to latest Budget

	Total £000	Total £000
GENERAL FUND		
Original Budget (Feb 2016)		**85,401**
New Schemes during the year		
17/18 & 18/19 Schools Places Programme	28,551	
17/18 Schools Minor Works Capital Programme	3,345	
Essential Footpath Resurfacing Parks, Cemeteries and Crematorium	1,366	
Day services remodelling & Community hub development	709	
Greystead Estate and Fairlawn School	420	
Thames Tideway Tunnel – Landscapping Masterpiece	291	
Louise House and Library Works	108	
Coulgate Street – Public Realm Scheme	102	
		34,892
19/20 & 20/21 Rolling Programmes		
LBL Highways	3,500	
ICT – Tech Refresh	1,000	
AMP Programme	5,000	
Disabled Facilities Grant	1,400	
Private Sector Grants – Disc	1,200	
Cash Incentive Scheme	400	
		12,500
Approved variations on existing schemes		
15/16 Underspends on various schemes	8,976	
16/17 Schools Primary Places Programme – Additional funding	3,714	
16/17 TfL Highways Programme	2,988	
New Homes, Better Places- Besson Street Development – Additional funding	942	
Education Catering Investment – Additional funding	728	
Borough Wide 20 MPH Zone – Additional funding	1,120	
Disabled Facilities Grant – Additional Grant	353	
Achilles Street Development – Additional	212	

funding		
Schools CERA –Funding discontinued	(3,600)	
Aids & Adaptations – Transferred to HRA	(800)	
Other variations	85	**14,718**
Latest Budget		**147,511**

HOUSING REVENUE ACCOUNT

Original Budget (Feb 2016)		**251,855**
Re-phasing Budgets and addition of 20/21 Budgets		
- Rephasing of HRA Budgets (16/17 to 19/20)	(29,702)	
- 20/21 HRA Budgets	50,152	20,450
Aids & Adaptations – Transferred from GF		800
Aids & Adaptations – Rolling Programme		800
Latest Budget		**273,905**
Latest Capital Programme 5 Year Budgets (16/17 to 20/21)		**421,416**

W3: Hatcham Temple Grove School – Debt Write-off

1. In June 2009, a Design and Build Contract for the redevelopment of the school facilities at Hatcham Temple Grove operated by the Haberdashers Askes Academy Trust (Trust) was entered into by the Authority and the Local Education Partnership (LEP). In April 2010 a fire that started in one of the areas of the facilities being worked on caused widespread damage to the areas being worked on at that time but also to areas that had been completed and handed over for use to the Trust.

2. Reports were brought to Mayor and Cabinet on the 5 December 2012 and the 6 March 2013 updating on the progress made to ensure the re-instatement of the school. These reports set out the complexity of the insurances position which necessitated both the assignment of the Authority's Contract works insurance proceeds to the Trust, and the entering into of a Development Agreement between the Authority and Trust to allow the Trust to act as a developer and deliver the re-instatement project. These reports set out the financial contribution that the Authority would make to the Trust for this scheme, and the potential for these monies to be re-couped via insurance claims.

3. The re-instatement project commenced in late 2013, completed in December 2014 and the school opened in January 2015. The Authority and the Trust worked together during 2015 and 2016 to pursue a single claim for insurable losses and reached a successful settlement with the Trust insurers in September 2016, thus avoiding court proceedings which generally result in reduced settlements and further legal costs. The settlement received by the Authority covered the contributions made to the Trust under the Development Agreement for the re-instatement works, as approved by M&C on 6 March 2013.

4. However, immediately following the fire the Authority's Building Control service attended site and deeming the remaining building to be a Dangerous Structure arranged for buttress scaffolding to be erected. This scaffolding remained in situ from 2010 until the re-instatement works in late 2013. The total cost of this scaffolding is £821k. The settlement reached has allowed for the repayment of the capital contribution for the re-instatement works and the allocation of £538k by the Trust towards the Building Control debt, resulting in irrecoverable debt of £283k. The irrecoverable debt represents the Authority's proportion of uninsurable and irrecoverable losses and Officers recommend that this debt now be written off.

APPENDIX X1: Proposed Housing Revenue Account Savings 2017/18

X1.1 The HRA strategy and self-financing assessments are continually updated and developed with the view to ensuring resources are available to meet costs and investment needs and are funded for 2017/18 and future years.

X1.2 Savings and efficiencies delivered in the 2017/18 budget can be re-invested to off-sent constrained rent rises or to help bridge any investment gap identified. As a prudent measure the original financial model was developed with no savings identified. Subsequently, discussions have taken place regarding appropriate savings and 'target' management and maintenance costs per unit. For example, there is already an assumed reduction in the Lewisham Homes fee in 2017/18 to reflect stock losses through Right to Buy Sales. Although no direct efficiencies/savings are currently being considered for 2017/18, work continues to identify opportunities for cost reductions and efficiencies relating to the HRA business model. Where identified, these savings would be available to off-set future rental losses due to a constrained uplift to protect investment in stock or services.

X1.3 An update of the HRA Strategy, Savings Proposals, proposed rent & service charge increases and comments from consultation with tenant representatives will be reported to Mayor & Cabinet as part of the HRA Rents and budget strategy report. Mayor & Cabinet will make the final budget decisions in the new year.

APPENDIX X2: Leasehold and Tenants Charges Consultation 2017/18

Committee	**Brockley Residents Panel**	Item No	
Report Title	**Leasehold and Tenant Charges Consultation**		
Contributor	**Regenter Brockley Operations Manager**		
Class	**Decision**	Date	**13th December 2016**

1 Summary

1.1 The report sets out proposals to increase service charges to ensure full cost recovery in line with Lewisham Council's budget strategy.

1.2 The report requests Brockley Residents Panel members to consider the proposals to increase service charges based on an uplift of 3.00% for 2017/18 on specific elements. This is based on full cost recovery in line with previous years' proposals.

2 Policy Context

2.1 The policy context for leasehold and tenant service charges is a mixture of statutory and Council Policy.

2.2 The Council's Housing Revenue Account is a ringfenced revenue account. The account is required to contain only those charges directly related to the management of the Council's Housing stock. This requires that leaseholder charges reflect the true cost of maintaining their properties where the provision of their lease allows. This prevents the situation occurring where tenants are subsidising the cost of leaseholders who have purchased their properties.

3. Recommendations

3.1 The Brockley Residents Panel is requested to consider and comment on the proposals contained in this report and the feedback from the residents will be presented to Mayor and Cabinet as part of the wider rent setting report.

4. Purpose

4.1 The purpose of the report is to:

- outline the proposals for increases in service charges in line with the contract arrangements for leaseholders and tenants to recover costs incurred for providing these services

5. Housing Revenue Account Charges

5.1 There are a number of charges made to residents which are not covered through rents. These charges are principally:

- Leasehold Service Charges
- Tenant Service Charges

5.2 A service charge levy is applied to Tenants for caretaking, grounds maintenance, communal lighting, bulk waste collection and window cleaning. Tenants also pay a Tenants Fund Levy which is passed onto the Tenants Fund as a grant.

5.3 The key principles that should be considered when setting service charges are that:

- The charge should be fair and be no more or less than the cost of providing the service
- The charge can be easily explained
- The charge represents value for money
- The charging basis allocates costs fairly amongst those receiving the service
- The charge to all residents living in a block will be the same

5.4 The principle of full cost recovery ensures that residents pay for services consumed and minimises any pressures in the Housing Revenue Account in providing these services. This is in line with the current budget strategy.

5.5 In the current economic environment it must however be recognised that for some residents this may represent a significant financial strain. Those in receipt of housing benefit will receive housing benefit on increased service charges. Approximately 50% of council tenants are in receipt of housing benefit.

6. Analysis of full cost recovery

6.1 The following section provides analysis on the impact on individuals of increasing charges to the level required to ensure full cost recovery. The tables indicate the overall level of increases.

6.2 Leasehold service charges

The basis of the leasehold management charge has been reviewed and externally audited this summer to reflect the actual cost of the service. In line with best practice in the sector this is now a fixed cost rather than a variable cost. The management charge is £53.00 for street properties and £145.30 for blocks.

6.2.1 The uplift in leaseholder charges should reflect full cost recovery for the type of service undertaken. It is proposed that any uplift is applied at 3.00% [RPI (September 2016) +1.00%].

6.2.2 The following table sets out the average weekly increase for the current services provided by Regenter Brockley:

Service	Leasehold No.	Current Weekly Charge	Weekly Increase	New Weekly Amount	Increase (%)
Caretaking	371	£3.61	£0.11	£3.72	3%
Grounds Maintenance	368	£2.04	£0.06	£2.10	3%
Lighting	389	£0.75	£0.02	£0.77	3%
Bulk Waste	362	£1.23	£0.04	£1.27	3%
Window Cleaning	221	£0.09	£0.00	£0.09	3%
Resident Involvement	549	£0.24	£0.01	£0.25	3%
Customer Services	549	£0.35	£0.01	£0.36	3%
Ground Rent	549	£0.19	£0.01	£0.20	3%
General Repairs	237	£0.55	£0.02	£0.57	3%
Technical Repairs	400	£0.33	£0.01	£0.34	3%
Entry Phone	139	£0.05	£0.00	£0.05	3%
Lift	235	£0.30	£0.01	£0.31	3%
Management Fee	549	£1.65	£0.05	£1.70	3%
Total		**£11.38**	**£0.34**	**£11.72**	**3%**

6.3 Tenant service charges

6.3.1 Tenant service charges were separated out from rent (unpooled) in 2003/04, and have been increased by inflation since then. RB3 took over the provision of the caretaking and grounds maintenance services in 2007/08. Both tenants and leaseholders pay caretaking, grounds maintenance, communal lighting, bulk waste collection and window cleaning service charges.

6.3.2 In addition, tenants pay a contribution of £0.10pw to the Lewisham Tenants Fund. At present there are no plans to increase the Tenants Fund charges.

6.3.3 In order to ensure full cost recovery, tenant’s service charges for caretaking, grounds maintenance and other services should be increased in line with the percentage increase applied to leaseholder service charges. Overall, charges are suggested to be increased by an average of £0.25 pw which would move the current average weekly charge from £8.47 to £8.72.

6.3.4 The effect of increases in tenant service charges to a level that covers the full cost of providing the service is set out in the table below.

Service	Current Weekly Charge	Weekly Increase	New Weekly Amount	Increase (%)
Caretaking	£4.18	£0.13	£4.31	3%
Grounds Maintenance	£2.03	£0.06	£2.09	3%
Communal Lighting	£0.75	£0.02	£0.77	3%
Bulk Waste	£1.23	£0.04	£1.27	3%
Window Cleaning	£0.18	£0.01	£0.19	3%
Tenants fund	£0.10	£0.00	£0.10	0%
Total	**£8.47**	**£0.25**	**£8.72**	**3%**

6.3.5 The RB3 Board is asked for their views on these charges from April 2017 to March 2018. Results of the consultation will be presented to Mayor and Cabinet for approval in February 2017.

7. Financial implications

The main financial implications are set out in the body of the report.

8. Legal implications

8.1. Section 24 of the Housing Act 1985 provides that a local housing authority may make such reasonable charges as they determine for the tenancy or occupation of their houses. The Authority must review rents from time to time and make such changes as circumstances require. Within this discretion there is no one lawful option and any reasonable option may be looked at. The consequences of each option must be explained fully so that Members understand the implications of their decisions.

8.2 Section 76 of the Local Government and Housing Act 1989 provides that local housing authorities are under a duty to prevent a debit balance in the HRA. Rents must therefore be set to avoid such a debit.

8.3 Section 103 of the Housing Act 1985 sets out the terms under which secure tenancies may be varied. This requires: -

- the Council to serve a Notice of Variation at least 4 weeks before the effective date;
- the provision of sufficient information to explain the variation;
- an opportunity for the tenant to serve a Notice to Quit terminating their tenancy.

8.4 The timetable for the consideration of the 2016/17 rent levels provides an adequate period to ensure that legislative requirements are met.

8.5 Part III of Schedule 4 of the Local Government and Housing Act 1989 provides that where benefits or amenities arising out of the exercise of a Housing Authority's functions, are provided for persons housed by the authority, but are shared by the community as a whole, the authority shall make such contribution to their HRA from their other revenue accounts to properly reflect the community's share of the benefits or amenities.

8.6 Where as an outcome of the rent setting process, there are to be significant changes in housing management practice or policy, further consultation may be required with the tenants affected in accordance with section 105 of the Housing Act 1985.

9. Crime and disorder implications

There are no specific crime and disorder implications in respect of this report paragraph.

10. Equalities implications

The general principle of ensuring that residents pay the same charge for the same service is promoting the principle that services are provided to residents in a fair and equal manner.

11. Environmental implications

There are no specific environmental implications in respect of this report.

12. Conclusion

12.1 Revising the level of charges ensures that the charges are fair and residents are paying for the services they use.

12.2 The additional resources generated will relieve some of the current pressures within Housing Revenue Account and will contribute to the funding of the PFI contract which is contained within the authorities Housing Revenue Account.

If you require any further information on this report please contact

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APPENDIX X3: Leasehold and Tenants Charges and Lewisham Homes Budget Strategy 2017/18

Business Plan and Service Charge Consultation

www.lewishamhomes.org.uk

Introduction

- Consult residents on changes in service charges
- Inform tenants of rent changes
- Consult residents on our Business Plan priorities

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Tenants rents & service charges

- No discretion on rent setting
- Required to reduce rents by 1% per annum
- This is not part of the consultation

Benchmarking our service charges

- The most recent comparison is for 12 London boroughs for 2014/15
- Lewisham Homes is cheaper than average for most charges
- Some boroughs charge tenants for items that we do not like door entry systems, CCTV and concierge, making their costs higher still

www.lewishamhomes.org.uk

Charges in 2014/15 compared (1)

Charges that are the same for leaseholders and tenants	Lewisham Homes	Average for 12 London boroughs	Number in average	Difference
Caretaking	£5.93	£6.23*	9	-£0.30
Grounds Maintenance	£0.97	£1.70	11	-£0.73
Block Pest Control	£1.55	£1.30	3	£0.26
Window Cleaning	£0.06	£0.10	3	-£0.04
Bulk Waste Disposal	£0.48	£0.34	3	£0.14
Communal Lighting	£0.86	£1.38	10	-£0.52
Communal Heating and Hot Water	£9.88	£13.52	8	-£3.64
Tenants levy	£0.10	£0.10	2	£0.00
Total of above	£13.90	£18.44		-£4.53

*£6.23 includes sweeping charges for other organisations

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Charges in 2014/15 compared (2)

Weekly charges just for leaseholders	Lewisham Homes	Average for 12 London boroughs	Number in average	Difference
Sweeping	£0.87	*		
Repairs and Maintenance	£2.62	£3.62	12	-£1.00
Lifts	£2.65	£1.33	12	£1.32
Entry Phone	£0.36	£0.25	4	£0.11
Man fee high (inc ASB, Customer	£3.35	£3.95	11	-£0.60
Man fee low services & R involve)	£1.66	£1.81	4	-£0.15
Total of above	**£11.51**	**£10.96**		**-£0.32**

* Sweeping costs are included within caretaking costs for other organisations

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2016/17 compared to 2017/18

Leaseholders and Tenants	2016/17	2017/18	Change	% change
Caretaking (L&T)	£5.89	£5.95	£0.06	1%
Ground Maintenance (L&T)	£1.63	£1.64	£0.01	1%
Repairs and Maintenance - Building	£2.67	£2.32	-£0.35	-15%
Repairs and Maintenance Technical	£1.12	£1.00	-£0.12	-12%
Lifts	£2.62	£2.77	£0.15	5%
Entry Phone	£0.65	£0.76	£0.11	14%
Block Pest Control (L&T)	£1.56	£1.60	£0.04	3%
Ground Rent	£0.19	£0.19	£0.00	0%
Sweeping	£0.77	£0.87	£0.10	11%
Management	£2.57	£2.56	-£0.01	0%
Window Cleaning (L&T)	£0.06	£0.06	£0.00	0%
Bulky House Hold Waste Collection Service	£0.48	£0.49	£0.01	2%
Bulk Waste Disposal (L&T)	£0.81	£0.82	£0.01	1%
Insurance	£1.16	£1.18	£0.02	2%
Communal Lighting (L&T)	£1.08	£1.13	£0.05	4%
Communal Heating and Hot Water (L&T)	£9.86	£9.89	£0.03	0%

Background to changes

- Repair, lift and entry phone costs vary significantly from year to year so we base the charge on the average cost over the previous 3 years
- 2016/17 sweeping charges were understated and these have been corrected for 2017/18
- The 1% increase in caretaking and grounds maintenance reflects the annual increase in pay

The Business Plan

- BP sets out our plans for the year
- Annual report sets out what we have done
- We would like your views on whether we are focused on the right things

Annual report 2015/16

- Our aim – Excellent Services
- Introduced on line Repairs
- Customer care training for all staff
- Tenant Satisfaction up from 71% to 77%
- Leasehold satisfaction up from 35% to 56%

Annual report 2015/16

- Our Aim –Thriving Neighbourhoods
- 90% of homes meet the Decent homes standard
- 50 homes purchased to meet housing need
- 74 new homes started on site
- Delivering a range of Community Investment Initiatives

Annual report 2015/16

- Our Aim – Sustainable Future
- New efficient vehicle fleet for the Repairs service
- Tenant debt reduced by £2.3m since 2006
- Rent Collection up by £1.2m a year since 2006
- 1,286 residents saving £450,000 with the credit union

Annual report 2015/16

- Our Aim - Employer of Choice
- Achieved IIP Gold
- 32 apprenticeships with LH and our contractors
- Fund raising cycle ride for Lewisham foodbank raised £3,000
- 91% of staff say it's a good place to work

Business Plan 2016/19

- Our aim - Excellent Services
- More services online
- Better online engagement with residents
- Invest £360,000 in environmental improvements
- Resident scrutiny review of safety and security

Business Plan 2016/19

- Our aim – Thriving Neighbourhoods
- 100% of homes meet the Decent Homes standard
- 500 new homes on site by March 2018
- Help people to get online
- Invest £4m in improving sheltered housing
- Deliver a community investment programme

Business Plan 2016/19

- Our aim – Sustainable future
- Deliver value for money
- Better contract management
- Invest in technology
- Improving our business analysis to improve performance
- Grow Lewisham homes to deliver efficiencies

Business Plan 2016/19

- Our aim – Employer of Choice
- 10 graduate training and apprenticeship places
- Invest in staff development
- Paying the Living wage
- Becoming a times top 100 company

www.lewishamhomes.org.uk

Your input

- Are we focussing on the right things
- Is there anything missing
- What would you like to see in our plan

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Next Steps

- Consultation feedback to the mayor
- Business plan feedback on our website (others having a chance to comment
- Business plan to our April Board

APPENDIX X4: Other Associated Housing Charges for 2016/17

Garage Rents

1. Allowance has been made for a 2.00% inflationary increase to all garage rents across all managed areas, based on the RPI rate at September 2016. This equates to an average increase of £0.23 per week and raises the average basic charge from £11.59 to £11.82 per week.

2. Garage rents for the Brockley PFI managed area will therefore increase from an average of £8.89 per week to £8.96 per week. This is a change of £0.07per week.

3. Garage rents for the Lewisham Homes managed area will therefore increase from an average of £11.59 per week to £11.82 per week. This equates to an increase of £0.23 per week.

4. The authority will be commissioning a review into rental values across the garage stock, with a view to reporting to Mayor & Cabinet sometime in the next year recommending rental values to take forward in the longer term. Any changes are likely to be consulted on and implemented for financial year 2018/19 onwards

Tenants Levy

5. As part of the budget and rent setting proposals for 2005/6, a sum of £0.13 per week was 'unpooled' from rent as a tenants service charge in respect of the Lewisham Tenants Fund. There was no increase in charges for the period 2009/10 to 2013/14 following consultation with Housing Panels.

6. Lewisham Tenants Fund (LTF) have proposed to leave the charge at its current level of £0.10pw for 2017/18. These were submitted to Housing Panels and agreed. Therefore, the levy for 2017/18 will remain at £0.10 per property per week.

Hostel charges

7. Hostel accommodation charges are set based on current Government requirements and will reduce by around 1.0% (£0.35 per week).

8. Hostel services charges are set to achieve full cost recovery, following the implementation of self-financing. For 2017/18, the charge for Caretaking/management and Grounds Maintenance are proposed to be increased by 2.00% or £1.42 per week to reflect inflationary increases. This will move the average charge from £72.96 per unit per week to £74.38 per unit per week.

9. In addition, the charge for Heat, Light & Power will increase from £5.49 to £5.98 an increase of £0.49pw. Water charges will increase from £0.18 to £0.19 an increase £0.01pw. The charge for Council Tax will be based on the total recharged received from Council Tax section. All charges will be based on the total number of hostel units and if forecast to remain unchanged for 2017/18.

10. Hostel residents were consulted on these proposals via individual letters. Officers also invited hostel residents to meet them to discuss the changes and how these may affect them. However, no comments or representations were received.

Linkline Charges

10. It is proposed to increase Linkline charges for 2017/18 by 2.5%, based on information received from the service provider. Charges will therefore increase from its current level of £5.42 per week to £5.56 per week, an increase of £0.14 per week. There are no proposals to increase the maintenance charge, which will remain at £0.94 per week.

Private Sector Leasing (PSL)

11. Rent income for properties used in the Private Sector Leasing (PSL) scheme is a General Fund resource. Following consultation, the Department for Work and Pensions (DWP) announced that the threshold for 2016/17 for housing benefits subsidy allowances will be based on the January 2011 Local Housing Allowance, less 10%, plus a management fee of £40 per property, subject to a maximum capped amount of £500 per week. It is recommended that rents for private sector leased properties are kept within the 2011/12 weekly threshold, as set out in Table B3 below.

Table B3 - Local Housing Allowances for 2017/18 (used for PSL purposes)

Bed Size	**Total LHA Inner Lewisham**	**Total LHA Outer Lewisham**
1 Bed	£211.34	£180.19
2 Bed	£268.47	£211.34
3 Bed	£310.00	£246.66
4 Bed	£413.84	£310.00
5 Bed	£500.00	£393.08

Heating & Hot Water Charges

12. As part of last year's rent setting process the Mayor agreed to continue with the current formula methodology for calculating increases in

Heating & Hot Water charges to tenants and leaseholders. This formula was originally approved by Mayor & Cabinet in December 2004.

13. The current charging methodology allows a limited inflationary price increase plus a maximum of £2 per week per property increase on the previous years charge. Consumption levels are also updated and included in the formula calculation.

14. The existing corporate contract for the supply of electricity and gas is due to expire on 31st December 2016 and officers are currently working on a 9 month extension to allow time for adequate tenant and leaseholder consultation whilst a new procurement method is developed. Consumption patterns remain under review and form part of the variable element of the contract.

15. The proposal for 2017/18 is for an increase of 0.30% or £0.03 per week for energy usage for communal heating. The increase is a result of updated energy consumption/usage rates and current purchase prices. This will move the current average charge from £9.86pw to £9.89pw.

16. The proposal for communal lighting is an increase of 4.42% or £0.05 per week. This will move the current average charge from £1.08pw to £1.13pw. The increase is due to updated consumption rates.

17. Officers will review the costs, actual energy usage and new contact prices (when available) in both 2016/17and 2017/18 as part of the monitoring regime. Once the new long-term energy supply contracts are in place, recommendations for changes to charges will be brought forward as part of the 2018/19 budget process.

Tenants' rent consultation 2017/18 **Appendix 1**

The Tenants' rent consultation meetings took place on 13th December 2016 with Regenter B3 (Brockley) managed tenants and 15th December 2016 with Lewisham Homes managed tenants. Excalibur tenant's consultation took place via a report sent to the committee in December 2016

Views of representatives on rent and service charge changes & savings proposals.

	Lewisham Homes	**Brockley PFI**	**Excalibur TMO**
No of representatives (excl Cllrs)	19	7	-
Rent Reduction @ %	No comments	No comments	No Comments
Savings Proposals:-			
No Savings proposed	n/a	n/a	n/a
Service Charges inc:			
Heating & Hot Water Charges	No comments	No comments	n/a
Garage Rents	No comments	No comments	n/a
Tenants Fund	No comments	No comments	No comments

Summary of comments made by representatives	
Lewisham Homes Panel	**Rent reduction:** No comments **Tenants Service Charges & Heating & Hot water Charge:** No comments **Savings Proposals:** n/a

Brockley PFI Area	**Rent reduction:** No comments **Tenants and Leaseholders Service Charges:** No comments

Excalibur TMO	**Rent reduction:** No comments **Tenants and Leaseholders Service Charges:** n/a

APPENDIX Y1: Previously agreed budget savings for 2017/18

Ref.	Description	17/18 £'000
A	**Smarter & deeper integration of social care & health**	
A11	Managing and improving transition plans	300
A12	Reducing costs of staff management, assessment and care planning	200
A13	Alternative Delivery Models for the provision of care and support services, including mental health	700
A14	Achieving best value in care packages	500
A15	New delivery models for extra care – Provision of Contracts	900
A16	Health Protection	23
A16	Redesign through collaboration	580
A17	Sexual Health Transformation	500
	Total	**3,703**
D	**Efficiency Review**	
D1	**Feb 15 saving** – annual reduction from inflation	2,500
	Total	**2,500**
E	**Asset Optimisation**	
E2	**Feb 2015 saving** – efficiencies in facilities management contracts	670
E3	**Feb 2015 saving** – additional income from corporate properties	200
E4	**Feb 2015 saving** – additional income from commercial properties	100
E5	**Feb 2015 saving** – energy efficiency measures	15
	Total	**985**
F	**Business Support and Customer Transformation**	
F1	**Feb 2015 saving** – centralisation of business support services part 2	1,000
F2b	Pushing customers to self-serve online wherever possible.	52
F3	Customer Service Centre reorganisation.	43
	Total	**1,095**
G	**Income Generation**	
G2e	Parking: Review service level arrangements.	250
	Total	**250**
I	**Management and Corporate Overheads**	
I2a	Policy, performance, service redesign and intelligence	180
I2c	Governance	75
I5	Commissioning and Procurement: undertake base lining of current activity and focus time only on value	500

Ref.	Description	17/18 £'000
	add activities.	
I7	Finance non-salary budget and vacancies review	150
I9a	HR support	200
I9d	Social Care Training	100
I10a	Revising infrastructure support arrangements and Contract, systems and supplies review	1,000
	Total	**2,205**
J	**School Effectiveness**	
J2b	Attendance and Welfare: We currently deliver our core statutory offer plus some traded services within this area. A further restructure and increase in traded services could result in further savings.	75
J2c	Schools Infrastructure: Schools Strategic IT support to be traded or stop	58
	Total	**133**
K	**Drug and Alcohol**	
K4	Reducing the length of time that methadone (Heroin substitute) is prescribed, re-procurement of the main drug and alcohol service, and greater use of community rehabilitation	340
	Total	**340**
L	**Culture and Community Services**	
L5	Reduce the level of grant funding to the voluntary sector by £1,000,000 from 1 April 2017/18. This will require the reduction/removal of funding from a range of organisations currently receiving funding.	1,000
L6	Library and Information Service: 1. Creation of three Hub Libraries – Deptford Lounge, Lewisham and Downham Health & Leisure Centre – which will carry an enhanced role for face to face contact between the Local Authority and the public to support the digital by default agenda. 2. the extension of the Lewisham Community Library Model to Forest Hill, Torridon, and Manor House, in partnership with other council services and community organisations. And the integration of the library provision into the repurposed ground floor space within the Catford complex (Laurence House). 3. the regrading of front line staff to include new functions through the re-training and enhancement of front line roles.	600
L7	Change in contractual arrangements relating the leisure services	1,000
	Total	**2,600**

Ref.	Description	17/18 £'000
M	**Housing strategy and non-HRA funded services**	
M1	**Feb 2015 saving** – Non-housing stock transfer from Housing Revenue Account to General Fund	100
	Total	**100**
N	**Environmental Services**	
N3	Review of Lewisham's Waste Services (Doorstep collection & disposal) Transfer of estates Bulky Waste disposal costs to Lewisham Homes	500
N5	Review of Lewisham's Passenger Transport Service.	500
N6	To develop our Trade Waste customer base, improve efficiency, increase income. Increased share of income from Parks Events.	250
	Total	**1,250**
P	**Planning and Economic Development**	
P2c	Further increase in charges and changes to funding coupled with savings achievable from a corporate approach to and restructure of employment services.	305
P2d	Review of Statement of Community Involvement (SCI) on the way in which the service consults on planning applications. Efficiency savings based on paper, printing and postage costs.	20
	Total	**325**
Q	**Safeguarding and Early Intervention**	
Q1.5g	**Feb 2015 saving** – case management efficiencies between FIP & TFS	111
Q4a	Social care supplies and services reduced spend.	240
Q4b	Social care financial management through continued cost control on all areas of spend.	50
Q4c	Placements: continuing strategy to use local authority foster placements where possible.	200
Q5	Youth Service: accelerate tapering of support to Youth Service to statutory minimum (will follow decision on creation of a mutual).	150
	Total	**751**
	Grand Total	**16,237**

APPENDIX Y2: Saving Proposals to Mayor and Cabinet on 28 September 2016

Ref.	Description	17/18 £'000	18/19 £'000	19/20 £'000	Total £'000
A	**Smarter & deeper integration of social care & health**				
A18	Widening the scope of charging for social care services	500			500
A19	Reduction in the staffing costs for Assessment and Care Management	200	301		501
A20	Reduction in Day Care	300			300
A21	Reduction in Mental Health spend	500			500
	Total	**1,500**	**301**	**0**	**1,801**
B	**Supporting People**				
B3	Re-procure floating support services	500			500
	Total				**500**
E	**Asset Optimisation**				
E6	Property investment acquisition	150			150
E7	Development of Private Rental Schemes	150			150
	Total	**300**			**300**
I	**Management and Corporate Overheads**				
I11	Review insurance risk assessments	250			250
	Total				**250**
L	**Culture and Community Services**				
L8	Facilities management	70	130		200
L10	Adult Learning Lewisham subsidy	40			40
	Total	**110**	**130**		**240**
M	**Housing strategy and non-HRA funded services**				
M3	Housing needs restructure	60.8			60.8
M4	PLACE/Ladywell	85			85
M5	Hostel Acquisition	150			150
M6	Handyperson	150			150
M7	No Recourse to Public Funds costs	100			100
	Total	**545.8**			**545.8**
Q	**Safeguarding and Early Intervention**				
Q6	Developing alternative pathways for care	1,100	100		1,200

Ref.	Description	17/18 £'000	18/19 £'000	19/20 £'000	Total £'000
Q7	Review of Lewisham CAMHS	94	50	100	244
Q8	Development of Fostering Service	160			160
Q9	Reduction in Looked after Children based on edge of care developments	555			555
Q10	Enhance family finding	150			150
Q11	Review of Meliot Road Centre and contact arrangements	734			734
	Total	**2,793**	**150**	**100**	**3,043**
	Grand Total	**5,999**	**581**	**100**	**6,680**

APPENDIX Y3: Ready Reckoner for Council Tax 2017/18

Ready Reckoner for Council Tax 2017/18						
	Budget Requirement £'M	Council Tax (Band D) £	Increase / (Decrease) %	GLA Precept (Band D) £	Total Council Tax (Band D) £	Increase / (Decrease) %
2016/17	236.218	1,102.66	3.99%	276.00	1,378.66	
Recommended	**232.747**	**1,157.68**	**4.99%**	280.02	**1,437.70**	**4.28%**
	232.309	1,152.28	4.50%	280.02	1,432.30	3.89%
	231.861	1,146.76	4.00%	280.02	1,426.78	3.49%
	231.414	1,141.25	3.50%	280.02	1,421.27	3.09%
	230.967	1,135.74	3.00%	280.02	1,415.76	2.69%
	230.520	1,130.22	2.50%	280.02	1,410.24	2.29%
	230.073	1,124.71	2.00%	280.02	1,404.73	1.89%
	229.626	1,119.20	1.50%	280.02	1,399.22	1.49%
	229.179	1,113.68	1.00%	280.02	1,393.77	1.09%
	228.732	1,108.17	0.5%	280.02	1,388.19	0.69%
	228.285	1,102.66	0.0%	280.02	1382.68	0.29%

APPENDIX Y4: Chief Financial Officer's Section 25 Statement

To follow in the Budget Update Report

APPENDIX Y5: Council Tax and DRAFT statutory calculations

Council Tax Calculation

As part of the Localism Act 2011, Council Tax may not be increased by 2% or more (inclusive of levies) without triggering an automatic referendum of all registered electors in the borough. In addition, there is also the opportunity to increase Council Tax by up to a further 3% under the social care precept introduced for 2017/18.This means, for 2017/18, an automatic referendum will now be triggered when the Council Tax increase is 5% or above. The statutory calculation for whether the Council is required to hold a referendum is based upon the ‘relevant basic’ amount of Council Tax, which under accounting regulations, includes levies. Any final recommendations on Council Tax levels will need to meet statutory requirements.

To date, Lewisham has not received formal notifications from its levy bodies for 2017/18 – the Environment Agency, the LPFA and the Lee Valley Regional Park. A zero percent increase has been assumed.

Council Tax and Levies

‘Relevant Basic’ Amount of Council Tax	2016/17	2017/18
Council Tax Base	78,528.58	81,087.65
Council Tax Requirement with Levy (£)	86,590,324	93,873,550
Basic Amount of Council Tax (£)	1,102.66	1,157.68
Increase in basic amount of Council Tax (%)	**3.99%**	**4.99%**

Levy bodies for Lewisham	2016/17 £	2016/17 £	Change £
LPFA	1,229,386	1,229,386	0
Lee Valley Regional Park	224,364	224,364	0
Environment Agency	178,500	178,500	0
Total Levies	**1,632,250**	**1,632,250**	**0**

*The term “relevant basic amount of council tax” is defined in section 52ZX of the 1992 Act (inserted as above and amended by section 41(1) and (9) to (13) of the **Local Audit and Accountability Act 2014**).*

Draft Statutory Calculations

1) It be noted that at its meeting on 15 January 2017, the Council calculated the number of **81,087.65** as its Council Tax base for 2017/18 in accordance with the Local Authorities (Calculation of Taxbase) Regulations;

2) The following amounts be now calculated by the Council for the year 2017/18 in accordance with the Local Government Finance Act 1992:

a. **£976,670,457** being the aggregate of the amounts which the Council estimates for gross expenditure, calculated in accordance with Section 32(2)A of the Act;

b. **£743,924,466** being the aggregate of the amounts which the Council estimates for income, calculated in accordance with Section 32(3)A of the Act;

c. **£232,745,991** being the amount by which the aggregate of 2(a) above exceeds the aggregate of 2(b) above, calculated by the Council, in accordance with Section 32A(4) of the Act, as its General Fund budget requirement for the year;

d. **£135,019,440** being the aggregate of the sums which the Council estimates will be payable for the year into its General Fund in respect of the Settlement Funding Assessment.

e. **£97,726,550** being the residual amount required to be collected from Council Tax payers. This includes the surplus on the Council's Collection Fund of **£3,853,000.**

f. **£1,157.68** being the residual sum at (e) above (less the surplus on the Collection Fund), divided by the Council Tax base of **81,087.65** which is Lewisham's precept on the Collection Fund for 2017/18 at the level of Band D;

Band	Council Tax (LBL)
	£
A	771.79
B	900.42
C	1,029.05
D	**1,157.68**
E	1,414.94
F	1,672.20
G	1,929.47
H	2,315.36

Being the amounts given by multiplying the amount at (f) above by the number which, in proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation Band D, calculated by the Council in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands;

3) It be noted that for the year 2017/18, the Greater London Authority is currently consulting on the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992 (as amended), for each of the categories of dwellings shown below:-

Band	GLA Precept
	£
A	186.68
B	217.79
C	248.91
D	**280.02**
E	342.25
F	404.47
G	466.70
H	560.04

4) Having calculated the estimated aggregate amount in each case of the amounts at 2) (f) and 3) above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, assumed the following amounts as the amounts of Council Tax for the year 2017/18 for each of the categories of dwellings shown below:-

Band	Total Council Tax (LBL & GLA)
	£
A	958.47
B	1,118.21
C	1,277.96
D	**1,437.70**
E	1,757.19
F	2,076.68
G	2,396.17
H	2,875.40

Equality and Human Rights Commission

Making fair financial decisions

Guidance for decision-makers

3rd edition, January 2015

B **Introduction**

With major reductions in public spending, public authorities in Britain are being required to make difficult financial decisions. This guide sets out what is expected of you as a decision-maker or leader of a public authority responsible for delivering key services at a national, regional and/or local level, in order to make such decisions as fair as possible.

The public sector equality duty (the equality duty) does not prevent you from making difficult decisions such as reorganisations and relocations, redundancies, and service reductions, nor does it stop you from making decisions which may affect one group more than another group. The equality duty enables you to demonstrate that you are making financial decisions in a fair, transparent and accountable way, considering the needs and the rights of different members of your community. This is achieved through assessing the impact that changes to policies, procedures and practices could have on people with different protected characteristics .

Assessing the impact on equality of proposed changes to policies, procedures and practices is not just something that the law requires, it is a positive opportunity for you as a public authority leader to ensure you make better decisions based on robust evidence.

1B **What the law requires**

Under the equality duty (set out in the Equality Act 2010), public authorities must have 'due regard' to the need to eliminate unlawful discrimination, harassment and victimisation as well as to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.

The protected characteristics covered by the equality duty are: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. The duty also covers marriage and civil partnerships, but only in respect of eliminating unlawful discrimination.

The law requires that public authorities demonstrate that they have had 'due regard' to the aims of the equality duty in their decision-making. Assessing the potential impact on equality of proposed changes to policies, procedures and practices is one of the key ways in which public authorities can demonstrate that they have had 'due regard'.

It is also important to note that public authorities subject to the equality duty are also likely to be subject to the Human Rights Act 1998. We would therefore recommend that public authorities consider the potential impact their decisions could have on human rights.

2B **Aim of this guide**

This guide aims to assist decision-makers in ensuring that:

• The process they follow to assess the impact on equality of financial proposals is robust, and
• The impact that financial proposals could have on people with protected characteristics is thoroughly considered before any decisions are arrived at.

We have also produced detailed guidance for those responsible for assessing the impact on equality of their policies, which is available on our website at www.equalityhumanrights.com

3B **The benefits of assessing the impact on equality**

By law, your assessments of impact on equality must:

• Contain enough information to enable a public authority to demonstrate it has had 'due regard' to the aims of the equality duty in its decision-making
• Consider ways of mitigating or avoiding any adverse impacts.

Such assessments do not have to take the form of a document called an equality impact assessment. If you choose not to develop a document of this type, then some alternative approach which systematically assesses any adverse impacts of a change in policy, procedure or practice will be required.

Assessing impact on equality is not an end in itself and it should be tailored to, and be proportionate to, the decision that is being made.

Whether it is proportionate for an authority to conduct an assessment of the impact on equality of a financial decision or not depends on its relevance to the authority's particular function and its likely impact on people with protected characteristics.

We recommend that you document your assessment of the impact on equality when developing financial proposals. This will help you to:

• **Ensure you have a written record of the equality considerations** you have taken into account.

• **Ensure that your decision includes a consideration of the actions that would help to avoid or mitigate any impacts on particular protected characteristics**. Individual decisions should also be informed by the wider context of decisions in your own and other relevant public authorities, so that people with particular protected characteristics are not unduly affected by the cumulative effects of different decisions.

• **Make your decisions based on evidence**: a decision which is informed by relevant local and national information about equality is a better quality decision.

Assessments of impact on equality provide a clear and systematic way to collect, assess and put forward relevant evidence.

• **Make the decision-making process more transparent**: a process which involves those likely to be affected by the policy, and which is based on evidence, is much more open and transparent. This should also help you secure better public understanding of the difficult decisions you will be making in the coming months.

• **Comply with the law**: a written record can be used to demonstrate that due regard has been had. Failure to meet the equality duty may result in authorities being exposed to costly, time-consuming and reputation-damaging legal challenges.

4B **When should your assessments be carried out?**

Assessments of the impact on equality must be carried out at a **formative stage** so that the assessment is an integral part of the development of a proposed policy, not a later justification of a policy that has already been adopted. Financial proposals which are relevant to equality, such as those likely to impact on equality in your workforce and/or for your community, should always be subject to a thorough assessment. This includes proposals to outsource or procure any of the functions of your organisation. The assessment should form part of the proposal, and you should consider it carefully **before** making your decision.

If you are presented with a proposal that has not been assessed for its impact on equality, you should question whether this enables you to consider fully the proposed changes and its likely impact. Decisions not to assess the impact on equality should be fully documented, along with the reasons and the evidence used to come to this conclusion. This is important as authorities may need to rely on this documentation if the decision is challenged.

It is also important to remember that the potential impact is not just about numbers. Evidence of a serious impact on a small number of individuals is just as important as something that will impact on many people.

5B **What should I be looking for in my assessments?**

Assessments of impact on equality need to be based on relevant information and enable the decision-maker to understand the equality implications of a decision and any alternative options or proposals.

As with everything, proportionality is a key principle. Assessing the impact on equality of a major financial proposal is likely to need significantly more effort and resources dedicated to ensuring effective engagement, than a simple assessment of a proposal to save money by changing staff travel arrangements.

There is no prescribed format for assessing the impact on equality, but the following questions and answers provide guidance to assist you in determining whether you consider that an assessment is robust enough to rely on:

• **Is the purpose of the financial proposal clearly set out?**
A robust assessment will set out the reasons for the change; how this change can impact on protected groups, as well as whom it is intended to benefit; and the intended outcome. You should also think about how individual financial proposals might relate to one another. This is because a series of changes to different policies or services could have a severe impact on particular protected characteristics.

Joint working with your public authority partners will also help you to consider thoroughly the impact of your joint decisions on the people you collectively serve.

Example: A local authority takes separate decisions to limit the eligibility criteria for community care services; increase charges for respite services; scale back its accessible housing programme; and cut concessionary travel. Each separate decision may have a significant effect on the lives of disabled residents, and the cumulative impact of these decisions may be considerable. This combined impact would not be apparent if the decisions were considered in isolation.

• **Has the assessment considered available evidence?**
Public authorities should consider the information and research already available locally and nationally. The assessment of impact on equality should be underpinned by up-to-date and reliable information about the different protected groups that the proposal is likely to have an impact on. A lack of information is not a sufficient reason to conclude that there is no impact.

• **Have those likely to be affected by the proposal been engaged?**
Engagement is crucial to assessing the impact on equality. There is no explicit requirement to engage people under the equality duty, but it will help you to improve the equality information that you use to understand the possible impact on your policy on different protected characteristics. No-one can give you a better insight into how proposed changes will have an impact on, for example, disabled people, than disabled people themselves.

• **Have potential positive and negative impacts been identified?**
It is not enough to state simply that a policy will impact on everyone equally; there should be a more in-depth consideration of available evidence to see if particular protected characteristics are more likely to be affected than others. Equal treatment does not always produce equal outcomes; sometimes authorities will have to take particular steps for certain groups to address an existing disadvantage or to meet differing needs.

• **What course of action does the assessment suggest that I take? Is it justifiable?**
The assessment should clearly identify the option(s) chosen, and their potential impacts, and document the reasons for this decision. There are four possible outcomes of an assessment of the impact on equality, and more than one may apply to a single proposal:

Outcome 1: No major change required when the assessment has not identified any potential for discrimination or adverse impact and all opportunities to advance equality have been taken.

Outcome 2: Adjustments to remove barriers identified by the assessment or to better advance equality. Are you satisfied that the proposed adjustments will remove the barriers identified?

Outcome 3: Continue despite having identified some potential for adverse impacts or missed opportunities to advance equality. In this case, the justification should be included in the assessment and should be in line with the duty to have 'due regard'. For the most important relevant policies, compelling reasons will be needed. You should consider whether there are sufficient plans to reduce the negative impact and/or plans to monitor the actual impact, as discussed below.

Outcome 4: Stop and rethink when an assessment shows actual or potential unlawful discrimination.

• **Are there plans to alleviate any negative impacts?**
Where the assessment indicates a potential negative impact, consideration should be given to means of reducing or mitigating this impact. This will in practice be supported by the development of an action plan to reduce impacts. This should identify the responsibility for delivering each action and the associated timescales for implementation. Considering what action you could take to avoid any negative impact is crucial, to reduce the likelihood that the difficult decisions you will have to take in the near future do not create or perpetuate inequality.

Example: A University decides to close down its childcare facility to save money, particularly given that it is currently being under-used. It identifies that doing so will have a negative impact on women and individuals from different racial groups, both staff and students.

In order to mitigate such impacts, the University designs an action plan to ensure relevant information on childcare facilities in the area is disseminated to staff and students in a timely manner. This will help to improve partnership working with the local authority and to ensure that sufficient and affordable childcare remains accessible to its students and staff.

• **Are there plans to monitor the actual impact of the proposal?**
Although assessments of impact on equality will help to anticipate a proposal's likely effect on different communities and groups, in reality the full impact of a decision will only be known once it is introduced. It is therefore important to set out arrangements for reviewing the actual impact of the proposals once they have been implemented.

6B **What happens if you don't properly assess the impact on equality of relevant decisions?**

If you have not carried out an assessment of impact on equality of the proposal, or have not done so thoroughly, you risk leaving yourself open to legal challenges, which are both costly and time-consuming. Legal cases have shown what can happen when authorities do not consider their equality duties when making decisions.

Example: A court overturned a decision by Haringey Council to consent to a large-scale building redevelopment in Wards Corner in Tottenham, on the basis that the council had not considered the impact of the proposal on different racial groups before granting planning permission.

However, the result can often be far more fundamental than a legal challenge. If people feel that an authority is acting high-handedly or without properly involving its service users or employees, or listening to their concerns, they are likely to be become disillusioned with you.

Above all, authorities which fail to carry out robust assessments of the impact on equality risk making poor and unfair decisions that could discriminate against people with particular protected characteristics and perpetuate or worsen inequality.

As part of its regulatory role to ensure compliance with the equality duty, the Commission monitors financial decisions with a view to ensuring that these are taken in compliance with the equality duty and have taken into account the need to mitigate negative impacts, where possible.

APPENDIX Z1: Interest Rate Forecasts 2017 - 2020

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Capita's central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2017	0.25	1.60	2.90	2.70
Jun 2017	0.25	1.60	2.90	2.70
Sep 2017	0.25	1.60	2.90	2.70
Dec 2017	0.25	1.60	3.00	2.80
Mar 2018	0.25	1.70	3.00	2.80
Jun 2018	0.25	1.70	3.00	2.80
Sep 2018	0.25	1.70	3.10	2.90
Dec 2018	0.25	1.80	3.10	2.90
Mar 2019	0.25	1.80	3.20	3.00
Jun 2019	0.50	1.90	3.20	3.00
Sep 2019	0.50	1.90	3.30	3.10
Dec 2019	0.75	2.00	3.30	3.10
Mar 2020	0.75	2.00	3.40	3.20

APPENDIX Z2: Economic Background

United Kingdom

GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3 November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16).This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA

The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** rose sharply in the week after his election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

<u>EZ</u>

In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on

Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election;** first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**
- **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia

Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries

There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

APPENDIX Z3: Credit Worthiness Policy (Linked to Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management)

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating (AAA) by a credit rating agency.
5. A body that is considered of a high credit quality (such as a bank or building society

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is as described below.

Non-Specified Investments: These are any investments which do not meet the specified investment criteria. The Council does not currently invest in non-specified investments. However, in the light of the continued predictions for low savings rates for some time to come, the Council is considering changing this and investing in pooled asset funds for periods of over one year. The Council will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

These factors are weighted and combined with an overlay of Credit Default Swap CDS spreads. The end product is a series of ratings (colour coded) to indicate the relative creditworthiness of counterparties. These ratings are used by the Council to determine the suggested duration for investments.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating	£20m	1 year
UK Government Treasury bills	UK sovereign rating	£60m	6 months
Money market funds	AAA	£30m	Liquid
Local authorities	N/A	£10m	1 year
Term deposits with banks and building societies	Yellow* Purple Blue Orange Red Green No Colour	£30m £25m £40m £25m £20m £15m 0	Up to 2 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£40m £25m £20m £15m 0	Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use

Call accounts and notice accounts	Yellow* Purple Blue Orange Red Green No Colour	£30m £25m £40m £25m £20m £15m 0	Liquid
Pooled asset funds		£50m	At least 5 years

**for UK Government debt, or its equivalent, constant net asset value money market funds and collateralised deposits where the collateral is UK Government debt*

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Executive Director of Resources and Regeneration, and if required new counterparties which meet the criteria will be added to the list. Any fixed term investment held at the time of the downgrade will be left to mature as such investments cannot be broken mid term.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

APPENDIX Z4: Approved countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

AA-

- Belgium

APPENDIX Z5: Requirement of the CIPFA Management Code of Practice

Treasury management scheme of delegation

(i) Full Council

- budget consideration and approval;
- approval of annual strategy.
- approval of/amendments to the organisation’s treasury management policy statement

(ii) Public Accounts Committee

- receiving and reviewing reports on treasury management policies, practices and activities;

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending treasury management policy for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- approval of the division of responsibilities;
- approving the organisation’s treasury management practices;

Mayor & Cabinet			
Report Title	**Treasury Management Mid-year Review Report 2016/17**		
Key Decision	No		Item No:
Ward	All		
Contributors	**Executive Director for Resources & Regeneration**		
Class	Part 1		Date: 7 December 2016

Lateness: This report was not available for the original dispatch because officers needing additional time to complete their review of the current Treasury Management performance and prepare the report.

Urgency: The report is urgent and cannot wait until the next meeting of the Mayor & Cabinet on 11 January 2017 to comply with the requirement of the CIPFA Treasury Management Code of Practice and to enable Members to note the position of the Council's Treasury Management Strategy before considering the Treasury Management Strategy with the Council's budget in the New Year.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. EXECUTIVE SUMMARY

1.1 The report presents the current economic conditions in which the Council is operating in respect of its investments and borrowing. It then sets out the Council's treasury performance and capital position as at 30 September 2016. It also provides updates on the arrangements in place and an assessment of the current Treasury Management strategy as required by the Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice.

1.2 The UK economy has performed well in 2016 however there are large uncertainties in the outlook. These include the following risks:

- The implications of the UK's EU referendum result most immediately the inflationary pressures from the loss of value of sterling;
- Weakening global growth, in particular in China, Japan and Emerging Markets; and
- Recapitalisation of European banks and a resurgence of the Eurozone sovereign debt crisis.

1.3 In terms of performance, the capital expenditure estimate for 2016/17 has fallen to £85m, from £129m, principally in respect of the HRA. On current plans no difficulties are envisaged for the current or future years in complying with the Code's requirements for prudential borrowing. Council investments are managed within the agreed parameters and delivered a yield (on an annualised basis) for the six months to 30 September of 0.59% (down from 0.65% last year). For this risk profile this performance is in line with the benchmark group of London Authorities.

1.4 There are no changes proposed to the Treasury Management strategy proposed at this time and one change the Prudential Indicators (to reflect revised Capital Finance Requirement) and one change the Treasury Indicators (to provide some flexibility in the profile of fixed rate borrowing).

2. STRUCTURE

2.1. The rest of this report is structured with the following sections:

- Purpose
- Recommendations
- Policy Context
- Background and Prior Year Outturn
- Economic Update
- Treasury Management Strategy Statement And Annual Investment Strategy Update
- The Council's Capital Position
- Investment Portfolio 2015/16
- Borrowing
- Debt Rescheduling
- New Banking Contract

3. PURPOSE OF THE REPORT

3.1 This mid-year review has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management. It covers the following:

(i) An economic update for the first part of 2016/17;

(ii) A review of the Treasury Management Strategy Statement and Annual Investment Strategy;

(iii) The Council's capital expenditure (prudential indicators);

(iv) A review of the Council's investment portfolio for 2016/17;

(v) A review of the Council's borrowing strategy for 2016/17;

(vi) A review of any debt rescheduling undertaken during 2016/17; and

(vii) A review of compliance with Treasury and Prudential Limits for 2016/17.

4. RECOMMENDATIONS

4.1. Mayor and Cabinet are asked to note the report, in particular the:

- macro economic context, performance of investments to date, updates on capital expenditure and borrowing in line with CIPFA requirements and the Council's treasury management strategy.
- the changes (section 12) to the Treasury Indicators and Limits in respect of the fixed interest rate borrowing to reflect the maturing structure of the existing borrowing portfolio.
- officers work to explore the options, as a non-specified investment, of pooled investment funds and residential mortgage backed securities for periods of greater than twelve months and that, if required, changes to non-specified investments in the Annual Investment Strategy will be brought forward when the treasury strategy is reset with the budget in February 2017.

5. POLICY CONTEXT

5.1 The contents of this report are consistent with the Council's policy framework. It supports the achievement of the Council's corporate priority to ensure efficiency, effectiveness and equity in the delivery of excellent services to meet the needs of the community.

6. BACKGROUND AND PRIOR YEAR OUTURN

Background

6.1. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

6.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

6.3. Accordingly, treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

6.4. The Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011). The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year. (This is the mid year report).
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Public Accounts Select Committee.

2015/16 Treasury Management Outturn

6.5. The overall treasury management portfolio as at 31 March 2016 is set out in the table below:

Treasury Management Outturn 2015/16	**Outstanding at 31 March 2016**	**Average Coupon Rate**	**Average Remaining Duration**	**Outstanding at 31 March 2015**
	£m	**%**	**Years**	**£m**
Fixed Rate Borrowing				
Public Works Loan Board	78.0	5.1	36.0	78.0
Market Loans	88.3	4.5	46.7	87.4
Sub-total – Fixed Rate Borrowing	***166.3***	***4.8***	***41.4***	***165.4***
Variable Rate Borrowing				
Public Works Loan Board	0	0	N/A	0
Market Loans	25.0	4.6	37.5	25.0
Sub-total – Variable Rate Borrowing	*25.0*	*4.6*	*37.5*	*25.0*
Total Debt	**191.3**	**4.7**	**39.5**	**190.4**
Investments				
Money Markets	90.5	0.5	N/A	81.0
Fixed Term Deposits	220.0	0.8	137.0	220.0
Notice Deposits	20.0	0.7	135.0	10.0
Total Investments	**330.5**	**0.7**	**136.0**	**311.0**

6.6. The net borrowing requirement for 2015/16 was £10.9m, this being £10.1m higher than the net borrowing requirement of £0.8 for 2014/15 as set out in the table below:

Net Borrowing Requirement	2015/16	2014/15
	£m	£m
Capital Investment	72.3	65.3
Capital Grants	(36.2)	(50.9)
Capital Receipts	(11.7)	(4.3)
Revenue	(11.9)	(6.7)
Net position	***12.5***	***3.4***
MRP	(1.6)	(8.5)
Maturing Debt	0	5.9
Net Borrowing Requirement	**10.9**	**0.8**

6.7. In previous years the Council has financed its net borrowing requirement from temporary cash balances it holds. As at 31 March 2016, this internal borrowing totalled £50.4m, which is the difference between the Capital Financing Requirement (CFR) and the Council's actual borrowing.

Debt and CFR Movement	2015/16	2014/15
	£m	£m
Capital Financing Requirement *	241.7	230.8
External Debt	(191.3)	(190.4)
Difference – internal borrowing	***50.4***	***40.3***

* Excluding other long term liabilities

6.8. With the exception of the capitalised interest £0.9m on one loan, there was no new borrowing in 2015/16. There were no external debt transactions during 2015/16 therefore the average interest rate of the external debt and the average duration remained the same as the previous year.

7. ECONOMIC UPDATE

7.1. The Economic update is provided by our Treasury Advisors Capital Asset Services:

<u>UK</u>

7.2. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the

Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

7.3. The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

7.4. The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

USA

7.5. The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

Eurozone

7.6. In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

Asia

7.7. Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

Interest rate forecasts

7.8. The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

7.9. Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

7.10. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. Our PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

7.11. The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

7.12. The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

8. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

8.1. The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by Council on 24 February 2016.

8.2. No changes to the current treasury strategy are proposed at the current time.

8.3. Officers continue to explore the options, as a non-specified investment, to use pooled investment funds (property funds and residential backed mortgage securities) for periods of greater than twelve months. Such funds typically have higher entry and exit fees and therefore require a longer term investment and higher risk appetite for higher returns. The use of such instruments can be deemed capital expenditure and as such will be an application (spending) of capital resources. The Authority will seek guidance on the status of any fund it may consider using and appropriate due diligence will also be undertaken before any such investment is committed to.

8.4. If required, changes to or clarifications within the non-specified investments Annual Investment Strategy will be brought forward when the treasury strategy is reset with the budget in February 2017.

8.5. There is one change to the Prudential Indicators and one to the Treasury Indicators. Respectively, they are:

- lower CFR to reflect revised lower capital programme which reduces the anticipated level of General Fund prudential borrowing by £10m; and
- amended upper limits for the structure of fixed rate borrowing which need to reflect the maturing nature of the Council's existing loans over time.

9. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

9.1. This section of the report is structured to update on:

a) The Council's capital expenditure plans;

b) How these plans are being financed;

c) The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and

d) Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

9.2. This table shows the original estimates for capital expenditure and the changes since the capital programme was agreed by Council in the Budget.

Table2: Capital Expenditure by service area

Capital Expenditure	Original Feb £m	Revised Sep £m	Change £m	%
General Fund				
Building Schools for the Future	1.2	2.8	1.6	133%
Schools	7.4	14.3	6.9	93%
Highways & Transport	6.0	8.5	1.5	25%
Regeneration	11.7	11.7	0.0	0%
Town Centres	3.6	0.3	-3.3	-92%
Asset Management Programme	3.1	1.5	-1.6	-52%
Other	10.1	8.9	-1.2	-12%

Capital Expenditure	Original Feb £m	Revised Sep £m	Change £m	%
Sub total	**43.1**	**48.0**	**4.9**	**11%**
Housing Revenue Account	86.1	36.7	-49.4	-57%
Total	**129.2**	**84.7**	**-44.5**	**-34%**

9.3. The General Fund revised capital expenditure plan at the half year increased by 11%, reflecting in the main the additional costs anticipated to deliver school projects. The Housing Revenue Account revised capital expenditure plan has been reduced by 57% to reflect the revised timings for the delivery of the Housing Matters and Decent Homes programmes.

Financing of the Capital Programme

9.3 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 3: Capital Expenditure Financing

Capital Expenditure Financing	Original Feb £m	Revised Sep £m	Change £m	%
Grants and contributions	13.1	19.2	6.1	47%
Capital Receipts	53.1	27.9	-25.2	-47%
General reserves / revenue	48.3	33.0	-15.3	-32%
Sub total	***114.5***	***80.1***	***-34.4***	***-30%***
Borrowing Required	14.7	4.6	-10.1	-69%
Total	**129.2**	**84.7**	**-44.5**	**-34%**

9.4 The CFR, which is the underlying external need to incur borrowing for a capital purpose, is on target with a reduction of £10m noted in the table above for the General Fund. There are no other changes at this stage and a full outturn position, including the operational boundary, will be presented with the Budget in February.

Limits to Borrowing Activity

9.5 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) is only undertaken for capital purposes. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has an approved policy for borrowing in advance of need which will be utilised if it is deemed to be prudent. The forecast position for the end of 2016/17 remains with the CFR approximately £45m higher than the actual level of external debt.

9.6 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The level for 2016/17 was set at £507.7m and includes on balance sheet PFI schemes and finance leases as well as borrowing. It is the expected maximum borrowing need with some headroom for unexpected movements and is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

9.7 The Executive Director for Resources and Regeneration reports that no difficulties are envisaged for the current or future years in complying with either of these prudential indicators.

10. INVESTMENT PORTFOLIO 2016/17

10.1. In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 7, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the credit worthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

10.2. The Council held £367m of investments as at 30 September 2016 (£342m at 31 March 2016) and the investment portfolio yield for the first six months of the year is 0.59% (compared to 0.65% this time last year).

10.3. The Council is a member of a London treasury benchmarking group (organised by Capita Services) along with 12 other London authorities. An extraction of the September benchmarking report is shown in Appendix 2. This shows that the return on investments in June is in-line with the model weighted average rate of return provided by the Council's treasury advisors and based on the overall risk the investments are exposed to.

10.4. A full list of investments held as at 30 September 2016 is shown below:

Table 4: Fixed Term Deposits

Counterparty	Duration	Principal £m	Rate	Interest £k
Standard Charter Bank (CD)	183	10.000	0.72%	34,600
Bank of Scotland Plc (TD)	364	5.000	1.00%	49,863
Lloyds Bank Plc (TD)	364	5.000	1.00%	49,863

Counterparty	Duration	Principal £m	Rate	Interest £k
Rabobank Nederland (TD)	364	5.000	0.83%	41,386
Lloyds Bank Plc (TD)	365	5.000	1.00%	50,000
Barclays Bank Plc (TD)	365	5.000	0.93%	46,500
Bank of Scotland Plc	94	10.000	0.650%	16,740
BNP Paribas	185	10.000	0.700%	35,479
Toronto Dominion Bank	364	20.000	0.900%	179,507
Sumitomo Mitsui Banking Corporation Europe Ltd	184	5.000	0.720%	17,520
Landesbank Hessen-Thueringen Girozentrale (Helaba)	364	10.000	0.900%	89,753
Nationwide BS	183	10.000	0.710%	35,597
Goldman Sachs International Bank	185	10.000	0.780%	39,534
Credit Industriel et Commercial	185	15.000	0.700%	53,219
Goldman Sachs International Bank	186	5.000	0.620%	15,797
ABN AMRO Bank N.V.	182	15.000	0.600%	43,012
Landesbank Hessen-Thueringen Girozentrale (Helaba)	364	5.000	0.920%	45,874
Cooperatieve Rabobank U.A.	186	5.000	0.500%	12,740
BNP Paribas	186	5.000	0.530%	13,504
Norddeutsche Landesbank Girozentrale	186	10.000	0.530%	12,730
Danske Bank	184	15.000	0.500%	37,808
Landesbank Hessen-Thueringen Girozentrale (Helaba)	364	5.000	0.970%	48,367
Cooperatieve Rabobank U.A.	181	15.000	0.460%	34,216
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	181	20.000	0.450%	44,630
Abbey National Treasury Services plc	364	15.000	0.900%	134,630
Commonwealth Bank of Australia	364	10.000	0.990%	98,729
Abbey National Treasury Services plc	365	5.000	0.900%	45,000
Commonwealth Bank of Australia	364	10.000	0.990%	98,729

10.5 In addition to the fixed investments above, the Council holds certain funds in the money markets, call accounts, and treasury bills. A list of these investments held as at 30 September 2016 is shown below:

Money Market Funds

MMF Counterparty	Principal £m	Average Interest
Blackrock	12.657	0.28%
Standard Life (Ignis)	30.000	0.37%
Insight	30.000	0.33%

MMF Counterparty	Principal £m	Average Interest
Federated (PR)	30.000	0.37%

Call and Notice Accounts

Counterparty	Principal £m	Interest Rate
Santander UK Plc - (95 Day Notice) (Base rate 0.25 + 10 Basis Points)	10.000	0.35%
Lloyds Bank Plc – 175 Day Notice account	10.000	0.60%
Lloyds Bank Plc – 175 Day Notice account	5.000	0.60%
Santander Corporate notice account – 180-day notice account	5.000	0.55%
Bank of Scotland Plc – 175 Day Notice account	5.000	0.60%

10.6 The Executive Director for Resources and Regeneration confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2016/17.

Investment Counterparty List

10.7 The current investment counterparty criteria selection approved in the TMSS is meeting the requirements of the treasury management function.

11. BORROWING

11.1. The Council's latest forecast capital financing requirement (CFR) for 2016/17 is £474m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing).

11.2. The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £191m and has utilised £28m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

11.3. It is anticipated that further borrowing, most likely internal borrowing, may be undertaken during this financial year as the capital programme develops. This position will require ongoing monitoring alongside the review of opportunities to favourably refinance existing borrowing and support investment in agreed Lewisham objectives (such as the Lewisham Homes acquisition programme to address Temporary Accommodation pressures) which may require external borrowing.

11.4. In recent years the Council has not added to its additional borrowing and therefore set Treasury

12. DEBT RESCHEDULING

12.1. Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2016/17. However, the Council continues to explore opportunities in respect of the financing of its PFIs and external loans.

12.2. The current Treasury indicators reflect that the existing fixed interest rate borrowing profile has been stable. This needs updating to recognise that the existing borrowing continues to mature. At the same time, following advice from our Treasury Advisors, it is proposed to introduce some headroom and flexibility in the indicators (i.e. so they add up to more than 100%). This will enable the Authority to take on additional borrowing with an appropriate level of maturity for the purposes the borrowing is required. The table below sets out the changes.

Table: Treasury Indicators and Limits

Maturity structure of fixed interest rate borrowing 2016/17 (Lower limits remain 0%)	Current Upper	Revised Upper
Under 12 months	1%	10%
12 months to 2 years	0%	10%
2 to 5 years	6%	10%
5 to 10 years	4%	15%
10 to 20 years	13%	20%
20 to 30 years	5%	25%
30 to 40 years	20%	50%
40 to 50 years	51%	60%

13. FINANCIAL IMPLICATIONS

13.1. There are no additional financial implications other than those mentioned in the body of the report.

14. LEGAL IMPLICATIONS

14.1. Authorities are required to produce and keep under review for the forthcoming year a range of indicators based on actual figures. These are set out in the report. The CIPFA Treasury Management Code of Practice says that movement may be made between the various indicators during the year by an Authority's Chief Finance Officer as long as the indicators for the total Authorised Limit and the total Operational Boundary for external debt remain unchanged. Any such changes are to be reported to the next meeting of the Council.

14.2. Under Section 5 of the 2003 Act, the prudential indicator for the total Authorised Limit for external debt is deemed to be increased by an amount of any unforeseen payment which becomes due to the Authority within the period to which the limit relates which would include for example additional external funding becoming available but not taken into account by the Authority when determining the Authorised Limit. Where Section 5 of the Act is relied upon to borrow above the Authorised Limit, the Code requires that this fact is reported to the next meeting of the Council.

14.3. Authority is delegated to the Executive Director for Resources & Regeneration to make amendments to the limits on the Council's counterparty list and to undertake Treasury Management in accordance with the CIPFA Treasury Management Code of Practice and the Council's Treasury Policy Statement.

15. ENVIRONMENTAL IMPLICATIONS

15.1. There are no specific environmental implications relating to this report.

16. HUMAN RESOURCES IMPLICATIONS

16.1. There are no specific human resources implications relating to this report.

17. CRIME AND DISORDER IMPLICATIONS

17.1. There are no specific crime and disorder implications relating to this report.

18. EQUALITIES IMPLICATIONS

18.1. There are no specific equalities implications relating to this report.

For further information about this report, please contact:

David Austin, Head of Corporate Resources on 020 8314 9114.

APPENDIX 1 - Extract from Credit worthiness Policy

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Max % of total investments/ £ limit per institution**	**Max. maturity period**
Debt Management Office – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating	£20m	1 year
UK Government Treasury blls	UK sovereign rating	100%	6 months
Money market funds	AAA	£30m	Liquid
Local authorities	N/A	£10m	1 year
Term deposits and Certificates of Deposits with banks and building societies	Yellow* Purple Blue** Orange Red Green No Colour	£30m £25m £40m £20m £15m £10m 0	Up to 1year Up to 1 year Up to 1 year Up to 1 year Up to 6 mths Up to 100 days Not for use
Call accounts and notice accounts	Yellow Purple Blue Orange Red Green No Colour	In line with the above	Liquid

**for UK Government debt, or its equivalent, constant net asset value money market funds and collateralised deposits where the collateral is UK Government debt*

***Part-nationalised bank (>50% state owned)*

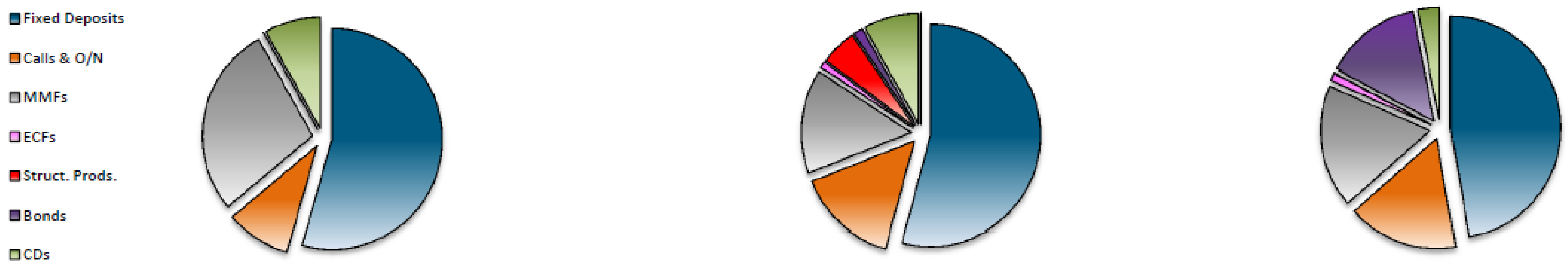
APPENDIX 2 - Extract of the Benchmarking Data with 12 other London Authorities September 2016

London Borough Of Lewisham

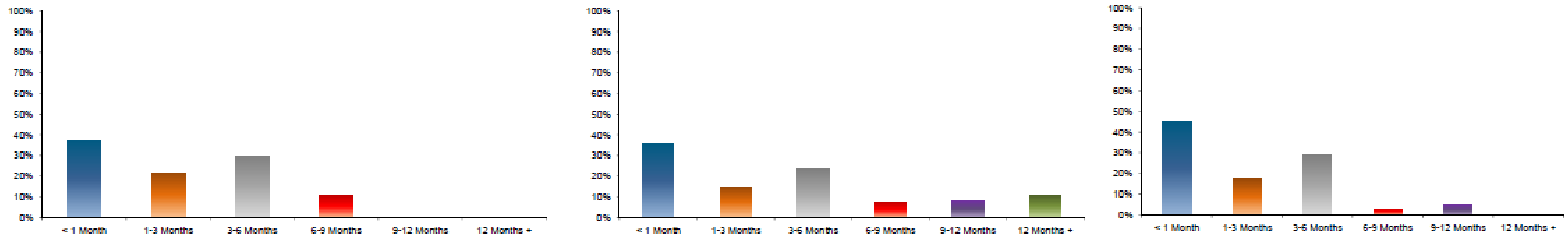
Summary Sheet

	London Borough Of Lewisham	Benchmarking Group 2 (15)	London (20)
Basic Portfolio Characteristics			
WARoR	0.59%	0.77%	0.51%
WAM	83	158	72
WATT	159	331	148
WA Credit Risk	3.7	3.5	3.1
Model WARoR	0.59%	0.77%	0.56%
Difference	-0.01%	0.00%	-0.05%
Model Band	0.53% - 0.66%	0.71% - 0.83%	0.50% - 0.62%
Performance	Inline	Inline	Inline

Asset Breakdown



Maturity Profiles



APPENDIX 2 - Extract of the Benchmarking Data with 12 other London Authorities September 2016

London Borough Of Lewisham

Peer Comparison

	London Borough Of Lewisham	Benchmarking Group 2 (15)		London (20)		Population Average (236)	
Basic Characteristics							
Principal	£367,657,000	£260,148,296		£281,917,584		£79,974,564	
WARoR	0.59%	0.77%		0.51%		0.62%	
WAM	83	158		72		97	
WATT	159	331		148		187	
WA Credit Risk	3.68	3.46		3.07		3.64	
Portfolio Breakdown							
Fixed Deposits	54.40%	54.20%	13	47.36%	5	51.43%	210
Calls & O/N	9.52%	14.83%	14	16.19%	5	22.59%	204
MMFs	27.92%	15.20%	13	18.01%	3	18.83%	170
ECFs	0.00%	0.93%	3	1.14%	1	1.73%	24
Struct. Prods.	0.00%	5.33%	6	0.00%	0	0.56%	13
Bonds	0.00%	1.40%	2	14.22%	2	1.19%	20
CDs	8.16%	8.11%	9	3.08%	1	3.66%	47
Institution Breakdown							
Banks	69.36%	64.64%	15	47.75%	6	55.67%	225
Building Socs.	2.72%	5.16%	8	8.10%	4	12.66%	149
Government	0.00%	13.06%	7	24.81%	2	10.86%	86
MMFs	27.92%	15.20%	13	18.01%	3	18.83%	170
ECFs	0.00%	0.93%	3	1.14%	1	1.73%	24
MLDBs	0.00%	0.37%	1	0.00%	0	0.02%	1
Other	0.00%	0.63%	3	0.18%	1	0.23%	9
Domestic/Foreign Exposure							
Domestic	25.84%	61.04%	15	62.77%	6	68.58%	232
Foreign	46.24%	22.83%	10	18.08%	4	10.86%	120
MMFs	27.92%	15.20%	13	18.01%	3	18.83%	170
ECFs	0.00%	0.93%	3	1.14%	1	1.73%	24
Maturity Structure							
< 1 Month	37.44%	35.63%		45.43%		44.97%	
1-3 Months	21.76%	14.86%		17.73%		15.34%	
3-6 Months	29.92%	23.70%		29.22%		26.69%	
6-9 Months	10.88%	7.47%		3.07%		5.63%	
9-12 Months	0.00%	7.79%		4.55%		4.51%	
12 Months +	0.00%	10.55%		0.00%		2.87%	

Definitions

WARoR	Weighted Average Rate of Return	This is the average annualised rate of return weighted by the principal amount in each rate.
WAM	Weighted Average Time to Maturity	This is the average time, in days, till the portfolio matures, weighted by principal amount.
WATT	Weighted Average Total Time	This is the average time, in days, that deposits are lent out for, weighted by principal amount.
WA Risk	Weighted Average Credit Risk Number	Each institution is assigned a colour corresponding to a suggested duration using Capita Asset Services' Suggested Credit Methodology 1 = Yellow; 1.25 = Pink 1; 1.5 = Pink 2, 2 = Purple; 3 = Blue; 4 = Orange; 5 = Red; 6 = Green; 7 = No Colour
Model WARoR	Model Weighted Average Rate of Return	This is the WARoR that the model produces by taking into account the risks inherent in the portfolio.
Difference	Difference	This is the difference between the actual WARoR and the model WARoR; Actual WARoR minus Model WARoR.

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