COUNCIL			
REPORT TITLE	2014/15 Budget		
KEY DECISION	Yes	**Item No.**	8
WARD	All		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	**Date**	26 February 2014

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 2014/15. These include the following:

- The proposed Capital Programme (General Fund and Housing Revenue Account) of £385.9m for the period 2014/15 to 2017/18, of which £126.4m is for 2014/15;

- The proposed rent increase of 5.05% (average £4.61 per week) in respect of dwelling rents, 4.66% (average £3.03 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 £104.0m for 2014/15;

- The provisional Dedicated Schools Grant allocation of £267.6m and a separate Pupil Premium allocation of £17.3m for 2014/15, noting that the majority of the increase from the prior year is due to the inclusion of the funding for Academies in 2014/15 and the continued growth in pupil numbers;

- In respect of the General Fund, the assumed net revenue expenditure budget of £268.1m. This has been prepared on the basis of the following assumptions:

  - £24.5m of revenue budget savings are approved for 2014/15;
  - £7.5m is provided for budget pressures in 2014/15 of which it is being recommended that £3.6m of specific identified budget pressures be funded now and £3.9m be set aside for identified, but as yet un-quantified risks.
  - An assumed 0% increase in Council Tax for Lewisham's services for 2014/15 and in so doing, receive the Government's freeze grant of £1.0m.
  - A combination of once-off reserves and provisions be used to fund the current savings shortfall of £6.3m for 2014/15 to balance the budget, pending proposals from the Lewisham Future Programme in 2014/15, to make this up.

1.2 The report also looks to the medium term financial outlook and notes the prospects for the budgets in 2015/16, savings required, and work of the Lewisham Future Programme to meet identified potential budget shortfalls in future years.

1.3 In addition, the report updates the Council's Treasury Management strategy for both borrowing and investments. No fundamental changes are proposed to the approach or levels of risk the Council takes in its treasury functions.

2. PURPOSE

2.1 The purpose of this report is to set out the overall financial position of the Council in relation to 2013/14 and to set the Budget for 2014/15. This report allows for the Council Tax to be agreed and housing rents to be set for 2014/15. It sets the Capital Programme for the next four years and the Council's Treasury Strategy.

2.2 The report also provides summary information on the revenue budget savings proposals that were agreed at Mayor & Cabinet on 18 December 2013 and 12 February 2014. The successful delivery of these savings are required in order to help balance the budget for 2014/15 and to address the budget requirement for 2015/16.

3. RECOMMENDATIONS

3.1 That the Council approves the recommendations shown below in respect of the 2014/15 Budget. This is subject to any amendments which the Mayor may make when considering the 2014/15 Budget update report to be presented to Mayor & Cabinet on 19 February 2014.

3.2 Council are asked:

Capital Programme

3.3 to note the 2013/14 Quarter 3 Capital Programme monitoring position as set out in section 5 of this report;

3.4 to approve the 2014/15 to 2017/18 Capital Programme of £385.9m, whilst noting that there are no new proposed major capital projects for this period, as set out in section 5 of this report and attached at Appendices W1 and W2;

Housing Revenue Account

3.5 to note the consultation report on service charges to tenants and leaseholders in the Brockley area, presented to area panel members on 19 December 2013, as attached at Appendix X3;

3.6 to note the consultation report on service charges to tenants and leaseholders and the Lewisham Homes budget strategy presented to area panel members on 17 December 2013, as attached at Appendix X4;

3.7 to set an increase of dwelling rents 5.05% (an average increase of £4.61 per week), in accordance with the Rent Restructuring formula;

3.8 to set an increase in the hostels accommodation charge by 4.66% (or £3.03 per week), in accordance with the Rent Restructuring formula;

3.9 to approve the following average weekly increases for dwellings for:

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

- caretaking 3.70% (£0.04)
- grounds 3.70% (£0.04)
- communal lighting 3.70% (£0.04)
- bulk waste collection 3.70% (£0.04)
- window cleaning 0.00% (£0.00)
- tenants' levy No increase

3.9.2 service charges to Lewisham Homes managed dwellings:

- caretaking 3.37% (£0.19)
- grounds 2.50% (£0.02)
- window cleaning 0.00% (£0.00)
- communal lighting -3.40% (-£0.03) decrease
- block pest control -8.89% (-£0.15) decrease
- waste collection 4.21% (£0.02)
- heating & hot water 0.50% (£0.05)
- tenants' levy No increase

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

- service charges (hostels) – caretaking etc.; -6.91% (-£6.03)
- energy cost decreases for heat, light & power; -50% (-£5.24)
- water charges decrease; -91% (-£1.88)

3.11 to approve an increase in garage rents by inflation of 3.2% (£0.25 per week) for Brockley residents and 3.2% (£0.31 per week) for Lewisham Homes residents;

3.12 to note that the budgeted expenditure for the Housing Revenue Account (HRA) for 2014/15 is £104.0m;

3.13 to note the HRA budget strategy savings proposals in order to achieve a balanced budget in 2014/15, as attached at Appendix X1;

Dedicated Schools Grant and Pupil Premium

3.14 to approve, subject to final confirmation of the allocation, that the provisional Dedicated Schools Grant allocation of £267.6m be the Schools' Budget for 2014/15 and to note that this level of funding will not be supplemented by a general fund contribution;

General Fund Revenue Budget

3.15 to note the projected overall variance against the agreed 2013/14 revenue budget to December 2013, as set out in section 8 of this report;

3.16 to note and endorse the revenue budget savings of £24.5m for 2014/15 and £1.7m for 2015/16, as set out in section 8 of the report and summarised in Appendix Y1. This is subject to any further variations to the Budget proposal which the Mayor may make at Mayor & Cabinet on 19 February 2014;

3.17 to fund revenue budget pressures of £3.6m in 2014/15, allowing the Executive Director for Resources & Regeneration to hold these resources corporately until such time that these pressures emerge during the year and it has been determined that the pressures cannot be contained within the Directorates' cash limits;

3.18 to agree that the Executive Director for Resources & Regeneration maintains a fund of £3.9m against which risks and other potential budget pressures which emerge during the year would be considered for funding;

3.19 to set a General Fund Budget Requirement of £268.1m for 2014/15;

3.20 to agree a 0% increase in Lewisham's Council Tax element and to accept the 1% Council Tax freeze grant of £1.0m. This will result in a Band D equivalent Council Tax level of £1,060.35 for Lewisham's services and £1,359.35 overall. This represents an overall decrease in Council Tax for 2014/15 of 0.29% and comes as a result of final notification of the Greater London Authority (GLA) precept for 2014/15 being reduced by £4.00 (1.3%) from its existing 2013/14 level;

3.21 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;

3.22 to agree that the Executive Director for Resources & Regeneration issues cash limits to all Directorates once the 2014/15 Revenue Budget is agreed;

3.23 to note the Chief Financial Officer's Section 25 Statement, as attached at Appendix Y4;

3.24 to agree the Council Tax Calculation and Statutory Calculation for 2014/15 as set out at Appendix Y5;

3.25 to note the prospects for the revenue budget for 2015/16 and future years;

3.26 to agree that officers continue to develop firm proposals as part of the Lewisham Future Programme to help meet the forecast budget shortfalls in future years;

Other Grants

3.27 to approve the allocation of £0.65m per annum of New Homes Bonus over the next ten years 2014/15 to 2023/24, to provide delivery support for housing and school pressures. This is set out in more detail in section 9 of this report;

Treasury Management Strategy

3.28 to approve the prudential indicators and treasury limits, as set out in section 10 of this report;

3.29 to approve the 2014/15 treasury strategy, including the investment strategy and the credit worthiness policy, as set out at Appendix Z3;

3.30 to approve 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;

3.31 to delegate to the Executive Director for Resources & Regeneration, authority during 2014/15, to make amendments to borrowing and investment strategies provided there is no change to the Council's authorised limit for borrowing;

3.32 to agree to increase the maximum deposit limits with the part nationalised banks from £50m to £65m for each of Lloyds Banking Group and Royal Bank of Scotland (RBS) Group;

3.33 to approve lending to other local authorities up to a maximum of £5m and for a period of up to one year;

3.34 to note the development of the Municipal Bond Agency, and once fully established, to note its potental as a suitable Agency from which to borrow as an alternative to the Public Works Loan Board (PWLB);

3.35 to approve the Minimum Revenue Provision (MRP) policy as set out in section 10 of this report;

3.36 to note the Treasury Management mid-year review attached at Appendix Z6;

Specific Recommendation for Appendix Y2 – Attendance and Welfare Service

3.37 to note and endorse the recommendation in relation to savings of £0.3m from the Attendance and Welfare Service (AWS), to be implemented in September 2014. This forms part of the overall savings package set out in recommendation 3.16 of this report.

4. STRUCTURE OF THE REPORT, POLICY CONTEXT AND BACKGROUND

4.1 The 2014/15 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 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
Section 20 Appendices

POLICY CONTEXT

4.2 The Council's strategy and priorities drive the Budget with changes in resource allocation determined in accordance with policies and priorities. The six Sustainable Community Strategy priorities, agreed with the Local Strategic Partnership (LSP) and the Council's ten Corporate Priorities are set as follows:

Sustainable Community Strategy

- **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.

Corporate Priorities

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

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

4.3 In taking forward the Council's Budget Strategy, in engaging our residents, service users and employees, and in deciding on the future shape, scale and quality of services, we are driven by the Council's four core values:

- We put service to the public first.
- We respect all people and all communities.
- We invest in employees.
- We are open, honest and fair in all we do.

BACKGROUND

4.4 Following the global financial crisis and the requirement to rebalance the public finances, the financial outlook for the Council and the public sector as a whole remains extremely challenging.

4.5 The Office for Budget Responsibility (OBR) provides independent analysis of the UK's public finances. The most recent forecasts, released in December 2013 are for the period to 2018/19. They show that the UK economy has grown more in 2013 than originally predicted in March 2013. This has resulted in a revised forecast for Gross Domestic Product (GDP) growth in 2013, up from 0.6% to 1.4%. Forecast growth for 2014 as a whole is up from 1.8% to 2.4%. The OBR has revised borrowing down by a cumulative £73bn between 2013/14 and 2017/18, with a prediction that the budget will be back in balance by 2018/19.

4.6 On 6 January 2014, the Chancellor of the Exchequer delivered a key note speech on the economy in which he stated that the current forecasts implied further cuts in government expenditure of around £25bn would be needed after the next election, much of it to be delivered from the welfare budget. The £25bn figure is in line with the already announced intention to rebalance the public sector finances by 2018 and suggests that the cuts will continue at the same rate into the next Parliament.

4.7 The Council has already reduced its revenue budget by £82m since May 2010 and agreed total savings of £17.1m for the two years 2014/15 and 2015/16. On 18 December 2013, Mayor & Cabinet agreed further savings of £8.2m to be made in 2014/15 and £0.6m in 2015/16. A further saving of £0.3m (£0.1m for 2014/15 and £0.2m for 2015/16) for the Attendance & Welfare Service, was agreed at Mayor & Cabinet on 12 February 2014.

4.8 The Strategic Financial Review was reported to Mayor & Cabinet in July 2013 with an update reported in November 2013. This set out that an estimated £85m of savings (now £95m following the local government finance settlement in December 2013) are required from 2014/15 to 2017/18, over and above savings already agreed. The Lewisham Future Programme Board was established to progress cross-cutting and thematic reviews to deliver these savings.

4.9 The provisional local government finance settlement was announced on 18 December 2013, with the final settlement being announced on 5 February 2014. Leaving all other previous assumptions unchanged, the provisional estimate is now that further new savings of £44.7m will be required over 2014/15 and 2015/16. Of these, a remaining £6.3m worth of savings or other measures are still needed to balance the budget in 2014/15 pending additional proposals from the Lewisham Future Programme. Further savings of £38.4m are needed in 2015/16.

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

- Capital Programme for 2014/18;
- Housing Revenue Account and level of rents for 2014/15;
- Dedicated Schools Grant for 2014/15;
- General Fund Revenue Budget for 2014/15;
- Other Grants;
- Council Tax level for 2014/15; and
- Treasury Management Strategy for 2014/15

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 2014/15 to 2017/18 is proposed at £385.9m, of which £126.4m is for 2014/15.

5.2 This section of the report is structured as follows:

- Update on 2013/14 Capital Programme
- Proposed Capital Programme 2014/15 to 2017/18

Update on 2013/14 Capital Programme

5.3 Progress in delivering the 2013/14 Capital Programme has been reported to Mayor & Cabinet and the Public Accounts Select Committee regularly throughout the year. The latest forecast projection is that £129.1m (86%) of the original budget allocated for the year of £151.0m will be delivered this year. At this stage, the slippage of £21.9m has been re-phased to 2014/15.

Proposed Capital Programme 2014/15 to 2017/18

5.4 The Council's proposed Capital Programme for 2014/15 to 2017/18 is currently £385.9m, as set out in Table A1:

Table A1: Proposed Capital Programme for 2014/15 to 2017/18

	13/14 £m	14/15 £m	15/16 £m	16/17 £m	17/18 £m	4 Year Total £m
General Fund						
Building Schools for the Future	23.4	16.9	5.2	1.6	0.4	**24.1**
Schools – Primary Places and other Capital Works	25.0	32.8	10.1	10.6	1.2	**54.7**
Highways, Footways and Bridges	9.5	3.5	3.5	3.5	3.5	**14.0**
Major Regeneration Schemes	3.9	4.7	4.5	2.1	2.7	**14.0**
Town Centres and High Street Improvements	4.4	2.9	2.0	3.6	0.0	**8.5**
Asset Management Programme	2.4	2.5	2.5	2.5	2.5	**10.0**
Other Schemes	15.1	4.8	3.3	2.2	2.3	**12.6**
	83.7	**68.1**	**31.1**	**26.1**	**12.6**	**137.9**
Housing Revenue Account	**45.4**	**58.3**	**49.4**	**58.1**	**82.2**	**248.0**
Total Programme	**129.1**	**126.4**	**80.5**	**84.2**	**94.8**	**385.9**

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

Table A2: Proposed Capital Programme Resources for 2014/15 to 2017/18

	13/14 £m	14/15 £m	15/16 £m	16/17 £m	17/18 £m	4 Year Total £m
General Fund						
Prudential Borrowing	5.5	2.8	2.0	3.6	0	**8.4**
Grants and Contributions	47.0	46.4	14.8	11.4	0.8	**73.4**
Specific Capital Receipts	4.6	4.7	4.5	2.0	2.7	**13.9**
General Capital Receipts / Reserves / Revenue	26.6	14.2	9.8	9.1	9.1	**42.2**

	83.7	**68.1**	**31.1**	**26.1**	**12.6**	**137.9**
Housing Revenue Account						
Prudential Borrowing	0	0	0	0	27.4	**27.4**
Grants	24.0	36.0	0	0	0	**36.0**
Reserves / Revenue	21.4	22.3	49.4	58.1	54.8	**184.6**
	45.4	**58.3**	**49.4**	**58.1**	**82.2**	**248.0**
Total Resources	**129.1**	**126.4**	**80.5**	**84.2**	**94.8**	**385.9**

5.6 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.

5.7 The Programme has been updated for known changes in grant funding, in particular Schools Basic Need allocations of £8.9m for 2015/16 and £9.4m for 2016/17 and Schools Maintenance Grant of £3.1m for 2014/15. The future Highways and Footways programme of £3.5m per year, agreed by Mayor & Cabinet last summer, has also been included. A full list of changes to the Programme is shown in Appendix W2.

5.8 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 and £1.2m per year contribution from schools. The revenue funding line also includes amounts transferred to reserves in previous years for schemes which at that time, had not been delivered.

5.9 The Capital Programme will be further updated to include future grants, including transport, 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 2014/15.

5.10 A significant amount of the future planned prudential borrowing is within the Housing Revenue Account, which is the available headroom within the self-financing settlements.

<u>Summary</u>

5.11 The proposed 2014/15 to 2017/18 Capital Programme totals £385.9m (General Fund £137.9m and HRA £248.0m) 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 2014/15 is £104.0m

6.2 It is structured as follows:

- Update on the HRA financial position for 2013/14

- Update on the HRA Business Plan
- Future Years' Forecast

Update on the HRA financial position for 2013/14

6.3 The latest forecast on the HRA for 2013/14, is that net expenditure can be contained within budget by the year end. There are currently pressures from major works income and hostel charges, but these are being 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 self-financing system was implemented on 1 April 2012. A 30 year financial model has been developed based on current management arrangements, 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 This has shown that there is a shortfall in resources over the first ten years of the plan. The Council is considering how it will respond to the challenges and opportunities of the 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.

6.6 The Housing Matters programme is currently undertaking a full assessment of both long and short-term requirements against resources available. 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.

Future Years' Forecast

6.7 The key purpose of the proposed HRA budget is to ensure that there are sufficient resources to support lifecycle works, repairs and maintenance and the Decent Homes programme. The reduction in management costs is also expected to continue.

6.8 The HRA is budgeted to spend £104.0m in 2014/15. Officers have examined budgets to identify savings opportunities to deliver services for improved value for money. These savings are included in the proposed budget for 2014/15. Savings of £0.7m for 2014/15 were identified and put before Tenants' Panels in December 2013. An explanation of the savings and options to achieve them are set out in more detail in Appendix X1. The feedback from the consultation is set out in Appendix X2. Should all of these proposals be agreed for 2014/15, then the savings could be reinvested to meet key priorities, such as contributing towards bridging the financing gap on achieving the Decent Homes standard.

6.9 Under these proposals, the Lewisham Homes management fee would reduce from its current level of £18.9m in 2013/14 to £18.7m in 2014/15. This represents an overall decrease of 0.2% in the fee per property compared to 2013/14.

6.10 Separate reports which set out in detail the proposals relating to service charges for Brockley and Lewisham Homes residents are attached at Appendix X3 and Appendix X4, respectively.

Rental Income & Allowances

6.11 The average weekly rent is currently £91.36 and it is proposed that average rents will increase by 5.05% (£4.61 per week) to £95.97. This forecast is based on rent restructuring guidance for actual rent of Retail Price Index (RPI) +0.5% + £2.00 (maximum) convergence element. RPI inflation as at September 2013, was 3.2%. This is based on the current assumed rent convergence date of 2015/16. (i.e. one year from 2014/15, as per the self-financing settlement).

6.12 The proposed rent rise is estimated to generate £3.5m of additional rental income. A rent rise lower than the formula calculation is likely to result in lost resources in the HRA which would then need to be made up by efficiencies or further savings in order to maintain a balanced account. For example, a rent rise of RPI less 1% would generate £2.8m in additional rental income, a reduction of £0.7m or £0.92 per dwelling per week.

6.13 A rent rise higher than the formula calculation will result in additional recharges to the HRA via the Housing Benefit (HB) subsidy limitation charges. For example, an increase of £1 (1%) above the calculated average weekly rent will generate some additional income, all of which will be lost through additional limitation recharges and therefore result in no benefit to the HRA.

6.14 In June 2013, the Government published its Spending Review (SR). Within the SR, the Government announced that funding for Decent Homes would continue into 2015/16, and would be aimed at local authorities with more than 10% non-decent stock. Whilst exact details are yet to be published on how to access this funding, Lewisham is expected to benefit from this announcement.

6.15 Also announced within the SR, the Government put forward proposals to change the way rent increases are made for the financial year 2015/16 onwards. The Government's proposal is to raise rents by Consumer Price Index (CPI) + 1% for up to ten years, rather than RPI + 0.5%. It also proposes to remove the convergence element of a £2 maximum where rents are not at formula levels.

6.16 The Government has issued a consultation paper on these proposals. The impact of this change is currently being assessed, but is likely to reduce rental income projections and could put pressure on the HRA Business Plan.

6.17 Details of the proposed rent rise for 2014/15 were presented to the Housing Select Committee on 4 December 2013. Any comments arising from this Committee were referred to Mayor & Cabinet on 18 December 2013.

Other Associated Charges

6.18 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 2014/15 have been set out in detail in Appendix X5.

Summary

6.19 The gross budgeted expenditure for the HRA in 2014/15 is £104.0m. The proposed increase of 5.05% in dwelling rents is £4.61 per week for an average property. This would take the average weekly rent, currently at £91.36 for 2013/14, to a level of £95.97 for 2014/15.

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 2014/15. The respective budgets for 2014/15 are £267.6m and £17.3m.

7.2 It is structured as follows:

- Update on 2013/14 Dedicated Schools' Grant
- Dedicated Schools' Grant for 2014/15
- Pupil Premium

Update on 2013/14 Dedicated Schools' Grant

7.3 The level of the Dedicated Schools' Grant (DSG) for 2013/14 is £250.7m. This will be revised later to take account of the pupil count which for early years children is undertaken in January 2014.

7.4 The only current budget pressure in the DSG arises from children placed in independent schools within the High Needs block of the grant. As this can be met from a previous year carry forward, the grant is expected to be balanced at the year end.

Dedicated Schools' Grant for 2014/15

7.5 The DSG for 2014/15 has provisionally been set by the Department for Education (DfE) at £267.6m, although this will change to reflect updated pupil numbers. The figure includes an estimate of the funding available for High Needs pupils and this will not be finalised until March 2014 when all the data has been collected from local authorities.

7.6 In comparison with last year, there is a £16.9m increase (6.8%) in the DSG. This increase is due to the following:

- some £12.0m relates to the inclusion in the settlement for Lewisham's secondary Academy schools for the first time. The funding will be recouped by the Education Funding Agency later in the year.
- Although the amount per pupil has been frozen in cash terms there is an increase of £3.6m driven by the estimated increase in pupil numbers.
- The remaining £1.3m of the increase relates to the extension of nursery provision for two-year olds.

7.7 There is a very slight decrease in the DSG on a like-for-like basis, excluding inflation of less than 0.1%. This reflects withdrawal of the top-up for three to four year olds. Half was withdrawn in 2013/14. In 2014/15, there will be no further top-up. The top-up ensured that local authorities were funded for at least 90% of their three year olds regardless of the number of children taking up the entitlement. There was a further reduction in funding for the carbon reduction requirement which no longer applies to schools. However, once inflation of 2.5% for the year is taken into account, there is a real terms reduction in funding of more than 2%.

7.8 Individual Schools' Budgets (ISBs) vary year on year mainly due to changes to pupil numbers. The Schools' Minimum Funding Guarantee (MFG) has been set at a negative figure of minus 1.5%, which relates to the funding level per pupil. A further announcement is awaited on the funding for the new free school meals offer for all Reception and Key Stage 1 pupils.

7.9 If no action was taken, the Independent Schools Fees budget pressure as noted in paragraph 7.4, would result in the DSG having a deficit of £0.5m in 2014/15 and £2.0m in 2015/16. The Schools Forum has agreed an approach to manage this shortfall in 2014/15 by reducing the top-up to schools budget for High Needs Pupils and have set up a task group to look at managing the cost in 2015/16.

Pupil Premium

7.10 In addition to the DSG, schools will continue to receive the pupil premium. The pupil premium in 2013/14 was allocated to schools on the basis of the average number of children who were entitled to a free school meal in the past six years. At the start of each year, the DfE provide a forecast of the numbers of pupils on roll. This is subsequently revised to an actual number later in the year. Originally, the funding rates for 2013/14 were set at £900 for all children. The rate for primary children in 2013/14 was increased to £953 during the year.

7.11 In 2014/15, the rate of funding will be £1,300 per primary child, £935 per secondary child and £1,900 per child in Looked After Care. The current overall estimated levels of funding for the pupil premium in Lewisham are summarised in Table B1.

Table B1 – Pupil Premium

Sector	**2013/14**		**2014/15**	
	No. of Children	Funding	No. of Children	Funding
Primary	8,730	£8.3m	8,640	£11.2m
Secondary	5,790	£5.2m	5,690	£5.3m
Looked after Children	310	£0.3m	390	£0.8m
Total		**£13.8m**		**£17.3m**

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 2014/15, assuming a Council Tax increase of 0%, is £268.1m. Details of the savings anticipated for 2014/15 are provided at Appendix Y1.

8.2 It is structured as follows:

- Update on 2013/14 Revenue Budget
- The Budget Model
- Council Tax for 2014/15
- Overall Budget Position for 2014/15

Update on 2013/14 Revenue Budget

8.3 The Council's revenue budget for 2013/14 was agreed at Council on 27 February 2013. The budget requirement was set at £284.6m. It excluded funding for housing and schools which are accounted for through the HRA and DSG, as set out above in section six and seven of this report.

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

8.5 Budget holders have been challenged to maintain tight control on spending throughout the year through the continuation of Directorate, Corporate and Recruitment spending panels. The initial projected overspend of £0.3m reported at the end of May 2013 has been continually managed throughout the year. As at 31 December 2013, a Council wide underspend of £0.8m was forecast. This variance represents just a quarter of one percent against the agreed net revenue budget for the year. The forecast variances by Directorate are set out in Table C1 below.

8.6 A total of 95% of the in-year savings of £20.9m which were agreed in setting the 2013/14 budget are anticipated to be delivered on schedule. At this late stage of the financial year, this figure is unlikely to change significantly between now and the year-end.

<u>Directorate</u>

8.7 Table C1 sets out the latest forecast budget variances on the General Fund by Directorate.

Table C1: Forecast outturn for 2013/14 as at end of December 2013

DIRECTORATE	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over / (under) spend	Variance
	£m	£m	£m	£m	%

CYP	79.6	(20.4)	59.2	1.7	2.9%
Community Services	178.8	(60.6)	118.2	(3.6)	-3.0%
Customer Services	78.5	(47.4)	31.1	2.0	6.4%
Resources & Regeneration	58.3	(13.0)	45.3	(0.9)	-2.0%
Directorate total	**395.2**	**(141.4)**	**253.8**	**(0.8)**	**-0.3%**
Corporate items			**30.8**		
Budget requirement			**284.6**		

Corporate Financial Provisions

8.8 Corporate Financial Provisions are budgets that are held centrally for corporate purposes, 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.

The Budget Model

8.9 This section of the report sets out the construction of the 2014/15 base budget. This section is structured as follows:

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

Budget assumptions, including: Savings, Council Tax and Inflation

8.10 The Council has made substantial reductions to its expenditure over the last four years. On all credible economic forecasts, it will continue to need to make further reductions for at least the next three to five years. This section of the report summarises a series of proposals that would enable the Council to set a balanced budget for 2014/15 as part of a sustainable financial strategy to 2017/18.

Savings

8.11 In 2013/14, the Council agreed savings of £16.2m (amended) for 2014/15 and £0.9m in 2015/16. On 18 December 2013, the Mayor agreed further savings of £8.2m for 2014/15 and £0.6m in 2015/16. This provides an overall savings package in 2014/15 of £24.4m and £1.5m in 2015/16 and leaves the Council a budget shortfall, to be funded by use of once off provisions and reserves, of some £6.4m for 2014/15.

8.12 At the same meeting in December, the Mayor withdrew the saving proposal for the Attendance and Welfare Service (CYP12) from consideration to allow pre-decision scrutiny by the Children and Young People Select Committee on 29 January 2014. Having allowed the scrutiny process to take place, this proposal of £0.3m (£0.1m for 2014/15 and £0.2m for 2015/16) was agreed by the Mayor at the Mayor & Cabinet meeting on 12 February 2014. This has increased the overall savings package for

2014/15 to £24.5m and to £1.7m for 2015/16. This brings the budget gap down to £6.3m for 2014/15. The supporting paper for this proposal is attached at Appendix Y2.

8.13 On 18 December 2013, in approving the budget saving proposal of £0.2m for the out of hours emergency telephone service (CUS07) and following representations from the Housing Select Committee and Unison, the Mayor sought re-assurance from officers that the saving is possible when considering the capacity of current providers. This re-assurance has been provided and the Mayor re-affirmed his approval of this saving proposal at the meeting of Mayor & Cabinet on 12 February 2014. The supporting paper for this budget saving proposal is attached at Appendix Y7.

8.14 Following the announcements of the provisional and final local government finance settlements in December 2013 and February 2014, respectively, the Executive Director for Resources & Regeneration has been considering options to bridge the budget shortfall in order to balance the budget for 2014/15. The options include using of a mixture of on-going and once-off resources. This is explained in more detail towards the end of this section.

8.15 Estimates for 2016/17 to 2017/18 are less certain, particularly as the local government finance settlement only contains details up to 2015/16. On 6 January 2014, in his keynote speech about the economy, the Chancellor of the Exchequer said the current forecasts implied further cuts of around £25bn over two years by 2017/18. Therefore, it would be reasonable to assume that the Council will continue to need to make significant savings over the medium-term. It is estimated that further savings against the General Fund resources of between £40m to £50m will be required over the course of 2016/17 to 2017/18. The prospects for future years' budgets are set out in more detail in section 9 of this report.

Council Tax

8.16 The assumption used in the model for preparing the budget for 2014/15, subject to confirmation by Council, is for a 0% Council Tax increase and receipt of the 1% Council Tax freeze grant from Government. On 5 February 2014, the Local Government Minister confirmed that the Council Tax threshold would be set at 2%. If Council choose to set a different Council Tax increase they will need to be mindful, that any increase in Council Tax of 2% or more would require support in a local referendum. Further information on the options for Council when setting the Council Tax is set out towards the end of this section.

Inflation

8.17 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.

8.18 On 14 January 2014, the Office for National Statistics (ONS) reported that the rate of CPI inflation in the UK stands at 2.0% in December, down from 2.1% in November. It is the first time since November 2009 that inflation has been at or below the 2% target set by the Government.

8.19 For financial planning purposes, the Council has previously assumed an average pay inflation of 1% per annum, which equates to approximately £1.1m. The Council currently applies a non-pay inflation rate of 2.5% per annum. In addition, officers have examined specific areas where a 2.5% allocation is not appropriate, and adjusted those specific budgets accordingly when preparing the 2014/15 budget.

Budget Pressures to be funded

8.20 As in previous years, £7.5m of funds are set aside in the budget model to meet specific identified budget pressures and identified potential budget risks. For 2014/15, budget pressures have been reviewed by the Executive Director for Resources & Regeneration and it is recommended that a number of these specific identified pressures are funded now. In terms of accounting for these, consistent with prior years, it is proposed that the Executive Director for Resources & Regeneration hold these funds corporately until such time that these pressures emerge within Directorate budgets and it has been determined that they cannot be contained within Directorates' cash limits during the year.

8.21 Table C2 provides a summary of the Corporate budget pressures that are being recommended to be funded.

Table C2: Summary of budget pressures to be funded

Description	£m
Actuarial Valuation	1.00
Asset Management	0.15
Concessionary Fares	0.79
Highways	0.35
Looked After Children	0.50
Parking	0.80
Pressures Recommended to be funded	**3.59**

Actuarial Valuation – £1.00m

8.22 An actuarial valuation of the Pension Fund was carried out as at 31 March 2013. This calculated the funding level at 71.4% and set employer's contribution rates until 31 March 2017. This represents a deterioration of 5.3% from the position at the 2010 valuation which assessed the funding level at 75.4%. The deterioration is attributable to changes in the Fund's membership along with other financial and demographic changes.

8.23 The actuary has applied a stabilisation mechanism which restricts movements in employers contributions within a 1% increase and 2% decrease range to recognise both affordability issues and the potential improvement in investment returns in the inter-valuation period from 2014 to 2017. Additional stablisation funding of £1.0m will be provided for 2014/15.

Asset Management – £0.15m

8.24 The New Generation Youth facility, My Place, opened in June 2013. The capital costs of the building works were covered by My Place grant funding. However, this funding does not cover ongoing revenue costs for operating the facility. These are estimated at £0.15m annually, for which no funding currently exists within the revenue budget.

Concessionary Fares – £0.79m

8.25 In December 2012, the London Councils' Transport and Environment Committee agreed that there should be a transition period for the introduction of usage apportionment for the National Rail and London overground elements of the Freedom Pass settlement from 2014/15 onwards. Due to the lack of available data, previous settlements used the level of formula grant as the apportionment method. Owing to the significant distributional effects of moving to usage apportionment, an approach was adopted to phase it in over three years. The approach uses a method of; 40% by usage and 60% by Formula Funding in year one (2014/15), 70% by usage and 30% by Formula Funding in year two (2015/16) and 100% by usage in year three (2016/17). For 2014/15, this results in a budget pressure for Lewisham of £0.79m.

Highways - £0.35m

8.26 The ten year investment programme for the resurfacing of highways and footways in the Borough has come to an end and future funding arrangements need to be established. It is proposed that an ongoing highways resurfacing budget of £3.0m be established over a ten year period. In the first year, this will be funded by a combination of pressures funding, reserves and the release of existing prudential borrowing budgets as debt is repaid.

8.27 Corporate funding of £0.3m for 2014/15 will be provided with an additional £0.3m being added to the budget for 2015/16 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.

8.28 It is also proposed to create an ongoing budget of £0.5m for the replacement of footways over a ten year period 2014/15 until 2023/24. For 2014/15, a budget allocation of £0.05m will be needed with an additional £0.05m being added to the budget for each of the years 2015/16 to 2023/24.

8.29 As part of the Capital Programme, set out in section five of this report, capital investment for highways of £4.5m has been agreed for 2013/14, plus £3m per year has been assumed for 2014/15 onwards. This is in line with the overall prudential borrowing amounts agreed for the previous ten years.

Looked After Children – £0.50m

8.30 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. 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. While the budget pressure is being managed down in 2013/14 through effective and economic placement decisions, overall there remains a forecast overspend.

8.31 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. Given the estimated pupil population increase, this represents a budget pressure of £0.50m per year.

Parking – £0.80m

8.32 The shortfall in Parking income remains a significant budget pressure. The largest element of the income shortfall arises from a significant reduction in pay and display income. The decline in parking income experienced over the last two years continues. Indications are that income will drop by 10%, approximately £0.3m, in 2013/14.

Risks and other potential budget pressures to be managed

8.33 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.

8.34 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:

- Bed & Breakfast
- Leaving Care Service
- No Recourse to Public Funds
- Redundancy
- Secure Remand
- Transition – Child to Adult Care

Bed and Breakfast

8.35 The number of clients in bed and breakfast accommodation has risen from an average of 79 in 2012/13 to an average of 152 for 2013/14 at October 2013. The number of live rent accounts relating to Bed and Breakfast at the end of October 2013 was 191. If this level of growth in demand is maintained into 2014/15, a cost pressure of the order of £1.0m would arise. A number of initiatives are currently being developed to manage demand, including a dedicated team of homeless prevention officers, measures to identify the early indications of potential homelessness and the establishment of a fund to support work with landlords who are considering terminating a tenancy that would then become a homeless application requiring temporary accommodation. Officers are also looking to procure additional temporary accommodation to reduce the reliance on Bed and Breakfast.

Leaving Care Service

8.36 There are an increasing number of young people leaving care who require support and, together with the national changes in housing benefit, this has created pressure on this budget since last year. Delays in finding appropriate accommodation for some of the young people result in them remaining in expensive provision. The current average caseload is 55 against the budget assumption of 23. The unit cost of these placements is currently £111 per day. The Children's Director of Social Care believes management action can recover the current overspend of £0.8m, but the situation remains a risk for 2014/15.

No Recourse to Public Funds

8.37 These are families who have made an application to remain in the country and are waiting to be dealt with by the Home Office. These clients are not seeking asylum but are people to whom the local authority owes a duty of care. There has been an increase in the number of families presenting themselves to Lewisham, of 104% since April 2013. This rate of increase may continue over the next year, which could lead to a budget pressure of £4m.

8.38 Action is being taken to manage this risk. A team has been set up to look at the families concerned to ensure that they are entitled to payment. It remains to be seen what the impact of this work will be. In the meantime, the cost pressure remains at £2m and is unlikely to be eliminated in 2014/15.

8.39 The impact of these measures are expected to stop the increase in demand in the current year with a longer term aim of reducing demand in 2014/15 financial year.

Redundancy

8.40 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 savings of £45m over the next two 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.

Secure Remand

8.41 This is a volatile area of spend which is not directly controllable because the costs are driven by the number of local young people ordered into secure remand by the courts and how long they are held pending the court process. Due to changes to the financing of secure remand and youth detention introduced from April 2013, local authorities now bear all of the financial risk associated with this provision. In 2013/14, this has created a cost pressure of £0.2m which may be repeated in 2014/15.

Transition – Child to Adult Care

8.42 When clients with a disability who have received social care services from the Children and Young People Directorate reach the age of 18 (or 25 if they have gone to residential college), responsibility transfers to adult social care budgets in the Community Services Directorate. In the event that the service users are not eligible under Fair Access to Care Services (FACS) criteria funding would cease. However, most users are eligible and the Council is required to meet the cost of ongoing support. The costs for each client can be high and the estimated cost pressure for 2014/15 is up to £1.0m. Through the work around the Integration of Health and Social Care, officers are looking at better ways of smoothing these transitions for the users of the service and limiting cost increases.

Summary of Budget Pressures

8.43 There are some pressures to be funded (paragraphs 8.20 to 8.32), which can be quantified within a reasonable range. There are also a number of other risks and potential budget pressures (paragraphs 8.33 to 8.42) to consider which are less easy to quantify with any certainty.

8.44 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. For these reasons, it is proposed that the overall allowance for budget pressures previously of £7.5m is retained for each of 2014/15 and 2015/16. After allowing for allocations of £3.6m, as summarised in Table C2 above, an unallocated balance of £3.9m 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, which at this moment in time, cannot be quantified with any certainty.

Dry Recyclable Waste

8.45 In December 2011, the Council entered into a contract with Bywaters Ltd for the disposal of dry recyclable waste. At the time, the contract was entered into, the market was buoyant and the contract was expected to save the Council some £1.6m. The market has changed significantly and Bywaters Ltd approached the Council to renegotiate the contract. An agreement was reached which still offers the Council good value for money, but has resulted in the Council's expected income being reduced by £1m. This funding gap will be addressed as part of setting the final cash limits for 2014/15.

Council Tax for 2014/15

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

Collection Fund

8.47 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.

8.48 A calculation was carried out on 15 January 2014, which is the date prescribed by the relevant statutory instrument. This calculation showed that there is an estimated surplus on the Collection Fund in respect of Council Tax, for the years 2007/08 to 2013/14 of £3.0m.

8.49 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 £2.3m of the £3.0m surplus has to be included in the calculation of Lewisham's Council Tax. The remaining balance of £0.7m will be allocated to the GLA. It is recommended that up to £0.15m of the Council's element of the surplus be used to support the continuation of the Council Tax collection improvement pilot scheme which commenced in 2013/14.

8.50 Members should note, that there is currently a projected surplus on the Council Tax Reduction Scheme (CTRS) for 2013/14 of some £1.3m. In line with accounting principles, it is proposed to transfer this surplus into the calculation of CTRS payments for 2014/15. This ensures that the principle of the Council passing on the cut in full and neither losing nor gaining from the scheme, is adhered to.

Council Tax Levels

8.51 The current position is that Council Tax may not be increased by 2% or more (inclusive of levies) without a referendum. This threshold was confirmed by the Government on 5 February 2014.

8.52 A referendum cannot reasonably be held before the Council Tax is set for 2014/15. The Government has indicated that if an authority sets its basic amount of Council Tax (i.e. its Band D Council Tax) in 2014/15 at a level which is no more than its basic amount of Council Tax in 2013/14, it will receive a grant equivalent to a one per cent increase on the 2013/14 figure in 2014/15.

8.53 For the purposes of this report and understanding the long-term financial position, Members should be mindful that the impact of every 1% in Council Tax rise would be to reduce the savings requirement for that year and each subsequent year by approximately £0.8m.

8.54 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 2014/15 and their general responsibilities to steward the Council's finances over the medium-term.

8.55 In 2013/14, the Band D Council Tax in Lewisham is £1,363.35. Of this, £303 relates to the activities of the GLA which the Council pays over to them on collection. The GLA consulted on a precept of £299 for 2014/15, a reduction of 1.3%. This reduction was confirmed at the meeting of the London Assembly on 14 February 2014. Table C3 below shows, for illustrative purposes, the Council Tax payable by a resident in a Band D property in 2014/15 at 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.

Table C3 – Band D Council Tax Levels for 2014/15

	Amounts payable by residents				
Change in Council Tax	**Lewisham element**	**GLA element**	**Total**	**Change in total**	**Extra income ***
	£	**£**	**£**	**%**	**£'000**
Council Tax Freeze	1,060.35	299.00	1,359.35	-0.29%	0.956
0.50% increase	1,065.65	299.00	1,364.65	0.10%	0.392
1.00% increase	1,070.95	299.00	1,369.95	0.48%	0.784
1.50% increase	1,076.26	299.00	1,375.26	0.87%	1.176
1.75% increase	1,078.91	299.00	1,377.91	1.07%	1.372

* - for a freeze the extra income is received as a one-off freeze grant; all other figures are shown as additional council tax income per year from 2014/15 onwards. The Government has indicated that the funding for 2014/15 (including 2015/16) freeze grant should be built into the spending review baseline. This is still subject to formal confirmation.

8.56 Were Council to agree a Council Tax freeze, the Council will gain the one-off freeze grant of £1.0m (£0.956m to be precise) for 2014/15. This figure of £1.0m is the indicative figure of the Council Tax freeze grant for 2014/15 provided in the local government settlement 2014/15. It has been estimated by assuming the historic growth rate in the local authority tax base continues and that there is 100% take up of the grant.

8.57 The amount shown above for Council Tax Freeze grant is slightly higher than if the Council increased Council Tax by 1%. This is because the Council Tax base figure used to calculate the freeze grant is the taxbase before applying the CTRS.

Overall Budget Position for 2014/15

8.58 For 2014/15, the overall budget position for the Council is an assumed General Fund Budget Requirement of £268.1m, as set out in Table C4 below.

Table C4 - Overall Budget Position for 2014/15

Detail	**Expenditure/ (Income) £m**	**Expenditure/ (Income) £m**
Settlement Funding Assessment (SFA) for 2014/15	(186.5)	
Council Tax 2014/15 at 0% increase *	(78.4)	
SFA: Adjustment 2014/15 **	(0.9)	
Surplus on Collection Fund	(2.3)	
Assumed Budget Requirement for 2014/15		**(268.1)**
Base Budget for 2013/14	284.6	
Less: Previously agreed savings for 2014/15	(24.5)	
Less: Once off use of provisions and reserves	(4.0)	
Plus: Pay inflation	1.1	
Plus: Non-pay Inflation	3.4	
Plus: Budget pressures to be funded	3.6	
Plus: Risks and other potential budget pressures	3.9	
Total		**268.1**

* In freezing Council Tax for 2014/15, the Council will be entitled to receive a Council Tax Freeze Grant from the Government valued at £1.0m.

**Estimated value of Section 31 grants to compensate local authorities for the cost of capping the business rates multiplier in 14/15 announced in the Autumn Statement 2013.

Use of Provisions and Reserves

8.59 Should all the above proposals be agreed, then this would leave a remaining gap of some £4.0m to be funded by the once off use of provisions and reserves in 2014/15. This has been set out in the Table C5.

Table C5 – Bridging the gap

Measures	**2014/15 £m**
Savings Gap on announcement of the final local government finance settlement in February 2014	6.3

Less: Surplus on Collection Fund	(2.3)
Remaining Budget Gap to be bridged by use of provisions and reserves	**4.0**

8.60 Consideration is now given to employing the use of corporate measures to balance the budget. Corporate Provisions include an existing fund for risks and other potential budget pressures ('the Fund') which was created as part of the last year's Budget. It also contains Working Balances.

8.61 The Fund was created to recognise the potential budget pressures which could arise during the year. Over the course of the last year, the Council has maintained stringent measures to contain and reduce spending and this has led to a potential underspend of £0.8m without the need to call upon the Fund. The Fund could potentially be used to balance the potential gap. There remain a number of risks and other potential budget pressures identified in paragraphs 8.33 to 8.42. Although it is being recommended that £3.9m of the budget for 2014/15 is set aside for any of these risks and potential budget pressures, they are as yet un-quantified and could exceed the sum to be set aside.

8.62 The Working Balances have been held to alleviate any emergent pressures which may occur during the year. Held against this, would be the shortfall of any in-year savings for the 2013/14 budget round. Therefore, the Working Balances could potentially be further reduced. The Executive Director for Resources & Regeneration advises that it would be imprudent to reduce these balances in their entirety and would recommend that no less than £1.5m be considered for this purpose.

8.63 If the need should arise to balance the budget for any year 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. These are the Public Health Grant, the Better Care Fund and the New Homes Bonus. This section of the report is structured as follows:

- Background and update on the Public Health Grant 2013/14
- Public Health Grant for 2014/15
- Integrated Transformation Fund 2014/15 (will be Better Care Fund from 2015/16)
- Background and update on the New Homes Bonus
- Future Years' Budget Strategy 2015/16 onwards

Background and update on the Public Health Grant 2013/14

9.2 In April 2013, the Government implemented major changes in the way Public Health services are funded and managed. Local authorities took on the role of improving and protecting the health of their residents, helping them to stay well and avoid illness.

9.3 Local authorities are responsible for ensuring there are robust plans in place to promote health and wellbeing across their region and for commissioning a range of Public Health services, based on the health needs of their population. This is managed by Lewisham with its public sector partners in the Borough via the statutory Health and Wellbeing Board.

9.4 In January 2013, the Department of Health announced a two year settlement for Public Health funding for 2013/14 and 2014/15.

9.5 For 2013/14, Lewisham's Public Health grant was £19.5m. This included £4.9m relating to Drug & Alcohol services that the Council has been managing directly for the last five years. Therefore, £14.6m of this funding was new to the Council.

9.6 At the present time, commitments against the 2013/14 budget are £18.9m. A process is underway to consider and prioritise options for the use of the remaining sum, currently not committed.

9.7 These changes will require approval by the Mayor. At this stage, it is assumed that none of this will be committed on new activity, but that it will be used to support eligible base budget activity. This will result in an underspend of £0.6m. However, the options remain either to commit the grant on new projects in this year or to carry the unspent balance forward to 2014/15. To the extent that either of these options are pursued, then the total underspend would reduce.

Public Health Grant for 2014/15

9.8 The Council's allocation of Public Health grant for 2014/15 is £20.1m, an increase of 2.8% on the 2013/14 allocation.

Integration Transformation Fund for 2014/15

9.9 The Integration Transformation Fund was announced as part of the Spending Review 2013. Its purpose is to pool budgets for health and social care services, shared between the NHS and local authorities, to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people. It will become the Better Care Fund from 2015/16.

9.10 In May 2013, the Department of Health issued directions concerning the 2013/14 transfer of funds to support integration from the NHS to local authorities. These funds must be used to support adult social care. The amount transferred from the NHS to the Council in 2013/14 was £4.9m. The £4.9m had primarily been allocated against expenditure on the integrated neighbourhood model and on enablement. Both these areas have been recognised by partners in Lewisham as having a positive effect on the whole system.

9.11 In 2014/15, additional monies are proposed for transfer to local authorities and Lewisham's total allocation is expected to be in the region of £5.9m, an increase of £1.0m on the 2013/14 allocation.

Background and update on the New Homes Bonus

9.12 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 is paying the NHB as an 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'.

9.13 The NHB is paid each year for 6 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.

9.14 The provisional allocation for 2014/15 in Lewisham, including on-going payments, is £6.4m with the allocation for Year 4 (2014/15) delivery being £2.6m. The cumulative nature of the NHB is set out in summary in Table C6 below.

Table C6 – New Homes Bonus Allocation Profile

	2011/12	2012/13	2013/14	2014/15
Yr 1	0.706	0.706	0.706	0.706
Yr 2		0.958	0.958	0.958
Yr 3			2.150	2.150
Yr 4				2.629
Total	**0.706**	**1.664**	**3.814**	**6.443**

9.15 Officers have established a cross-departmental NHB working party. The group was initially formed in order to review the empty homes data and reduce long term empty properties in the Borough. Since the group formed, the number of empty properties within the borough has decreased.

9.16 The Council produces an Annual Monitoring Report (AMR) each year 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.

9.17 The latest AMR sets out that 1,805 net new homes were built during 2012/13, the highest amount of housing completed in the last nine years. There were 2,074 newly built dwellings and a loss of 269 existing dwellings, largely as a result of estate renewal. Since 2005/06, a total of 2,648 net affordable units have been built in Lewisham. During 2012/13, 564 of the net housing completions were provided as affordable housing units.

9.18 The majority 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 well and are generally being constructed within anticipated timescales, with no significant barriers or major blockages to delay the development of these sites in the future. The AMR also provides a housing trajectory and identifies the anticipated amount of residential development over the next 15 years (2014/15 to 2028/29).

9.19 In view of the planned growth in housing and associated infrastructure in the borough in futures years, consideration is being given to commit £0.65m of the NHB allocation per annum to provide delivery support for this. This would represent a significant year-on-year commitment for the Council. Given the planned growth in the Lewisham over the next 15 years, the funding would be used 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.

Future Years' Budget Strategy 2015/16 onwards

Revenue Budget

9.20 The Strategic Financial Review was reported to Mayor & Cabinet in July 2013 with an update reported in November 2013. This set out that an estimated £85m of savings is required from 2014/15 to 2017/18 over and above savings already agreed. Since then we have received the provisional and final local settlements in December 2013 and February 2014, respectively, which has raised the estimate of overall savings required to 2017/18 to £95m.

9.21 The Lewisham Future Programme Board was established to carry out cross-cutting and thematic reviews to deliver these savings. The Board is chaired by the Chief Executive and consists of all Executive Directors, plus the Head of Corporate Resources and the Head of Service Design and Technology.

Better Care Fund

9.22 In the Spending Round for 2015/16, the Government announced funding of £3.8bn for health and social care through the Better Care Fund. This overall amount takes into account monies already announced for 2013/14 and 2014/15. The specific amount to be transferred to Lewisham for 2015/16 has not yet been announced. A detailed plan for the use of Lewisham's 2014/15 allocation and proposals for the 2015/16 allocation has to be submitted to NHS England by 15 February 2014. Detailed discussions are currently taking place between Health partners and the Council on priority areas of spend which was be presented to the Health and Wellbeing Board for approval in January 2014.

New Homes Bonus

9.23 The reported top-slice of the New Homes Bonus (NHB) is no longer happening for local authorities, apart from those in London. There are indications that it will be set at about £70m from London Boroughs to London's LEP, chaired by the Mayor of London. Total NHB payments to London Boroughs in 2013/14 was £147.0m (this included ongoing payments from the first two years). Of this, Lewisham received £3.8m (2.6%).

9.24 The top slice is for the 2015/16 NHB allocation and does not affect 2014/15. At this stage, the consultation is not clear on whether this approach will also apply to subsequent years after 2015/16. The Autumn Statement indicates that there will be a formal response to the NHB consultation shortly. Officers will review this and report back on the implications for the Council at the appropriate time.

10. TREASURY MANAGEMENT STRATEGY

10.1 The section of the sets out the Council's Treasury Management Strategy for 2014/15 and is structured as follows:

- Capital Plans
- Prudential Indicators
- Minimun 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 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.

Current borrowing portfolio position

Capital Plans

10.3 The Treaury Management Strategy for 2014/15 incorporates the capital plans which provide details of the planned investment activity 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 will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities.

10.5 The Council's treasury portfolio position at 31 March 2013, with forward projections is summarised below. Table D1 shows the actual external debt, against the Capital Financing Requirement (CFR) which is its underlying capital borrowing need. This table illustrates over/(under) borrowing.

Table D1 – External Debt Projections

External Debt £m	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Debt at 1 April	202.6	198.4	195.4	190.3	191.2
Expected change in Debt	(4.2)	(3.0)	(5.1)	0.9	(0.3)
Other Long-Term Liabilities (OLTL)	243.5	244.3	243.4	241.4	235.5
Actual gross debt at 31 March	**441.9**	**439.7**	**433.7**	**432.6**	**426.4**
Capital Financing Requirement*	**484.9**	**479.3**	**474.4**	**468.1**	**477.2**
Borrowing – over / (under)	**(43.0)**	**(39.6)**	**(40.7)**	**(35.5)**	**(50.8)**

*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 parameters such as 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 & Regeneration reports that the Council has complied with this prudential indicator in the current year to date and does not envisage 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.

The Operational Boundary

10.8 This is the limit beyond 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 or higher depending on the levels of actual gross debt anticipated. The Council's operational boundary is set out in Table D2.

Table D2: Operational Boundary

Operational boundary	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Debt	198.4	195.4	191.2	191.2
Other Long Term Liabilities	244.3	243.4	241.4	235.5
Total	**442.7**	**438.8**	**432.6**	**426.7**

The Authorised Limit for external debt

10.9 This key prudential indicator represents a control on the maximum level of borrowing. It is the statutory limit determined under Section 3(1) of the Local Government Act 2003. The Government retains an option 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. The limit needs to be set or revised by the full Council. It reflects 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 limit as set out in Table D3.

Table D3 – Authorised Limits

Authorised limit	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Operational Boundary	442.7	438.8	431.7	426.7
Provision for Non Receipt of Expected Income	46.0	46.0	46.0	46.0
Total	**488.7**	**484.8**	**477.7**	**472.7**

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

Table D4 – HRA Debt Limit

HRA Debt Limit	2013/14 Actual £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
HRA debt cap	127.3	127.3	127.3	127.3
HRA Debt	(83.6)	(83.6)	(83.6)	(83.6)
HRA headroom	43.7	43.7	43.7	43.7

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. The Council continues to apply a consistent MRP policy which comprises prudential borrowing being repaid over the useful life of the asset concerned and other existing borrowing being repaid at the rate of 4% of the CFR.

Borrowing Strategy

10.14 The Council is currently maintaining an under-borrowed position in that the CFR has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow have been used as an alternative temporary 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.

10.15 Against this background and the risks set out in the economic forecast in Appendix Z2, the Executive Director for Resources & 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.

10.16 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.

10.17 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

10.18 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.

10.19 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.

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

Table D5: Treasury Indicators and Limits

Interest rate exposures	**2014/15**	**2015/16**	**2016/17**
	Upper	**Upper**	**Upper**
Limits on fixed interest rates: • **Debt only** • **Investments only**	100% 75%	100% 75%	100% 75%
Limits on variable interest rates • **Debt only** • **Investments only**	15% 75%	15% 75%	15% 75%
Maturity structure of fixed interest rate borrowing 2014/15			
		Lower	**Upper**
Under 12 months		0%	3%

12 months to 2 years	0%	21%
2 years to 5 years	0%	15%
5 years to 10 years	0%	4%
10 years to 20 years	0%	13%
20 years to 30 years	0%	7%
30 years to 40 years	0%	6%
40 years to 50 years	0%	31%
Maturity structure of variable interest rate borrowing 2014/15		
	Lower	Upper
Under 12 months	0%	100%

Please note that the maturity structure guidance changed in 2011 for Lender Option Borrower Option (LOBO) loans; the maturity date is now deemed to be the next call date.

Debt rescheduling

10.21 In the current economic environment and for the forseable future, shorter term borrowing rates are expected to be lower than longer term fixed interest rates. As a result, there may be potential opportunities to generate savings by switching debt from long term to shorter term. However, any such savings need to be considered in the light of the current treasury position and the cost of debt repayment.

10.22 Consideration will be given to the potential for making savings by running down investment balances to repay debt prematurely while short-term rates on investments are likely to be lower than the rates paid on current debt. Any proposed rescheduling of debt will be reported to Mayor & Cabinet and subsequently to Council at the earliest meeting following its action.

Annual Investment Strategy

10.23 The Council's investment priorities will be security first, liquidity second, and then return. 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 2014/15 are presented to Council for approval in this same appendix.

10.24 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.

10.25 Furthermore, officers recognise that ratings should not be the sole determinant of the quality of an institution and that 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. Officers continue to engage with the Council's treasury management 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.

10.26 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.

10.27 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.

Creditworthiness policy

10.28 The Council's Treasury Management Team applies the creditworthiness service provided by its treaury management advisors. 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 Council's creditworthiness policy has been set out at Appendix Z3.

Country limits

10.29 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

10.30 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 12 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 12 months to generate maximum return. The Council will not invest in any fixed term deposit facility exceeding 365 days. 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.

10.31 It is proposed that from April 2014, the Council's maximum deposit limits with the part nationalised banks is increased from £50m to £65m for each of Lloyds Banking Group and Royal Bank of Scotland (RBS) Group.

10.32 It is also proposed that from April 2014, the Council approves lending to other local authorities up to a maximum of £5m and for a period of up to one year.

Muncipal Bond Agency

10.33 Members should also note the work of the Local Government Association (LGA) in its plans to create a local government collective Municpal Bond Agency, which it expects will cut the cost of borrowing to deliver new infrastructure like homes, roads and business hubs. Modelling work done by the LGA shows that a Municipal Bonds Agency would allow councils to raise funds at a significantly lower rate than those offered by the PWLB. Lewisham has been working with other local authorities and the LGA which is anticipates that the Agency will become operational in 2014/15.

Prospects for Investment Returns

10.34 The Bank of England base rate is currently forecast to remain unchanged at 0.5% before starting to rise from quarter two of 2016. The rate forecasts for financial year-ends are:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

10.35 There are upside risks to these forecasts. For example, if increases in the Bank of England base rate occur, economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth stagnate or fall back, there could be downside risk, particularly if the Bank of England forecasts for the rate of fall in unemployment were to prove too optimistic.

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

- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.00%
- 2017/18 2.00%

10.37 A more extensive table of interest rate forecasts for 2014/17, including Public Works Loan Board (PWLB) borrowing rate forecasts is set out in Appendix Z1.

<u>Summary</u>

10.38 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.

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:

<u>Rent Setting and Housing Panel</u>

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 in December 2013 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 in January 2014 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 were consulted on Council's budget between 28 January and 7 February 2014. No responses to the consultation were received.

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 4 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.

Balanced Budget

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 2014/15.

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 this year, 2014/15, were anticipated in the course of the 2013/14 budget process. They were the subject of full report at that time and they are now listed in Appendix Y1. Members are asked now to approve and endorse those reductions for this year.

13.14 The body of the report refers to the various consultation (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 on 19 February 2012 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. The Secretary of State has yet to fix the threshold for a referendum for 2014/15, though this is expected in mid February 2014. 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.

13.16 In relation to each year the Council, as billing authority, must make the calculations set out in Section 31A and 31B of the Local Government Finance Act 1992. These statutory calculations are attached at 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 is attached at Appendix Y4.

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 section of the report/appendix specifically dealing with that service reduction.

Reasonableness and proper process

13.26 Decisions must be made reasonably taking into account all relevant considerations and ignoring irrelevancies. On 12 February 2014, the Mayor was asked to make a decision in relation to a particular service reduction in respect of the Attendance and Welfare Service. Members will see that in relation to that proposal, there is a report at Appendix Y2 which sets out the implications of the proposal and matters relevant to it. At that meeting, the Mayor decided that the budget for that service must be reduced, and therefore, 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. The Executive Director confirms that to date, proper process has been followed.

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.

Equalities

13.28 The Equality Act 2010 (the Act) introduced a new 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.

13.29 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.

13.30 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.

13.31 The Equality and Human Rights Commission has recently 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: http://www.equalityhumanrights.com/legal-and-policy/equality-act/equality-act-codes-of-practice-and-technical-guidance/

13.32 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

13.33 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/

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

13.35 The equalities implications pertaining to the specific service reductions are dealt with in the Appendix relating to that reduction. These were presented to Mayor & Cabinet on 18 December 2013.

Crime and Disorder

13.36 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.

Best Value

13.37 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.

Environmental Implications

13.38 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.

Integration with health

13.39 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.

Recorded Vote

13.40 Since the budget report was drafted, the Government has made new regulations – 'The Local Authorities (Standing Orders) (England) Regulations 2014. These require that at budget meetings, the names of those voting for and against, and abstaining on the budget proposal to be recorded in the minutes. The regulations come into effect on 25 February 2014 and so this requirement applies at the Council meeting on 26 February 2014.

13.41 It is also a legal requirement that the Council amend its standing orders as soon as practicable to reflect this new requirement. A report to do, this appears elsewhere on this agenda.

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 18 December 2013. A summary of the savings proposals are attached at Appendix Y1 to this report.

15. CRIME AND DISORDER IMPLICATIONS

15.1 There are no specific crime and disorder implications arising from this report. Any such implications were considered as part of the revenue budget savings proposals presented to Mayor & Cabinet on 18 December 2013. A summary of the savings proposals are attached at Appendix Y1 to this report.

16. EQUALITIES IMPLICATIONS

16.1 The Public Sector Equality Duty (set out in the Equality Act 2010) requires the Council to 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.

16.2 The protected groups 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, within employment and training. It does not include a socio-economic duty.

16.3 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 the Council can demonstrate that they have had ‘due regard’.

16.4 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.

16.5 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.

16.6 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 decisions could have on human rights.

17. ENVIRONMENTAL IMPLICATIONS

17.1 There are no specific environmental implications arising from this report. Any such implications were considered as part of the revenue budget savings proposals presented to Mayor & Cabinet on 18 December 2013. A summary of the savings proposals are attached at Appendix Y1 to this report.

18. CONCLUSION

18.1 This report sets out the information necessary for the Council to set the 2014/15 budget. Updates will be made to this report at Mayor & Cabinet on 19 February 2014. Final decisions will be taken at the meeting of full Council on 26 February 2014.

19. BACKGROUND DOCUMENTS AND FURTHER INFORMATION

Short Title of	Date	Location	Contact
Strategic Financial Review	10 July 2013 (M&C)	3rd Floor Laurence House	Selwyn Thompson
Strategic Financial Review Update	13 November 2013 (M&C)	3rd Floor Laurence House	Selwyn Thompson
Savings Proposals for 2014/15 and 2015/16	18 December 2013 (M&C)	3rd Floor Laurence House	Selwyn Thompson
Setting the Council Tax Base & Discounts for Second Homes and Empty Properties	15 January 2014 (M&C)	3rd Floor Laurence House	Selwyn Thompson

For further information on this report, please contact:

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20. APPENDICES

Capital Programme

W1 Capital Programme 2013/14 to 2017/18 – Major Projects
W2 Proposed Capital Programme – Original to latest Budget

Housing Revenue Account

X1 Proposed Housing Revenue Account Savings 2014/15
X2 Tenants' rent consultation 2014/15
X3 Leasehold and Tenant charges consultation 2014/15
X4 Leasehold and Tenants charges and Lewisham Homes Budget Strategy 2014/15
X5 Other associated housing charges for 2014/15

General Fund

Y1 Summary of budget savings for 2014/16
Y2 Supporting Paper CYP12 – Attendance & Welfare Service saving proposal
Y3 Ready Reckoner for Council Tax 2014/15
Y4 Chief Financial Officer's Section 25 Statement
Y5 Council Tax Calculation and Statutory Calculations

Y6 Making Fair Financial Decisions
Y7 Supporting Paper COM07 – Out of Hours Emergency Telephone Service saving proposal
Y8 Notice of decisions – Mayor & Cabinet 12 February 2014

Treasury Management

Z1 Interest Rate Forecasts 2014 – 2017
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
Z6 Mid Year Review Report 2013/14