MAYOR & CABINET			
REPORT TITLE	2015/16 Budget		
KEY DECISION	Yes	**Item No.**	
WARD	All		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	**Date** 11 February 2015	

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 2015/16. These include the following:

- The proposed Capital Programme (General Fund and Housing Revenue Account) budget for 2015/16 to 2018/19 of £424.3m, of which £132.7m is for 2015/16;

- The proposed rent increase of 2.61% (an average of £2.51 per week) in respect of dwelling rents, 2.2% (average £1.50 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 £130.9m for 2015/16;

- The provisional Dedicated Schools Grant allocation of £275.8m and a separate Pupil Premium allocation of £18.2m for 2015/16.

- In respect of the General Fund, the assumed net revenue expenditure budget of £245.5m. This is made up of provisional Settlement Funding from government of £159.3m (grant and business rates), forecast Council Tax receipts, and a surplus on collection of Council Tax in previous years from the Collection Fund.

- The changes to the prior year General Fund position to meet the 2015/16 net revenue budget of £245.5m are proposed on the basis of the following assumptions:
  - £26.9m of revenue budget savings are proposed for 2015/16;
  - £1.5m of revenue budget savings have been previously agreed for 2015/16;
  - £7.5m is provided for budget pressures in 2015/16 of which it is being recommended that £4.3m of specific identified budget pressures be funded now and £3.2m be set aside for identified, but as yet un-quantified risks;
  - £5.0m use of the New Homes Bonus reserve for revenue purposes for one year with the position to be reviewed for 2016/17;
  - An assumed 0% increase in Council Tax for Lewisham's services for 2015/16 and in so doing, receive the Government's freeze grant of £1.0m; and
  - A combination of once-off reserves and provisions be used to fund the current savings shortfall of £5.4m for 2015/16 to balance the budget, pending further proposals from the Lewisham Future Programme in 2016/17 to make this up.

1.2 The report also looks to the medium term financial outlook and notes the prospects for the budget in 2016/17, 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 2014/15 and to set the Budget for 2015/16. This report allows for the Council Tax to be agreed and housing rents to be set for 2015/16. 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 presented at Mayor & Cabinet on 12 November 2014. The approval and successful delivery of these savings are required in order to help balance the budget for 2015/16 and to address the budget requirement for 2016/17.

3. RECOMMENDATIONS

3.1 It is recommended that the Mayor considers the comments of the Public Accounts Select Committee of 5 February 2015, which incorporate the views of the respective select committees on the revenue budget savings proposals for 2015/16.

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

Capital Programme

3.3 notes the 2014/15 Quarter 3 Capital Programme monitoring position as set out in section 5 of this report;

3.4 recommends that Council approves the 2015/16 to 2018/19 Capital Programme of £424.3m, there are two new proposed major capital projects for 2015/16 and it includes an allocation of £90,000 of capital to Phoenix Housing in respect of their proposals for developing the Fellowship Inn, as set out in section 5 of this report and attached at Appendices W1 and W2;

Housing Revenue Account

3.5 notes and asks that the Council note the consultation report on service charges to tenants' and leaseholders in the Brockley area, presented to area panel members on 11th December 2014, as attached at Appendix X3;

3.6 notes and asks that the Council note the consultation report on service charges to tenants' and leaseholders and the Lewisham Homes budget strategy presented to area panel members on 15th December 2014, as attached at Appendix X4;

3.7 recommends that Council sets an increase in dwelling rents of 2.61% (an average of £2.51 per week) – option B as presented in section 6 of this report, in accordance with current Housing Revenue Account financial strategy;

3.8 recommends that Council sets an increase in the hostels accommodation charge by 2.20% (or £1.50 per week), in accordance with the Rent Restructuring formula;

3.9 recommends that Council approves the following average weekly increases for dwellings for:

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

- caretaking 2.20% (£0.07)
- grounds 2.20% (£0.04)
- communal lighting 2.20% (£0.01)
- bulk waste collection 2.20% (£0.02)
- window cleaning 0.00% (£0.00)
- tenants' levy No increase

3.9.2 service charges to Lewisham Homes managed dwellings:

- caretaking No increase
- grounds No increase
- window cleaning No increase
- communal lighting 40.70% (£0.35)
- block pest control 5.16% (£0.08)
- waste collection No change
- heating & hot water -18.93% (-£1.87) decrease
- tenants' levy No increase

3.10 recommends that Council approves the following average weekly percentage increases for hostels and shared temporary units for;

- service charges (hostels) – caretaking etc.; 4.08% (£2.77)
- no energy cost increases for heat, light & power; 0.0% (£0.00)
- water charges increase; 5.88% (£0.01)

3.11 recommends that Council approves an increase in garage rents by Retail Price Inflation (RPI) of 2.3% (£0.20 per week) for Brockley residents and 2.3% (£0.27 per week) for Lewisham Homes residents;

3.12 notes and asks Council to note that the budgeted expenditure for the Housing Revenue Account (HRA) for 2015/16 is £130.9m;

3.13 agrees and asks Council to endorse the HRA budget strategy savings proposals in order to achieve a balanced budget in 2015/16, as attached at Appendix X1;

3.14 agrees to write off 20 cases of Former Tenants' Arrears as set out in section 6 and Appendix X6, totalling £265,843.81;

Dedicated Schools Grant and Pupil Premium

3.15 agrees to recommend to Council, subject to final confirmation of the allocation, that the provisional Dedicated Schools Grant allocation of £275.8m be the Schools' Budget for 2015/16; and

- Agree the changes to the funding arrangements for High Needs Pupils as set out in paragraph 7.12;
- Note the level of pupil premium anticipated for 2015/16 of £18.2m

General Fund Revenue Budget

3.16 notes and asks Council to note the projected overall variance against the agreed 2014/15 revenue budget as set out in section 8 of this report and that any year-end overspend will have to be met from reserves;

3.17 endorses and asks Council to endorse the previously approved revenue budget savings of £1.48m for 2015/16 and delegated budget savings proposals as per the Mayor and Cabinet meeting of the 12 November 2014, as set out in section 8 of the report and summarised in Appendix Y1;

3.18 notes that the revenue budget savings presented at this meeting under a separate report and as summarised in Appendices Y1 and Y2 will be used to balance the budget;

3.19 agrees and asks Council to agree the transfer of £5.0m in 2015/16 from the New Homes Bonus reserve to the General Fund for one year to meet funding shortfalls and that the position be reviewed again for 2016/17;

3.20 agrees the use of £5.4m reserves to fill the budget gap in 2015/16;

3.21 recommends to Council that it agrees to create a fund in respect of quantified revenue budget pressures in the sum of £4.3m in 2015/16, allowing the Executive Director for Resources & Regeneration to hold these resources corporately until such time that these pressures emerge during the year, and authorises the Executive Director for Resources and Regeneration to allocate these funds to meet pressures when satisfied that those pressures cannot be contained within the Directorates' cash limits;

3.22 recommends to Council that it agrees to create a fund in respect of as yet un-quantified revenue budget risks in the sum of £3.2m in 2015/16, allowing the Executive Director for Resources & Regeneration to hold these resources corporately in case these pressures emerge during the year, and authorises the Executive Director for Resources and Regeneration to allocate these funds to meet such pressures when satisfied that those pressures cannot be contained within the Directorates' cash limits;

3.23 agrees to recommend to Council that a General Fund Budget Requirement of £245.5m for 2015/16 be approved, based on a 0% increase in Lewisham's Council Tax element and the 1% Council Tax freeze grant of £1.0m being accepted. This will result in a Band D equivalent Council Tax level of £1,060.35 for Lewisham's services and £1,355.35 overall. This represents an overall decrease in Council Tax for 2014/15 of 0.3% and is subject to the GLA precept for 2014/15 being reduced by 1.3% from its existing 2014/15 level, in line with the GLA's draft proposal;

3.24 notes 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;

3.25 asks that the Executive Director for Resources & Regeneration issues cash limits to all Directorates once the 2015/16 Revenue Budget is agreed;

3.26 agrees to recommend to Council the draft Chief Financial Officer's Section 25 Statement, as attached at Appendix Y4;

3.27 agrees the draft statutory calculations for 2015/16 as set out at Appendix Y5;

3.28 notes the prospects for the revenue budget for 2016/17 and future years as set out in section 9;

3.29 agrees that officers continue to develop firm proposals as part of the Lewisham Future Programme to help meet the forecast budget shortfalls in 2015/16 and for future years;

Other Grants (within the General Fund)

3.30 notes the adjustments to and impact of various specific grants for 2015/16 on the General Fund as set out in section 8 of this report;

Treasury Management Strategy

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

3.32 recommends that Council approve the 2015/16 treasury strategy, including the investment strategy and the credit worthiness policy, as set out at Appendix Z3;

3.33 recommends that Council agrees to delegate to the Executive Director for Resources & Regeneration authority during 2015/16 to make amendments to borrowing and investment strategies provided there is no change to the Council's authorised limit for borrowing;

3.34 recommends that Council agrees the Minimum Revenue Provision (MRP) policy as set out in section 10 of this report.

3.35 recommends that Council agrees 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;

3.36 recommends that Council agrees to decrease the maximum deposit limits with the part nationalised banks from £65m to £40m for each of Lloyds Banking Group and Royal Bank of Scotland (RBS) Group;

3.37 notes that there was one incidence of a breach of the investment policy in November 2014 when an investment with an approved counter party was made for 12 months which should have been limited to 6 months; and

3.38 notes the development of the Municipal Bond Agency

4. STRUCTURE OF THE REPORT, POLICY CONTEXT AND BACKGROUND

4.1 The 2015/16 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 strategy. The Council's vision "together, we will make Lewisham the best place in London to live, work and learn" was adopted by the Lewisham Strategic Partnership as part of the Sustainable Community Strategy, along with six over-arching priorities:

<u>Sustainable Community Strategy</u>

- **Ambitious and achieving**: where people are inspired and supported to their potential.
- **Safer**: where people feel safe and live free from crime, antisocial behaviour and abuse.
- **Empowered and responsible**: where people are actively involved in their local area and contribute to supportive communities.
- **Clean, green and liveable**: where people live in high quality housing and can care for and enjoy their environment.

- **Healthy, active and enjoyable**: where people can actively participate in maintaining and improving their health and well-being.
- **Dynamic and prosperous**: where people are part of vibrant communities and town centres, well connected to London and beyond.

Corporate Priorities

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

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

Values

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

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

4.3 A strong and resilient framework for prioritising action has served the organisation well in the face of austerity and on-going cuts to local government spending. This has meant, that even in the face of the most daunting financial challenges facing the Council and its partners, we continue to work alongside our communities to achieve more than we could by simply working alone. This joint endeavour continues to secure massive investment in the borough: new homes, school improvements, regenerating town centres, new and renewed leisure opportunities and improvement in the wider environment, including award winning work on our river corridors. This work has done much to improve life chances and life opportunities across the borough through improved education opportunities, skills development and employment. And there is still much more that can be done to realise our ambitions for the future of the borough, ranging from our work to bring the Bakerloo Line extension here, with other transport improvements through to our nationally recognised programmes of care and support to some of our most vulnerable and troubled families.

4.4 However, it is clear that the Council cannot do all that it once did, nor meet all those expectations that might once have been met, for we are in a very different financial position than just a few years ago. Very severe financial constraints have been imposed on Council services, with cuts to be made year on year on year, and this on-going pressure is addressed here in this report, proposing further budget savings for 2015/16.

BACKGROUND

4.5 The requirement to rebalance the public finances and the financial outlook for the Council and the public sector as a whole remains extremely challenging.

4.6 The Office for Budget Responsibility (OBR) provides independent analysis of the UK's public finances. The most recent forecasts, released in December 2014, are for the period to 2018/19. They show that the UK economy has grown more in 2014 than originally predicted in March 2014. This has resulted in Gross Domestic Product (GDP) being revised up to 3.0% from 2.7% and forecasts for 2015 also being revised upwards from 2.3% to 2.4%. Inflation forecasts have been revised downwards due to lower than expected outturns in recent data and the effects of lower oil and food prices. It is expected that Consumer Price Index (CPI) inflation will remain below the Bank of England's 2% target until 2017.

4.7 The OBR expect Public Sector net borrowing to fall by 0.6% of GDP in 2014/15, reaching 5.0% of GDP – half the peak it reached in 2009/10. Looking further ahead, the OBR expects the deficit to fall each year and to reach a small surplus by 2018/19.

4.8 In the Autumn Statement, the Chancellor of the Exchequer announced further efficiency savings of £10bn for the public sector. It is expected that this will have a further detrimental effect on the Council's funding in the years to come.

4.9 The Council has already made savings of £93m to meet its revenue budget requirements since May 2010 and is proposing further savings of £28.9m (£26.9m of new proposals, £0.5m of additional Council Tax collected, and £1.5m of previously agreed savings) for 2015/16.

4.10 The Medium Term Financial Strategy was reported to Mayor & Cabinet in July 2014. This set out that an estimated £85m of savings are required from 2015/16 to 2017/18.

The Lewisham Future Programme Board was established to progress cross-cutting and thematic reviews to deliver these savings.

4.11 The provisional Local Government Finance Settlement was announced on 18 December 2014, with the final settlement expected in early February 2014. Leaving all other previous assumptions unchanged, the provisional estimate is that the forecast savings required in 2015/16 remains at £40m.

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

- Capital Programme for 2015/16 to 2018/19;
- Housing Revenue Account and level of rents for 2015/16;
- Dedicated Schools Grant for 2015/16;
- General Fund Revenue Budget for 2015/16;
- Other Grants for 2015/16;
- Council Tax level for 2015/16; and
- Treasury Management Strategy for 2015/16.

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 2015/16 to 2018/19 is proposed at £424.3m, of which £132.7m is for 2015/16.

5.2 This section of the report is structured as follows:

- Update on 2014/15 Capital Programme
- Proposed Capital Programme 2015/16 to 2018/19

Update on 2014/15 Capital Programme

5.3 Progress in delivering the 2014/15 Capital Programme has been reported to Mayor & Cabinet and the Public Accounts Select Committee regularly throughout the year. The latest forecast projection is that £137.3m (93%) of the revised budget allocated for the year of £147.4m, and reported to Mayor and Cabinet on 12th November 2014 , will be delivered this year. At this stage, the slippage of £10.1m has been re-phased to 2015/16.

5.4 The capital programme for 2014/15 has seen a number of schemes progress well with the main areas of capital spend involving the provision of school places and housing.

5.5 The Council has pursued an ambitious programme to transform the borough's schools and create state-of-the art facilities which would have a positive impact on children's education. Over £300m - a combination of central government and council money - has been spend on rebuilding or refurbishing schools over the last ten years. Drumbeat is a brand new school over two sites, catering specifically for children identified as having Autistic Spectrum Disorder. Brent Knoll School and Sydenham School are the last two schools being either rebuilt or refurbished as part of the Building Schools for the Future programme, with ongoing works due for completion in 2015/16.

5.6 The school places programme has resulted in an additional 645 Reception places being provided enabling the Council to offer a school place to all children whose families requested one and the Schools Minor Works Programme has successfully delivered building improvements to the primary schools estate. Delivered across 11 schools with a £1.5m budget, the programme has led to improvements to the building fabric, roof structures and heating systems. These works will improve the energy efficiency of the schools and help reduce on-going maintenance issues.

5.7 The borough's first council housing development in 30 years was completed in January 2015. These homes are the first of 500 new council homes that are pledged to be built by 2018. These properties are part of the New Homes, Better Places programme that includes investment in social housing and housing for older people and working with developers to build more homes for Lewisham people at affordable prices. Six new homes near Mercator Road in Lee are now being advertised so prospective tenants can bid for them. As part of this programme, Lewisham Homes and Rooff will also seek to provide high quality employment, training and business opportunities.

5.8 In terms of housing the "New Homes, Better Places Programme" has led to six new homes that are nearing completion with 74 awaiting planning permission and a further 124 homes in process. In addition the hostels acquisition & conversion programme is also in progress with the acquisition of Hamilton Lodge and Canonbie Road now completed. When ready these will help alleviate some of the pressure on nightly paid accommodation. In addition, the proposed construction of the Ladywell pop-up village will also enable the Council to provide accommodation on a temporary basis as an alternative to nightly paid accommodation. Significant expenditure has also been incurred as part of the ongoing decent homes programme of works.

5.9 Other notable areas of capital project management and expenditure include:

- **Lewisham Gateway** - the largest regeneration scheme within Lewisham Town Centre, incorporating homes, retail space, Confluence Park, new pedestrian routes to Lewisham Station and revised a road layout.
- **Catford Stadium** - comprising 589 residential units, commercial floor space, a community centre, plus landscaping, including river naturalisation and creation of a public plaza between Catford and Catford Bridge Stations. Construction is now underway, and expected to continue through to June 2018.
- **Catford Broadway** - a £2.1 million makeover is complete, including a brand new level 'shared' surface to improve accessibility, new lighting and seating, plus better facilities for the market and means of attracting new market traders.
- **Marine Wharf West** - delivering new homes, shops and businesses and landscaping along the 30m wide former route of the Surrey Canal. Construction is nearing completion on the second and third phases, which include 78 units provided as an 'extra care' facility.
- **Cannon Wharf** - including a purpose-built business centre which is expected to create at least 80 new jobs on the site (25% more than previously), a children's nursery, and landscaping along the former route of the Surrey Canal. The first Business Centre and first tranche of commercial units will be ready for occupation in June 2015.
- **Beckenham Place Park** - awarded around £300k from the Heritage Lottery Fund (HLF) and the Big Lottery to further develop proposals to restore many of heritage features and make it more attractive to a wide range of local and regional visitors. Further HLF/Big Lottery funding, totalling £4.6 million, has been ring-fenced for the

delivery of the finalised plans. As this funding can be used for park-wide restoration works, gardens, visitor centres or recreational features, it is likely to see the reinstatement of the original lake and the introduction of numerous play features and an events space.

Proposed Capital Programme 2015/16 to 2018/19

5.10 The Council's proposed Capital Programme for 2015/16 to 2018/19 is currently £424.3m, as set out in Table A1:

Table A1: Proposed Capital Programme for 2015/16 to 2018/19

	14/15 £m	15/16 £m	16/17 £m	17/18 £m	18/19 £m	4 Year Total £m
General Fund						
Building Schools for the Future	22.0	6.2	1.2	0.0	0.0	**7.4**
Schools – Primary Places and other Capital Works	32.7	17.2	12.4	1.2	1.2	**32.0**
Highways, Footways and Bridges	6.7	5.5	5.5	3.5	3.5	**18.0**
Major Regeneration Schemes	5.0	24.6	6.9	2.7	0	**34.2**
Town Centres and High Street Improvements	0.9	0.0	3.6	0.0	0.0	**3.6**
Asset Management Programme	2.4	2.5	2.5	2.5	2.5	**10.0**
Other Schemes	15.1	6.5	4.1	2.4	2.4	**15.4**
	84.8	**62.5**	**36.3**	**12.3**	**9.6**	**120.6**
Housing Revenue Account	**52.5**	**70.2**	**76.8**	**104.5**	**52.2**	**303.7**
Total Programme	**137.3**	**132.7**	**113.1**	**116.8**	**61.8**	**424.3**

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

Table A2: Proposed Capital Programme Resources for 2015/16 to 2018/19

	14/15 £m	15/16 £m	16/17 £m	17/18 £m	18/19 £m	4 Year Total £m
General Fund						
Prudential Borrowing	4.0	22.9	10.7	0.0	0.0	**33.6**
Grants and Contributions	55.8	25.1	13.2	0.5	0.5	**39.3**
Specific Capital Receipts	6.9	4.5	2.0	2.7	0.0	**9.2**
General Capital Receipts / Reserves / Revenue	18.1	10.0	10.3	9.1	9.1	**38.5**
	84.8	**62.5**	**36.3**	**12.3**	**9.6**	**120.6**
Housing Revenue Account						
Prudential Borrowing	0.0	0.0	0.0	35.1	2.3	**37.4**
Grants	36.2	0.0	2.7	3.2	0.0	**5.9**
Specific Capital Receipts	3.7	10.5	7.6	13.3	14.3	**45.7**
Reserves / Revenue	12.6	59.7	66.5	52.9	35.6	**214.7**
	52.5	**70.2**	**76.8**	**104.5**	**52.2**	**303.7**
Total Resources	**137.3**	**132.7**	**113.1**	**116.8**	**61.8**	**424.3**

5.12 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.

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

5.14 The two larger additions to the programme for 2015/16, both in the General Fund, are the agreement to loan up to £20m to Lewisham Homes to acquire street properties to help address the on-going nightly paid accommodation pressures and an anticipated £1.9m of borrowing for works to provide additional primary school places.

5.15 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.

5.16 The Capital Programme will be further updated to include future grants, once these are known and will also include the year-end outturn expenditure and resourcing. This is expected to be reported to Members before the summer recess and will not impact on delivery of the Programme for 2015/16.

5.17 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.

Summary

5.18 The proposed 2015/16 to 2018/19 Capital Programme totals £424.3m (General Fund £120.6m and HRA £303.7m) 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 2015/16 is £130.9m

6.2 It is structured as follows:

- Update on the HRA financial position for 2014/15
- Update on the HRA Business Plan
- Future Years' Forecast

Update on the HRA financial position for 2014/15

6.3 The HRA is budgeted to spend £104.0m in 2014/15. The latest forecast on the HRA for 2014/15, is that net expenditure can be contained within budget by the year end. There are currently minimal reported pressures, which can, if necessary, be mitigated by the use of once off contingencies, reserves and revenue working balances. Expenditure against repairs & maintenance budgets is expected to be contained within the sums allocated.

Update on the HRA Business Plan

6.4 The Housing self-financing system was implemented on 1 April 2012 when the HRA subsidy scheme was abolished. 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 The plan is due to have a major revision following the undertaking of detailed stock surveys to complete Decent Homes and other investment programmes over the next few years. This includes assumptions on future liabilities, programmes, savings and other requirements. These assumptions will be used to inform the resource need and identify potential gaps in funding and opportunities for additional income and grants.

6.6 In addition, the Council received in January the results of the bidding process to the GLA for additional Decent Homes backlog grant funding. This confirmed that the Council is one of two boroughs not to receive any additional Decent Homes monies.

6.7 The plan has also been recently updated with costs associated with new build units and a target of 500 additional units by the end of the Mayor's current term.

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

Future Years' Forecast

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

6.10 The HRA is budgeted to spend £130.9m in 2015/16. 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 2015/16. Overall Savings of £0.346m for 2015/16 were identified and put before Tenants Panels in December 2014. 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 2015/16, they could be used for investment needs currently identified by the HRA Business Plan, or to off-set reductions in the proposed rent increase.

6.11 Under these proposals, the Lewisham Homes management fee would move from its current level of £18.676m in 2014/15 to £18.673m in 2015/16. This is after inflation allowances increases and a reduction for stock loss. However, this represents an overall increase of 1.52% in the fee per property compared to 2014/15.

6.12 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.

<u>Rental Income and allowances</u>

6.13 The average weekly rent is currently £95.97 in 2014/15.

6.14 In October 2013, Government consulted with Local Authorities on the implementation of a new social rent policy, proposing to move from annual increases of RPI + 0.5% (+£2 convergence where necessary) to CPI + 1%. This policy was confirmed by Government in May 2014 as its preferred method for rent increases for a 10 year period from 2015/16. In addition, the Government also assumed that the majority, if not all, Local Authority stock would or should be at its formula level as there had 'been more than enough time' to have moved rents to this level.

6.15 However, this is not the case in Lewisham as approximately 29% of stock has not yet reached its rent convergence level. The majority of London boroughs have also reported that their stock is not yet at the rent convergence levels.

6.16 The forecast increase in actual tenants' rents, using the Government's rent policy guidance of limiting actual increases to CPI at September 2014 of 1.20% + 1.0% is 2.20%, which equates to an average rise of £2.10pw. However, this would leave the HRA with an annual shortfall in rent of £693k against the business plan assumptions. In addition, the loss over the remaining life of the 30 year plan, assuming increases only in line with CPI + 1%, would be £26.3m.

6.17 In view of the change in policy, and the potential rental income shortfall against the HRA business plan assumptions, officers provided four illustrations of potential 2015/16 rent rises for consideration by residents and Mayor & Cabinet. These include following: A) Government guidance; B) continuation of Rent convergence until all units have reached their formula rent; and C) capped D) uncapped increases.

6.18 The table below provides the illustrations of various rent increases consulted on, and its impact on moving units to it's formula or target level and the shortfall in income compared to the business planning assumptions for the HRA. It should be noted that illustration A assumes that convergence will not continue, whilst illustration's B to D will continue with convergence. For example, a rise in line with the previous convergence formula will generate £1.89m in additional rental income. A rent rise lower than this is likely to result in additional lost resources in the HRA. For example, a rent rise of CPI plus 1% would generate £1.58m in additional rental income, a reduction of £311k or £0.41 per dwelling per week.

Illustration CPI 1.2% RPI 2.3%	**A** CPI + 1%	**B** RPI + 0.5% + £2	**C** Overall 3% increase capped to £10pw	**D** Overall 3% Increase not capped
*Limit Rent	£98.92	£98.92	£98.92	£98.92
Continue Convergence	No	Yes	Yes	Yes
Rent Rise £	£2.10	£2.51	£2.77	£2.87
Rent Rise %	**2.20%**	**2.61%**	**2.88%**	**3.00%**
New Average rent	£98.01	£98.42	£98.68	£98.78
Units On Formula	10,264	13,031	14,079	14,241
Units not on Formula	4,266	1,499	451	289
Highest Rise £	£3.92	£6.61	£10.00	£20.92
Highest rise %	2.20%	6.49%	18.50%	13.71%
Lowest Rise £	£1.19	£1.44	£1.44	£1.44
Lowest rise %	2.20%	2.20%	2.20%	2.20%
Rent rise value	£1,583,970	£1,894,761	£2,089,886	£2,170,690
Additional rent	-	£310,791	£505,916	£586,720
Shortfall against business plan	-£613k	-£302k	-£107k	-
Long-term shortfall	£24.6m	£0.90m	£0.107m	-
Convergence (Yr's)	-	8	5	-

6.19 The table also shows the impact of the various increases in terms of new average rent and average increases. It also shows the effect on the number of units not currently at its convergence or formula rent

6.20 The illustrated proposals all show a reduction against the assumptions in the current HRA financial model, with fewer resources available to the HRA business plan. It would therefore be likely that additional savings/efficiencies would be required to make up for any lost resources.

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

6.22 The table below shows increased proposed or being consulted on by other providers in London:

Councils	**Indicative average increase**	**Proposed increase Methodology**
Barking and Dagenham	4.00%	Convergence in 5 years
Camden		CPI+1%+£2 (2.2% + £2)
Croydon	2.20%	
Greenwich	2.20%	
Hackney	3.02%	
Hillingdon	2.20%	
Kensington and Chelsea	2.20%	
Lambeth	2.90%	
Newham/Havering	9.00%	
Redbridge	2.20%	
Southwark	2.20%	
Tower Hamlets		RPI + 0.5% + £2
Westminster	2.26%	
Phoenix	2.20%	

6.23 Tenants were asked to provide comments and feedback on the illustrations for inclusion in the Mayor & Cabinet budget report at meetings held with Brockley PFI and Lewisham Homes tenants. There was a strong expression of concern raised relating to options B, C and D. The greatest concern was for the impact of the rent rise on working tenants, particularly in the cases of options C and D, as the proposals were significantly higher than pay awards over the last five years. The comment was made that last year's rise was also significantly higher than increases in pay.

6.24 Tenants of both Brockley and Lewisham Homes overwhelmingly favoured option A, although some sympathy was shown to option B. Options C and D were considered unacceptable by all tenants in attendance.

6.25 The three responses received from Excalibur tenants expressed a consistent stance that the rents on that estate should not be increased due to the poor standards of the properties and the lack of Council investment in the estate.

6.26 Further details of the consultation results can be found in appendix X2

6.27 Details of the options for the rent rise for 2015/16 were presented to the Housing Select Committee on 17th December 2014. Members indicated that they favoured option B, allowing the council to stick to its current plans.

6.28 Having regard to the consultation held in December 2014, the Mayor is asked to make a recommendation to full Council that a rent increase be agreed to accord with one of the options A, B, C or D. The range of new average rents are between £98.01 to £98.78 with officers proposed option being option B with an average rent of £98.42.

Other Associated Charges

6.29 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 2015/16 have been set out in detail in Appendix X5.

Summary

6.30 The gross budgeted expenditure for the HRA in 2015/16 is £130.9m. The Mayor is asked to make a recommendation to full Council for a rent increase having considered tenants feedback following consultation on rent illustrations A to D, held in December 2014. The current average weekly rent is £95.97 in 2014/15. The illustrations provided are within a band of average rents of between £98.01 to £98.78 with the officers proposed option being option B with an average rent of £98.42.

Former Tenants' Arrears Write Offs

6.31 The HRA self-financing of 2012 means that the Council now has considerably greater control over the long term planning of its Housing Revenue Account, and this longer term focus has allowed excellent progress to be made in delivering investment into new Council homes for the first time in 30 years.

6.32 As part of the annual review of the HRA and the setting of associated budgets, this long term focus also requires officers to review both the assumptions that underpin long term plans and the operational performance of delivering that plan. In that regard it is important for officers to consider at this time the likelihood of recovering all of the income to which the Council is due.

6.33 Lewisham Homes has substantially improved the way its income collection processes work and has addressed the majority of historic arrears cases. The percentage of rent collected in 2013/14 was 97.86% and at the latest update, 99.65% had been collected in the current financial year. This high income collection rate strengthens the performance of the HRA and enables greater levels of investment for both existing residents and to build the new Council homes Lewisham so desperately needs.

6.34 However, there remains a limited number of historic bad debt cases in which Lewisham Homes, despite exhausting all possible options, has been unable to collect. In total there are 20 such cases, some of which date back nearly a decade, which in total

constitute outstanding arrears of £265,843.81. A summary of these cases is set out at Appendix X6.

6.35 Lewisham Homes advises officers that in all of these cases it has exhausted all possible recovery options and now as such these debts as unrecoverable. In order to remove unrecoverable debt from the Council's portfolio, the Mayor is recommended to agree that for each of these cases the historic debt be written off.

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 2015/16. This grant is formula based, calculated by the Government with the Council passing it onto schools. The respective budgets for 2015/16 are £275.8m and £18.2m.

7.2 It is structured as follows:

- Update on 2014/15 Dedicated Schools' Grant
- Dedicated Schools' Grant for 2015/16
- Pupil Premium

Update on 2014/15 Dedicated Schools' Grant

7.3 The level of the Dedicated Schools' Grant (DSG) for 2014/15 is £268.6m. This will be revised later to take account of the pupil count which for early years children is undertaken in January 2015.

7.4 The only current budget pressure in the DSG arises from children with SEN statements / Education, Care and Health plans 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 2015/16

7.5 The DSG for 2015/16 has provisionally been set by the Department for Education (DfE) at £275.8m, although this will change during the year to reflect updated pupil numbers. This is the first year that the DSG has been bigger than the Councils Net General Fund budget. It is now £30m larger than the Net General Fund for 2015/16.

7.6 In comparison with last year, there is a £7.2m increase (2.7%) in the DSG. This increase is due to the following:

- some £8.1m relates to the inclusion in the settlement for Academy schools not included previously. The funding will be recouped by the Education Funding Agency later in the year. All Academies are now included in the DSG. The inclusion of Academies in the DSG will demonstrate the base funding for all schools within the Borough is on a comparable basis. The EFA then provide additional funds to reflect Academies additional responsibilities.
- A funding adjustment for part recoupment academies that were included in the funding settlement for 2014/15. The extra funding is £0.7m

- Although the amount per pupil has been frozen in cash terms there is an increase of £4.8m driven by the estimated increase in pupil numbers, largely in the primary age group.
- The funding for two years olds has been excluded from the settlement. The funding for two year olds will be announced in June 2015. The funding excluded is estimated, based on current projections, at £6.7m.
- A new pupil premium for early years children, £0.3m

7.7 Once inflation of 2.5% for the year is taken into account, this funding represents a real terms reduction in funding of 1.0%

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 (i.e. the per pupil funding in a school cannot fall by more than 1.5%).

7.9 The Schools Forum considered the Dedicated Schools Budget on 11 December 2014. The Forum has legal responsibilities to decide some budgets, while for others their role is to take a view.

7.10 Under the regulations the Forum decides:

- Whether some elements of funding given to schools should no longer be delegated but instead managed centrally. This includes contingency funds, the administration of free meals, supply cover and insurance.

- The budget level of central spend which includes growth funds, early years expenditure, admissions and capital expenditure from revenue. The budget of the later, under the funding regulations, is capped at the 2013/14 level.

7.11 The Council has to consult the Schools Forum on arrangements for Special Educational Needs (SEN) children. The Forum's powers extend to giving a view but the final decision lies with the Council.

7.12 The projection for 2015/16 is an overspend of £2.1m on the High Needs Block if no action is taken. The Schools Forum has agreed and recommended an approach to manage this shortfall in 2015/16 by reducing the top-up to schools budgets for High Needs Pupils (£1.8m) and reducing the funding given to school collaboratives (£0.3m). The task group set up by the Schools Forum to manage the High Needs Pupils costs in 2014/15 has agreed to continue to meet.

7.13 The Forum recommended that, as the Dedicated Schools Grant was cash frozen, the funding rates used to calculate ISBs should stay at the same level as 2014/15.

7.14 The Schools Forum on 25 September 2014 considered the proposed increase in charges in the Council services that are traded with them. The School Forum supported the proposal that the General Fund of the Council should not subsidise school activities and noted the increase in prices proposed. At their meeting of 11 December 2014 detailed consideration was given to the Public Health services that will be traded with schools in 2015/16 and asked that the Service Level Agreement offer be developed further.

Pupil Premium

7.15 In addition to the DSG, schools will continue to receive the pupil premium. The pupil premium in 2014/15 was allocated to schools on the basis of the 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.

7.16 In 2014/15, the rate of funding was £1,300 per primary child, £935 per secondary child and £1,900 per child in Looked After Care. The only change for 2015/16 is to the primary rate which rises by £20 to £1,320k. The current overall estimated levels of funding for the pupil premium in Lewisham are summarised in Table B1.

Table B1 – Pupil Premium

Sector	2014/15		2015/16	
	No. of Children	Funding	No. of Children	Funding
Primary	8,640	£11.2m	9,333	£12.3m
Secondary	5,690	£5.3m	5,369	£5.0m
Looked after Children	390	£0.8m	390	£0.7m
Adopted From Care			85	£0.2m
Total		**£17.3m**		**£18.2m**

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 2015/16, assuming a Council Tax increase of 0%, is £245.5m. Details of the savings anticipated for 2015/16 are provided at Appendices Y1 and Y2

8.2 It is structured as follows:

- Update on 2014/15 Revenue Budget
- The Budget Model
- Council Tax for 2015/16
- Overall Budget Position for 2015/16.

Update on 2014/15 Revenue Budget

8.3 The Council's revenue budget for 2014/15 was agreed at Council on 29 February 2014. The budget requirement was set at £268.1m.

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. These include, for example; Looked After Children, No Recourse to Public Funds; Nightly Paid Accommodation; and Adult Social Care. These areas of activity are also informed by risk assessments which are continually reviewed.

8.5 Budget holders have been challenged to maintain tight control on spending throughout the year through the continuation and strengthening of Directorate Expenditure Panels (DEPs). In addition to this, a Corporate Expenditure Panel (CEP) was introduced in late October 2014. The Chief Executive and the Executive Director for Resources and Regeneration sit on this panel and it has served to provide an additional layer of scrutiny and challenge to existing DEPs.

8.6 The initial projected overspend of £11.2m was reported at the end of May 2014. Even since this position was first reported back in the spring, the scale of the projected overspend had suggested that the Council would be facing budget pressures of a different order to those of previous years. A series of measures and management actions have been employed over the course of the financial year and this has helped to alleviate some of the pressure with the latest projected forecast of £9.5m being reported to the end of December 2014. This is still a significant overspending projection and the Executive Director for Resources and Regeneration will continue to work with directorate management teams across the council to effect the necessary continued actions to manage their service pressures.

8.7 The forecast variances by Directorate are set out in Table C1 below.

Directorates

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

Table C1: Forecast outturn for 2014/15 as at end of November 2014

Directorate	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/ (under) spend Dec 2014	Variance
	£m	£m	£m	£m	
Children & Young People	74.3	(20.4)	53.9	8.5	15.8%
Community Services	168.0	(58.0)	110.0	(0.8)	(0.3%)
Customer Services	100.3	(63.1)	37.2	2.6	7.0%
Resources & Regeneration	44.5	(12.2)	32.3	(0.8)	(2.5%)
Directorate Totals	**387.1**	**(153.7)**	**233.4**	**9.5**	**4%**
Corporate Items	34.7	0.0	34.7	0.0	
Overall Total	**421.8**	**(153.7)**	**268.1**	**9.5**	

Corporate Financial Provisions

8.9 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.

8.10 Consideration is now being given to employing the use of corporate measures to balance the budget at year end. It is proposed to meet any 2014/15 budget overspend from reserves.

The Budget Model

8.11 This section of the report sets out the construction of the 2015/16 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

8.12 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 2015/16 as part of a sustainable financial strategy to 2018/19.

Savings

8.13 On the 12 November the Mayor:

- Endorsed previously agreed savings proposals from the 2014/15 budget of £1.48m for 2015/16;
- Delegated £11.83m of savings proposals of which £8.56m were for 2015/16 to Executive Directors to agree and implement;
- Rejected the 2015/16 Option 2 savings proposal for the Youth Service of £1.75m
- Agreed for consultation and further work to proceed on £26.75m of savings proposals, of which £18.87m are for 2015/16. The results of this work are presented in the separate savings report to accompany this report for the Mayor's decision.

8.14 The Medium Term Financial Strategy in July 2014 identified the need for further work on the potential use of reserves and provisions. The proposals are to use:

- £5.0m of New Homes Bonus reserve in 2015/16 to cover part of the shortfall in revenue balances.

8.15 In total the above means a shortfall of £5.4m is required to balance the 2015/16 budget, if all the new savings proposals of £26.9m put forward for 2015/16 are agreed.

8.16 Following the provisional Local Government Finance Settlement in December 2014, the Executive Director for Resources & Regeneration has been considering options to bridge the budget shortfall in order to balance the budget for 2015/16. 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.

8.17 Estimates for 2016/17 to 2017/18 are less certain, particularly as the local government finance settlement only contains details up to 2015/16. In the Autumn statement, the Chancellor of the Exchequer implied further cuts in public spending of around £10bn. 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

8.18 The assumption used in the model for preparing the budget for 2015/16, subject to confirmation by Council, is for a 0% Council Tax increase and receipt of the 1% Council Tax freeze grant from Government. 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. The limit being set by the Secretary of State. Further information on the options for Council when setting the Council Tax is set out towards the end of this section.

Inflation

8.19 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.

8.20 On 16 December 2014, the Office for National Statistics (ONS) reported that the rate of CPI inflation in the UK stood at 1.0% in November, down from 1.3% in October. This is a 12 year low, the last time the rate was as low as 1.0% was September 2002. It is well below the 2.0% target set by the Government, and is expected to fall below 1.0% in early 2015.

8.21 For financial planning purposes, the Council has previously assumed an average pay inflation of 1.0% per annum, which equates to approximately £1.1m. In November 2014, a pay award of 2.2% was agreed for 2015/16 by the National Joint Council for Local Government Services (NJC). This equates to approximately £2.6m to be provided for in 2015/16.

8.22 The Council currently applies a non-pay inflation rate of 2.5% per annum. This equates to approximately £2.5m per annum. This figure has been put forward as an efficiency saving for three years starting from 2015/16.

New Homes Bonus

8.23 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'.

8.24 The NHB is paid each year for six years, with the last year being 2016/17. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

8.25 The provisional allocation for 2015/16 in Lewisham, including on-going payments, is £7.842m with the allocation for Year 5 (2015/16) delivery being £1.399m.

8.26 The Autumn Statement 2013 announced that in London, £70 million of New Homes Bonus would be pooled in 2015/16 in support of the London Growth Deal prepared by London's Local Enterprise Partnership (LEP).

8.27 The Government has not yet confirmed the amounts each authority will contribute to the £70m London LEP top slice in 2015/16, however it has outlined how it intends to calculate this, and has published provisional allocations. Lewisham's provisional contribution is £2.218m, which leaves a revised allocation of £5.624m for Lewisham's own use.

8.28 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	2015/16
Yr 1	0.706	0.706	0.706	0.706	0.706
Yr 2		0.958	0.958	0.958	0.958
Yr 3			2.150	2.150	2.150
Yr 4				2.629	2.629
Yr 5					1.399
Total Allocation	**0.706**	**1.664**	**3.814**	**6.443**	**7.842**
Less London LEP Top slice	**0**	**0**	**0**	**0**	**-2.218**
Lewisham Total	**0.706**	**1.664**	**3.814**	**6.443**	**5.624**

8.29 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.

8.30 The Council produces an Annual Monitoring Report (AMR) which assesses the level of development which has taken place and reviews the performance on plan making and related steps being undertaken to progress the regeneration of the borough.

8.31 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 14 years to 2028/29.

8.32 In view of the planned growth in housing and associated infrastructure in the borough in future years it was agreed to commit £0.65m of the NHB allocation per annum to provide delivery support for this. This represents a significant year-on-year commitment for the Council. Given the planned growth in the Lewisham over the next 14 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.

8.33 While initially being held with a view to funding future capital works, a review of the NHB has been conducted and, given the pressures on the overall budget, it is now proposed to use some of the NHB for revenue funding shortfalls. This will be effected by releasing £5.0m of the accumulated reserve balance from the NHB scheme to the General Fund in 2015/16 only. We have not projected to spend any NHB beyond that as there is some uncertainty around the future of the scheme beyond 2015/16. We will review the position again in 2016/17.

Budget Pressures to be funded

8.34 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.

8.35 In addition, from 2014/15 the unallocated amount of risk fund was £3.9m. In respect of this budget as it is carried into 2015/16, it is now recommended that a number of specific identified pressures be funded now.

8.36 For 2015/16, this means the risk fund will be £11.4m (£7.5m + £3.9m). The budget pressures anticipated in 2015/16 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.

8.37 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.

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

Table C2: Summary of 2015/16 budget pressures to be funded

Description	£m	£m
Pressures set against 2014/15 unallocated budget		
• No Recourse to Public Funds	2.90	
• Nightly Paid Accommodation	1.00	
		3.90
Pressures to be set against 2015/16 risk budget		
• Actuarial Valuation	1.00	
• London Living Wage & Travel Time	2.20	
• Highways and footways pressure	0.35	
• Environment – Waste Disposal	0.30	
• Concessionary Fares	0.43	
		4.28
Total - pressures recommended to be funded		**8.18**

No Recourse to Public Funds – £2.90m

8.39 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. This has emerged as a

significant budget pressure since 2013/14 and reported to the Public Accounts Select Committee regularly as part of the financial monitoring report.

8.40 Action is being taken to manage this risk. In 2014/15 a dedicated pilot was run to look at the families concerned to ensure that they are entitled to payment. The impact of this work has been to reduce the number of cases accepted. In addition, with the support of a seconded officer from the Home Office Border Agency, work is underway to re-assess the support arrangements for those already accepted. The impact of this work is starting to see the level of spend in this area decline.

8.41 It is estimated that over time this work will reduce to an ongoing level of just over £3m. It is therefore proposed to allocate £2.9m to the existing base budget at this time and hold the remaining risk against the unallocated risk fund.

Housing Needs – £1.00m

8.42 An increase in the number of homelessness applications has lead to a significant increase in the number of people placed in nightly paid accommodation. The shortage of housing in London has also impacted on the situation. Limited new supply has meant that the movement in re-lets and new housing opportunities has reduced. The increase in demand for nightly paid accommodation has also meant that prices have increased faster than the benefit cap. A number of measures are being considered to ease the pressure but the impact will continue into the next financial year.

8.43 The annual cost pressure in this area is estimated at £2.0m in 2014/15 against an annual budget of £0.5m, with the effect of recent cost saving measures starting to be felt. For this reason it is proposed to set aside £1.0m in 2015/16 from the risk fund to address this anticipated continuing pressure.

Actuarial Valuation – £1.00m

8.44 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 portfolio along with other financial and demographic changes.

8.45 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 2015/16.

Adults' Social Care – Care Provider Terms & Conditions, including the London Living Wage and Travel Time - £2.20m

8.46 Firstly, there has been an increase of almost 4% in London Living Wage (LLW) and the current domiciliary care contracts have just been extended. Providers have been offered 1% for an extension until October 2015 when new contracts will be in place. There is also a need to increase direct payment rates by a minimum of 3% to honour the LLW commitment. LLW has not been built into residential/nursing block contracts yet, but there is some pressure to do so. Requirement to enrol staff in pension schemes will be a further cost pressure.

8.47 Secondly, there is an expectation under the Care Act that Home Care workers are paid reasonably for travelling between visits. Current domiciliary care contracts are not clear on this so payment of travelling time would probably require increased funding from the Council.

8.48 To support the work to bring all the Council's care contracts in line with the above terms and conditions and wages it is proposed to provide additional funding of £2.2m from 2015/16.

Highways and Footways pressure – £0.35m

8.49 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. In 2014/15 it was agreed that an ongoing highways resurfacing budget of £3.0m be established over a ten year period. In the first year, this was funded by a combination of pressures funding, reserves and the release of existing prudential borrowing budgets as debt is repaid.

8.50 Corporate funding of £0.3m for 2015/16 will be provided with an additional £0.3m being added to the budget until 2020/21 and a balance of £0.1m in 2021/22. Therefore, the total allocation over the period is £2.2m, although this will eventually be offset by £0.8m of released budget arising from repaid prudential borrowing over the period 2024/25 to 2033/34.

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

8.52 As part of the Capital Programme set out in section five of this report, capital investment for highways and footways of £3.5m per year has been included for 2014/15 onwards.

Environment Waste Disposal – £0.30m

8.53 Disposal tonnages have been increasing during 2014/15. To date, the associated increased costs are being contained within the environment budget. There is a further risk on increases in gate fees for recycling and an above inflation increase in the SELCHP gate fee. If the tonnages stay at current levels or increase further and the fee increases materialise, there will be a pressure on the budget of approximately £0.3m in 2015/16.

Concessionary Fares – £0.43m

8.54 London Councils have advised of Lewisham's Freedom Pass costs for 2015/16. The figure is £0.43m higher than 2014/15.

Risks and other potential budget pressures to be managed

8.55 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.

8.56 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:

- Demographic Pressures
- Looked After Children
- Business Rate appeals
- Child Sexual Exploitation
- Redundancy
- Unachieved savings

Demographic pressures

8.57 There is an increase in the transfer of high cost packages and placements for young people with a learning disability from the Children & Young People's directorate to Adult Social Care. Increases in other client groups are lower, but the number of the most elderly in the borough appears to be increasing too along with their needs. Additional provision also has to be made for a few new physical disability placements a year (brain injuries and other accidents).

Looked After Children

8.58 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. Even though the budget pressure is being managed down in 2014/15 through effective and economic placement decisions, overall there remains a risk.

8.59 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 creating a potential budget pressure.

Business Rate appeals

8.60 The Valuation Office continues to hear appeals on valuations from the 2010 list. Any of these that are upheld will require the Council to return the backdated overpayment and reduce the ongoing level of rates to be collected. This cost can be amortised over five years. At the same time new businesses may be starting and additional rates collected. Given these uncertainties it is not possible to fully evaluate the risk at this time.

Child Sexual Exploitation

8.61 This is a risk area across London which may, if the number of cases locally grows significantly, become a pressure in the future. At present the service is managing this risk by refocusing existing resources within their current budget and expect to be able to do through 2015/16. Given these uncertainties it is not possible to fully evaluate the risk at this time.

Redundancy

8.62 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 £85m over the next three years without an impact on jobs. The cost of redundancy depends on age, seniority and length of service of the individuals affected, and it is not possible to calculate the overall financial impact at this stage.

Unachieved savings

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

8.64 Such pressures cannot be easily quantified at this stage, although it is estimated that it could be up to £4.0m on the current proposals of £26.9m for 2015/16. Should these pressures arise in the year and not be able to be contained with Directorate budgets, they could be met from the risk fund or become an additional call on reserves.

Summary of Budget Pressures

8.65 There are some pressures to be funded (paragraphs 8.34 to 8.54), which can be quantified within a reasonable range. There are also a number of other risks and potential budget pressures (paragraphs 8.55 to 8.63) to consider which are less easy to quantify with any certainty.

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

8.67 After allowing for allocations of £8.2m, as summarised in Table C2 above, an unallocated balance of £3.2m 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.

Council Tax for 2015/16

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

Collection Fund

8.69 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.

8.70 A calculation was carried out on 15 January 2015, which is the date prescribed by the relevant statutory instrument. This calculation showed there is an estimated surplus on the Collection Fund in respect of Council Tax, for the years 1993/94 to 2014/15 of £6.236m.

8.71 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 £4.864m of the £6.236m surplus has to be included in the calculation of Lewisham's Council Tax. The remaining balance of £1.372m will be allocated to the GLA. Work continues on the continuation of the Council Tax collection improvement pilot scheme which commenced in 2013/14 which will require once off resources of £0.15m in 2015/16.

8.72 Members should note that Council agreed on the 21 January 2015 to pass on the percentage reduction in 2014/15 settlement funding assessment and reduce the Council Tax Reduction Scheme (CTRS) accordingly. The impact of this for the Council, subject to collection and the contribution owing to the GLA, is estimated at £2.0m in 2015/16.

Council Tax Levels

8.73 The current position is that Council Tax may not be increased by 2% or more (inclusive of levies) without a referendum. A referendum cannot reasonably be held before the Council Tax is set for 2015/16. The Government has indicated that if an authority sets its basic amount of Council Tax (i.e. its Band D Council Tax) in 2015/16 at a level which is no more than its basic amount of Council Tax in 2014/15, it will receive a grant equivalent to a one per cent increase on the 2014/15 figure in 2015/16.

8.74 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.

8.75 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 2015/16 and their general responsibilities to steward the Council's finances over the medium term.

8.76 In 2014/15, the Band D Council Tax in Lewisham is £1,359.35 on a base of 75,526 Band D equivalent properties. Of this, £299 relates to the activities of the GLA which the Council pays over to them on collection. The GLA is consulting on a precept of £295 for 2015/16, a reduction of £4 or 1.3% and a final decision is expected from them after the 14 February 2015. Table C3 below shows, for illustrative purposes, the Council Tax payable by a resident in a Band D property in 2015/16 under a range of possible Council Tax increases, and the financial implications of this for the Council.

8.77 Whilst a freeze is recommended it should be noted that Council has the option to consider a decrease or increase in Council Tax should it so wish. A full Council Tax Ready Reckoner is attached at Appendix Y3.

Table C3 – Band D Council Tax Levels for 2015/16

	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	295.00	1,355.35	-0.29%	0.978

	Amounts payable by residents				
Change in Council Tax	Lewisham element	GLA element	Total	Change in total	Extra income *
0.50% increase	1,065.65	295.00	1,360.65	0.10%	0.400
1.00% increase	1,070.95	295.00	1,365.95	0.48%	0.801
1.50% increase	1,076.26	295.00	1,371.26	0.87%	1.201
1.75% increase	1,078.91	295.00	1,373.91	1.07%	1.601

* - 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 2015/16 onwards. The Government has indicated that the funding for 2014/15 freeze grant should be built into the spending review baseline. This is still subject to formal confirmation.

8.78 Were Council to agree a Council Tax freeze, the Council will gain the one-off freeze grant of £1.0m (£0.978m to be precise) for 2015/16. This figure of £1.0m is the indicative figure of the Council Tax freeze grant for 2015/16 provided in the provisional local government settlement 2015/16. 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.

8.79 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 2015/16

8.80 For 2015/16, the overall budget position for the Council is an assumed General Fund Budget Requirement of £245.5m, 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 2015/16	(159.339)	
Council Tax 2015/16 at 0% increase	(80.084)	
SFA: Adjustment 2015/16*	(1.259)	
Surplus on Collection Fund	(4.864)	
Assumed Budget Requirement for 2015/16		**(245.546)**
Total Resources available for 2015/16		
Base Budget for 2014/15	268.062	
Plus: Reversal of reserves drawn in 14/15 (once off)	3.000	
Plus: Pay inflation	1.503	
Plus: Non-pay Inflation	3.417	
Plus: Grant adjustments for changes 14/15 to 15/16	0.911	
Plus: Budget pressures to be funded from 15/16 fund	4.280	
Plus: Risks and other potential budget pressures	3.220	
Less: Previously agreed savings for 2015/16	(1.480)	
Less: New savings for 2015/16	(26.929)	
Less: Use of New Homes Bonus reserve for five yrs.	(5.000)	
Less: Once off use of provisions and reserves	(5.438)	
Total		**245.546**

*Estimated value of Section 31 grants to compensate local authorities for the cost of capping the business rates multiplier in 15/16 announced in the Autumn Statement 2013.

Use of Provisions and Reserves

8.81 Should all the above proposals be agreed, then this would leave a remaining gap of some £5.4m to be funded by the once off use of reserves in 2015/16. This has been set out in the Table C4 above.

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

9 OTHER GRANTS AND FUTURE YEARS' BUDGET STRATEGY

9.1 This section of the report considers three other funding streams which the Council currently receives. These are the Public Health Grant, the Better Care Fund and the New Homes Bonus. This section of the report is structured as follows:

- Better Care Fund 2015/16
- Various other grants 2015/16 – reduced with net impact £0.9m
- Future Years' Budget Strategy 2015/16 onwards

Better Care Fund

9.2 The £3.8 billion national Better Care Fund (BCF) was announced by the Government in the June 2013 Spending Round, to support transformation and integration of health and social care services to ensure local people receive better care. The BCF is a pooled budget that shifts resources into social care and community services for the benefit of the NHS and local government. The Better Care Fund does not represent an increase in funding but rather a realignment of existing funding streams with new conditions attached/ risks.

9.3 For Lewisham the value in 2015/16 is £21.842m. Our local plan has been approved by NHS England subject to the following standard conditions which apply to all BCF plans (1) The Fund must be used in accordance with our final approved plan and through a section 75 pooled fund agreement which is being developed and will be operational by 1st April 2015; and (2) the full value of the element of the Fund linked to non-elective admissions reduction target will be paid over to Lewisham Clinical Commissioning Group (CCG) at the start of the financial year. However the CCG may only release the full value of this funding into the pool if the proposed admissions reduction target is met/. If the target is not met, the CCG may only release into the pool a part of that funding proportionate to the partial achievement of the target. Any part of this funding that is not released into the pool due to the target not being met must be dealt with in accordance with NHS England requirements. We are developing contingency arrangements to address this risk.

Other Grants and Levies

9.4 Certain specific grants have been reduced or stopped in 2015/16 reducing funding by approximately £0.9m. The main change is in respect of the Education Support Grant

that has been reduced by 20% to £3.9m. The other various smaller changes include: Council Tax Scheme new burden funding, Adoption reform grant, and SEN reform grant.

9.5 From October 2015/16 the work of public health visitors for the 0-5 year old population will transfer to Local Authorities. The six month grant for their work will be £3.79m.

9.6 It is expected that, as the funding on specific grants reduces, the related cost of service provision will also reduce as the Directorates manage their activities within their allocated resources.

9.7 The Council is also required to levy monies totalling in the region of £1.6m for other bodies, in addition to the Council Tax collected on behalf of the GLA (see Collection Fund). These bodies are the London Pension Fund Agency, Lee Valley Regional Park, and Environment Agency. At present the final amounts for 2015/16 have yet to be confirmed and it is therefore assumed these will stay at their 2014/15 levels which are set out in Appendix Y5.

Future Years' Budget Strategy 2015/16 onwards

Revenue Budget

9.8 The Medium Term Financial Strategy was reported to Mayor & Cabinet in July 2014. This set out that an estimated £85m of savings is required from 2015/16 to 2017/18 over and above savings already agreed. The profile for these savings is broadly;

- £40m for 2015/16,
- £25m for 2016/17, and
- £20m for 2017/18.

9.9 Since then we have received the provisional local settlement in December but for one year only – 2015/16. The estimate of overall savings required to 2017/18 remains at £85m with £40m for 2015/16. However, the back drop is one where the savings requirement may increase for the additional public spending cuts of £10 billion identified nationally to balance the budget by 2017/18.

9.10 The Lewisham Future Programme (LFP) was established to carry out cross-cutting and thematic reviews to deliver these savings. The savings report received by the Mayor in November 2014 and the separate savings report taken alongside this budget report presents the LFP work to date. This continues and further savings proposals will be bought forward in 2015/16.

10. TREASURY MANAGEMENT STRATEGY

10.1 This section sets out the Council's Treasury Management Strategy for 2015/16 and is structured as follows:

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

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

Current borrowing portfolio position

Capital Investment Plans

10.3 The Treaury Management Strategy for 2014/15 incorporates the capital plans of the Council, as set out in section 5 of this report.

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

10.5 The Council's expected treasury portfolio position at 31 March 2015, with forward projections is summarised below. Table D1 compares the actual external debt against the Capital Financing Requirement (CFR) which is the underlying capital borrowing need. This table illustrates over/(under) borrowing.

Table D1 – External Debt Projections

	2013/14 Actual £m	2014/15 Expected £m	2015/16 Forecast £m	2016/17 Forecast £m	2017/18 Forecast £m
Expected External Debt at 1 April	198.4	195.4	190.4	191.3	195.9
Expected Change in Ext Debt	(3.0)	(5.0)	0.9	9.6	21.0
Other Long-Term Liabilities	253.0	254.6	252.2	245.8	238.2
Gross Debt at 31 March	**448.4**	**445.0**	**443.5**	**446.7**	**460.1**
Capital Financing Requirement*	**488.8**	**487.8**	**487.3**	**486.7**	**501.7**
Borrowing – over / (under)	**(40.4)**	**(42.8)**	**(43.8)**	**(40.0)**	**(41.6)**

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

Prudential Indicators

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

10.7 The Executive Director for Resources and Regeneration reports that the Council has

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

The Operational Boundary for External debt

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

Table D2: Operational Boundary

	2014/15 Expected £m	2015/16 Forecast £m	2016/17 Forecast £m	2017/18 Forecast £m
Maximum External Debt at 31 March	195.7	204.5	214.1	238.7
Other Long-Term Liabilities	254.6	252.3	245.8	238.2
Operational Boundary for Year	**450.3**	**456.8**	**459.9**	**476.9**

The Authorised Limit for External Debt

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

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

Table D3 – Authorised Limits

	2014/15 Expected £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Operational Boundary for Year	**450.3**	**456.8**	**459.9**	**476.9**
Provision for Non Receipt of Expected Income	46.0	51.0	51.0	51.0
Authorised Limit for Year	**496.3**	**507.8**	**510.9**	**527.9**

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

Table D4 – HRA Debt Limit

	2014/15 Expected £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
HRA Debt Cap (Statutory)	127.3	127.3	127.3	127.3
HRA Debt (CFR) at 31 March	(83.6)	(83.6)	(83.6)	(103.7)
HRA Headroom	43.7	43.7	43.7	23.6

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 applies a consistent MRP policy which comprises prudential borrowing being repaid over the useful life of the asset concerned and previous borrowing being repaid at the rate of 4% of the outstanding balance.

Borrowing Strategy

10.14 The Council's external debt as at 31 March 2015, gross borrowing plus long term liabilities, is expected to be £445m. During 2014/15 the Council has repaid £5.9m of PWLB loans. The Council's borrowing strategy is consistent with last year's strategy. The Council is currently maintaining an under-borrowed position in that the CFR is not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as an alternative funding measure. In the current economic climate, this strategy is considered prudent while investment returns are low, counterparty risk is higher than historic averages, and borrowing rates are still relatively high.

10.15 However, it is possible that in 2015/16 the Council may need to borrow £11m to fund the Housing Strategy. It is likely that this borrowing will be funded from Council balances, however the Council will seek advice before making a final decision.

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

10.17 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.

10.18 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

10.19 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.

10.20 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.

10.21 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%	0%
12 months to 2 years		0%	15%
2 years to 5 years		0%	11%
5 years to 10 years		0%	3%
10 years to 20 years		0%	17%
20 years to 30 years		0%	7%
30 years to 40 years		0%	18%
40 years to 50 years		0%	30%

Interest rate exposures	2014/15	2015/16	2016/17
Maturity structure of variable interest rate borrowing 2014/15			
		Lower	**Upper**
Under 12 months		0%	100%

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

Debt Rescheduling

10.22 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.

10.23 The Council has £112 m of LOBO loans (Lender's Option Borrower's Option) of which £65m will be in their call period in 2015/16. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also the option of repayment of the loan without penalty.

10.24 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

Introduction: changes to credit rating methodology

10.25 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and / or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

10.26 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

10.27 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

10.28 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

10.29 As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise Certificate of Deposit (CD) prices as an overlay to ratings in our new methodology.

10.30 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 2015/16 are presented to Council for approval in this same appendix.

10.31 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.

10.32 Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes

10.33 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.

10.34 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.

10.35 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

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

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

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

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

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

<u>Country limits</u>

10.38 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.

<u>Part nationalised banks</u>

10.39 In the 2013/14 mid year strategy it was agreed that the maximum deposit limits with part nationalised banks be increased to £65m from £50m. It is now proposed that from April 2015, the Council's maximum depoist limits with part nationalised banks is decreased to £40m for each of the Lloyds Banking Group and Royal Bank of Scotland (RBS) Group.

10.40 This scale back is as a result of the following recent events:

- The results of the 2014 Bank of England (BoE) Stress tests
- The Government's intention to sell more of its shareholding in Lloyds Banking Group.

10.41 Banks are required to have a core capital ratio of at least 4.5% as part of the BoE stress test. The results showed that the British banks with the "lowest pass" came from The

Royal Bank of Scotland (at 5.2%) and Lloyds plc (at 5.3%). The report judged that both bank's capital position needed to be strengthened further. The results demonstrated that they remain susceptiable to a severe economic downturn. However, the report also acknowleges the measures being taken by the banks to augment capital and the BoE did not request the banks to submit a revised capital plan.

10.42 On 17th December 2014, UKFI announced that it intended to sell part of Her Majesty's Treasury's shareholding in Lloyds Banking Group plc over the next six months through a pre-arranged trading plan. The trading plan will terminate no later than 30 June 2015. A maximum of 15% of the share holding will be sold. If the maximum amount of shareholding is sold, this will result in a Government shareholding of 9.9%. There are no immediate intentions to sell shareholding in RBS, but they will be embarking on a futher period of restructuring.

10.43 The Council feels that although both banks are showing very good improvements; are still state backed; and have postive feedback from our Treasury Management advisors; it would be beneficial to take a more prudent approach. Therefore the Council will begin to reduce the deposit limits for the part nationalised banks.

Investment Policy

10.44 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.

10.45 The Executive Director for Resources and Regeneration reports one occasion in 2014/15 where approved limits set out in the Annual Investment Strategy was breached. This breach was with regards to the duration of an investment. The Counterparty was a approved counterparty and the value of the invesment was also within the set limits. However, the investment was taken out for one year as opposed to the six months limit as set out in the Annual Investment Strategy. Tighter review and approval procedures have been put into place to mitigate the risk of such an incident occurring in the future.

Municipal Bond Agency

10.46 Members should also note it is likely that the Municipal Bond Agency currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority is a shareholder of the MBA and may make use of this new source of borrowing as and when appropriate.

Prospects for Investment Returns

10.47 The Bank of England base rate is currently forecast to remain unchanged at 0.5% before starting to rise from quarter four of 2015. The rate forecasts for financial year-ends are:

- 2015/16 0.75%

- 2016/17 1.25%
- 2017/18 2.00%

10.48 There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

10.49 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 eight years are as follows:

- 2015/16 0.60%
- 2016/17 1.25%
- 2017/18 1.75%
- 2018/19 2.25%
- 2019/20 2.75%
- 2020/21 3.00%
- 2021/22 3.25%
- 2022/23 3.25%
- Later years 3.50%

10.50 A more extensive table of interest rate forecasts for 2015/16, including Public Works Loan Board (PWLB) borrowing rate forecasts is set out in Appendix Z1.

Summary

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

11 CONSULTATION ON THE BUDGET

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

Rent Setting and Housing Panel

11.2 As in previous years, tenants' consultation was in line with Residents' Compact arrangements. This provided tenant representatives of Lewisham Homes with an opportunity in December 2014 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 December 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 online on Council's outline budget between 19 January and 2 February 2015. The results of this consultation will

be made available in the Budget Report Update presented to Mayor & Cabinet on 18 February 2015.

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 2015/16.

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, 2015/16, were anticipated in the course of the budget process. They were the subject of full report at that time and they are now listed in Appendix Y1. Members are asked now to approve and endorse those reductions for this year. This report is predicated on taking all of the agreed and proposed savings. If not, any shortfall will have to be met through adjustments to the annual budget in this report.

13.14 The body of the report refers to the various consultation (for example with tenants' and business) which the Council has carried out/is carrying out in accordance with statutory requirements relating to this budget process. The Mayor must consider the outcome of that consultation with an open mind before reaching a decision about his final proposals to Council. It is noted that the outcome of consultation with business rate payers will only be available from the 3 February 2015 and any decisions about the Mayor's proposals on the budget are subject to consideration of that consultation response.

Referendum

13.15 Sections 72 of the Localism Act 2011 and Schedules 5 to 7 amended the provisions governing the calculation of Council Tax. They provide that if a Council seeks to impose a Council Tax increase in excess of limits fixed by the Secretary of State, then a Council Tax referendum must be held, the results of which are binding. The Council may not implement an increase which exceeds the Secretary of State's limits without holding the referendum. Were the Council to seek to exceed the threshold, substitute calculations which do not exceed the threshold would also have to be drawn up. These would apply in the event that the result of the referendum is not to approve the "excessive" rise in Council Tax.

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

Robustness of estimates and adequacy of reserves

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

13.18 The Chief Financial Officer's section 25 statement will be appended to the Budget Report update to Mayor & Cabinet on 18 February 2015.

Treasury Strategy

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

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

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

Constitutional provisions

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

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

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

Statutory duties and powers

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

Reasonableness and proper process

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

Staff consultation

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

requirement is in addition to the consultation with individuals affected by redundancy and/or reorganisation under the Council's own procedure.

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. 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'.

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 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.

13.36 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.

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

Crime and Disorder

13.38 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.

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

Best Value

13.40 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

13.41 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.

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

Integration with health

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

14 HUMAN RESOURCES IMPLICATIONS

14.1 There are no specific human resources implications arising from this report. Any such implications were considered as part of the revenue budget savings proposals presented to Mayor & Cabinet on 12 November 2014 and the accompanying savings report to Mayor & Cabinet on the 11 February. A summary of the savings proposals are attached at Appendix Y2 to this report.

15. CONCLUSION

18.1 This report sets out the information necessary for the Council to set the 2015/16 budget. Updates will be made to this report at Mayor & Cabinet on 18 February 2015. Final decisions will be taken at the meeting of full Council on 25 February 2015.

16. BACKGROUND DOCUMENTS AND FURTHER INFORMATION

Short Title of	Date	Location	Contact
Medium Term Financial Strategy	16 July 2014 (M&C)	5th Floor Laurence House	David Austin
Savings Proposals for 2015/16	12 November 2014 (M&C) 11 February 2015 (M&C)	5th Floor Laurence House	David Austin
Setting the Council Tax Base & Discounts for Second Homes and Empty Properties	21 January 2015 (Council)	5th Floor Laurence House	David Austin

For further information on this report, please contact:

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17. APPENDICES

Capital Programme

W1 Capital Programme 2014/15 to 2018/19 – Major Projects
W2 Proposed Capital Programme – Original to latest Budget

Housing Revenue Account

X1 Proposed Housing Revenue Account Savings 2015/16
X2 Tenants rent consultation 2015/16
X3 Leasehold and Tenants charges consultation 2015/16
X4 Leasehold and Tenants charges and Lewisham Homes Budget Strategy 2015/16
X5 Other associated housing charges for 2015/16

X6 Summary of 20 historic housing debt cases proposed for write off

General Fund

Y1 Summary of previously agreed budget savings for 2015/16
Y2 Summary of Proposed Revenue Budget savings 2015/16 to 2017/18
Y3 Ready Reckoner for Council Tax 2015/16
Y4 Chief Financial Officer's Section 25 Statement – *To follow M&C 18th February 2015*
Y5 Council Tax And Statutory Calculations
Y6 Making Fair Financial Decisions

Treasury Management

Z1 Interest Rate Forecasts 2015 – 2018
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