MAYOR & CABINET			
REPORT TITLE	2016/17 Budget		
KEY DECISION	Yes	**Item No.**	
WARD	All		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	**Date**	10 February 2016

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 2016/17. These include the following:

- The proposed Capital Programme (General Fund and Housing Revenue Account) budget for 2016/17 to 2019/20 of £337.2m, of which £129.2m is for 2016/17;

- The proposed rent decrease of 1.0% (an average of £0.99 per week) in respect of dwelling rents, 1.0% (average £0.39 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 £167.6m, including the capital and new build programme, for 2016/17;

- The provisional Dedicated Schools Grant allocation of £283.5m and a separate Pupil Premium allocation expected to be £18.0m for 2016/17.

- In respect of the General Fund, the assumed net revenue expenditure budget of £236.218m. This is made up of provisional Settlement Funding from government of £146.691m (grant and business rates), forecast Council Tax receipts including an increase in Council Tax of 3.99% (based on the government's assumption for calculating local government resources that authorities will use their tax raising potential to the full), and a surplus from growth in the Council Tax base and on collection of Council Tax in previous years from the Collection Fund.

- The changes to the prior year General Fund position to meet the 2016/17 net revenue budget of £236.218m are proposed on the basis of the following assumptions:
  - £6.462m of revenue budget savings have been previously agreed for 2016/17;
  - £10.752m of revenue budget savings are proposed for 2016/17;
  - £1.000m of savings in calculation of Minimum Revenue Provision (MRP) and from debt restructuring measures;
  - £7.500m is provided for budget pressures in 2016/17 of which it is being recommended that £3.750m of specific identified budget pressures be funded now and £3.750m 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 2017/18;
- An assumed 3.99% increase in Band D Council Tax for Lewisham's services for 2016/17; including the 2% increase announced in the Local Government Finance Settlement for Social Care, along with the withdrawal of the Government's freeze grant of £1.0m; and
- The use of once-off reserves be used to fund the current savings shortfall of £5.942m for 2016/17 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 2017/18, savings required, and the continued work of the Lewisham Future Programme to meet identified potential budget shortfalls in future years. These are estimated at circa £15m for each of the three years 2017/18 to 2019/20.

1.3 The report updates the Council's Treasury Management strategy for both borrowing and investments. The proposed approach and levels of risk the Council takes in its treasury functions remain broadly the same. However, there are proposed changes to amend the Minimum Revenue Provision policy, continue to explore the opportunity and timing to undertake debt restructuring to reduce balance sheet risk, and explore the business case for investing for more than one year in pooled funds with a view to increasing return on investments.

2. PURPOSE

2.1 The purpose of this report is to set out the overall financial position of the Council in relation to 2015/16 and to set the Budget for 2016/17. This report allows for the Council Tax to be agreed and housing rents to be set for 2016/17. It sets the Capital Programme for the next four years and the Council's Treasury Strategy for 2016/17.

2.2 The report also provides summary information on the revenue budget savings proposals that were presented at Mayor & Cabinet on 30 September 2015. The approval and successful delivery of these savings are required in order to help balance the budget for 2016/17 and to address the budget requirement for 2017/18.

3. RECOMMENDATIONS

3.1 It is recommended that the Mayor considers the comments of the Public Accounts Select Committee of 27 January 2016.

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 2015/16 Quarter 3 Capital Programme monitoring position as set out in section 5 of this report;

3.4 recommends that Council approves the 2016/17 to 2019/20 Capital Programme of £337.2m, as set out in section 5 of this report and attached at Appendices W1 and W2;

Housing Revenue Account

3.5 notes and asks Council to note the consultation report on service charges to tenants' and leaseholders' in the Brockley area, presented to area panel members on 17th December 2015, and subsequent postal consultation, as attached at Appendix X3;

3.6 notes and asks Council to note the consultation report on service charges to tenants' and leaseholders' in the Lewisham Homes budget strategy presented to area panel members on 17th December 2015, as attached at Appendix X4;

3.7 recommends that Council sets a decrease in dwelling rents of 1.0% (an average of £0.99 per week) – as per the requirements from government and as presented in section 6 of this report;

3.8 recommends that Council sets a decrease in the hostels accommodation charge by 1.0% (or £0.39 per week), in accordance with Government requirements;

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 1.80% (£0.06)
- grounds 1.80% (£0.03)
- communal lighting 1.80% (£0.01)
- bulk waste collection 1.80% (£0.02)
- window cleaning 1.80% (£0.09)
- tenants' levy -30.0% (-£0.03)

3.9.2 service charges to Lewisham Homes managed dwellings:

- caretaking 1.20% (£0.07)
- grounds 68.0% (£0.66)
- window cleaning No increase
- communal lighting -10.7% (-£0.13)
- block pest control -4.3% (-£0.07)
- waste collection No change
- heating & hot water 23.1% (£1.85)
- tenants' levy -30.0% (-£0.03)
- bulk waste disposal new service (£0.81)
- sheltered housing new service (£23.62)

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

- service charges (hostels) – caretaking etc.; 2.90% (£2.09)
- no energy cost increases for heat, light & power; 0.0% (£0.00)
- water charges decrease; -5.26% (-£0.01)

3.11 recommends that Council approves an increase in garage rents by Retail Price Inflation (RPI) of 0.80% (£0.09 per week) for Brockley residents and 0.80% (£0.09 per week) for Lewisham Homes residents;

3.12 notes and asks Council to approve the budgeted expenditure for the Housing Revenue Account (HRA) for 2016/17 of £167.6m which includes the capital and new build programmes and note the current plan to 2020/21;

3.13 agrees and asks Council to endorse the HRA budget strategy savings proposals in order to achieve a balanced budget in 2016/17, as attached at Appendix X1;

Dedicated Schools Grant and Pupil Premium

3.14 agrees to recommend to Council, subject to final confirmation of the allocation, that the provisional Dedicated Schools Grant allocation of £283.5m be the Schools' Budget for 2016/17; and

- Note the consultation with schools on 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 2016/17 of £18.0m

General Fund Revenue Budget

3.15 notes and asks Council to note the projected overall variance against the agreed 2015/16 revenue budget of £6.9m as set out in section 8 of this report and that any year-end overspend will have to be met from reserves;

3.16 endorses and asks Council to endorse the previously approved revenue budget savings of £6.462m for 2016/17 and budget savings proposals of £10.752as per the Mayor and Cabinet meeting of the 30 September 2015, as set out in section 8 of the report and summarised in Appendix Y1 and Y2;

3.17 agrees and asks Council to agree the transfer of £5.0m in 2016/17 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 2017/18;

3.18 agrees and asks Council to agree the use of £5.942m reserves to meet the budget gap in 2016/17;

3.19 agrees and asks Council to agree to fund budget pressures in the sum of £3.750m in 2016/17;

3.20 agrees and asks Council to agree to create a fund in respect of as yet un-quantified revenue budget risks in the sum of £3.750m in 2016/17, 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;

3.21 agrees to recommend to Council that a General Fund Budget Requirement of £236.218m for 2016/17 be approved, based on a 3.99% increase in Lewisham's Council Tax element. This will result in a Band D equivalent Council Tax level of £1,102.66 for Lewisham's services and £1,378.66 overall. This represents an overall increase in Council Tax for 2016/17 of 1.72% and is subject to the GLA precept for 2016/17 being reduced by 6.44% from its existing level, in line with the GLA's draft proposal;

3.22 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;

3.23 asks that the Executive Director for Resources & Regeneration issues cash limits to all Directorates once the 2016/17 Revenue Budget is agreed;

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

3.25 agrees the draft statutory calculations for 2016/17 as set out at Appendix Y5;

3.26 notes the prospects for the revenue budget for 2017/18 and future years as set out in section 9;

3.27 agrees that officers continue to develop firm proposals as part of the Lewisham Future Programme to help meet the forecast budget shortfalls;

Other Grants (within the General Fund)

3.28 notes the adjustments to and impact of various specific grants for 2016/17 on the General Fund as set out in section 8 of this report;

Treasury Management Strategy

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

3.30 agrees and recommends that Council approves the 2016/17 treasury strategy, including; the potential for debt restructuring and opportunity to invest for longer than one year in pooled property funds, along with the investment strategy and the credit worthiness policy, as set out at Appendix Z3;

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

3.32 agrees and recommends that Council agrees to delegate to the Executive Director for Resources & Regeneration authority during 2016/17 to make amendments to borrowing and investment limits provided they are consistent with the strategy and there is no change to the Council's authorised limit for borrowing;

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

3.34 agrees and recommends that Council approves a minimum sovereign rating of AA- ;

3.35 agrees and recommends that Council approves a change to the yellow and purple durational investment bands from 1 to 2 years in the credit worthiness policy.

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, Savings, and Council Tax
Section 9	Other Grants and Future Years' Budget Strategy
Section 10	Treasury Management Strategy
Section 11	Consultation on the Budget
Section 12	Financial Implications
Section 13	Legal Implications
Section 14	Human Resources Implications
Section 15	Crime and Disorder Implications
Section 16	Equalities Implications
Section 17	Environmental Implications
Section 18	Conclusion
Section 19	Background Documents and Further Information
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 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, incorporating further budget savings for 2016/17.

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 November 2015, are for the period to 2020/21. The forecast growth in Gross Domestic Product (GDP) has remained unchanged from earlier in the year at 2.4% for 2015, with a slight increase to 2.4% from 2.3% in 2016, and from 2.4% to 2.5% in 2017. The average forecast for Consumer Price Index (CPI) inflation in the fourth quarter of 2015 has fallen in recent months, mainly reflecting falls in commodity prices. CPI inflation is forecast to be below target in 2015 and to remain below the 2% inflation target before returning gradually to 2.0% in 2019.

4.7 The OBR expect Public Sector net borrowing to fall by 1.3% of GDP in 2015/16, and 1.4% in 2016/17, reaching 2.5% of GDP. Looking further ahead, the OBR expects the deficit to fall each year and to reach a small surplus by 2019/20, (2018/19 previously).

4.8 In the Autumn Statement, the Chancellor of the Exchequer announced further efficiency savings of £21.5bn for the public sector from unprotected departments over the four year period to 2019/20. It is expected that this will have a further detrimental effect on the Council's funding in the years to come.

4.9 The provisional Local Government Finance Settlement was announced on 17 December 2015, with the final settlement expected in early February 2015. The Settlement figures were higher than anticipated in the earlier years but reductions still apply over the period to 2019/20.

4.10 In the November 2015 Spending Review, the Government announced the creation of a social care precept to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on Social Care. The precept will work by giving local authorities the flexibility to raise council tax in their area by up to 2% above the existing threshold. For Lewisham this will provide additional funding of £1.66m in 2016/17 for Social care.

4.11 In the provisional local government finance settlement assumptions, December 2015, the government has assumed that Councils will use their tax raising powers to the full in all years of the parliament to help meet funding pressures. In this context, an increase in Council Tax (additional to the social care precept) of 1.99% within the referendum limit will provide funding of £1.65m in 2016/17.

4.12 The Finance Settlement also confirmed the withdrawal of the Council tax freeze grant which contributed to Lewisham freezing its Council tax over the last five years. The freeze grant received for all these years, with the exception of 2012/13, has been rolled into the Settlement Funding Assessment. The 2012/13 freeze grant was a one off grant in that year only and no longer features. For 2016/17 this represents a loss of £1m.

4.13 There were also a number of other changes announced to the finance regime for local government that will impact, subject to consultation, in future years. In particular, the introduction of a new definition for 'core spending power' based on different assumptions for allocating resources to tiers of council services impacting how Revenue Support Grant will be phased out, changes to the Business Rates regime in anticipation of this being 100% devolved to local government by 2020, sharpening of New Homes Bonus arrangements and incentives, a new element of Better Care Fund for local government to support integration work, use of capital receipts to fund revenue costs of transforming services, and the expectation that local government will take on new responsibilities going forward (e.g. pensioner housing benefit, attendance allowance).

4.14 Leaving all other previous assumptions (from the July 2015 Medium Term Financial Strategy) unchanged, the provisional estimate is that the forecast savings required in 2016/17 is now at £29.2m (before measures).

4.15 The Medium Term Financial Strategy was reported to Mayor and Cabinet in July 2015. This set out that an estimated £83m worth of savings was required from 2016/17 to 2019/20. After the Settlement announcement in December 2015, this was revised to £76m.

4.16 The Lewisham Future Programme Board was established to determine and progress cross-cutting and thematic reviews to deliver the savings required. The Council has already made savings of £121.2m to meet its revenue budget requirements since May 2010 and is proposing further savings of £17.2m (£10.7m of new proposals and £6.5m of previously agreed savings) in 2016/17.

4.17 The total savings package proposed for 2016/17 to 2017/18 so far is £34.2m. A £1m saving from a review of MRP (minimum revenue provision) and debt is also proposed in 2016/17.

4.18 Assuming the measures proposed and the 2016/17 budget as set out in this report are agreed, it is expected that the Council will need to identify further savings of circa £15m for the following three years 2017/18 to 2019/20.

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

- Capital Programme for 2016/17 to 2019/20;
- Housing Revenue Account and level of rents for 2016/17;

- Dedicated Schools Grant for 2016/17;
- General Fund Revenue Budget for 2016/17;
- Other Grants for 2016/17;
- Council Tax level for 2016/17; and
- Treasury Management Strategy for 2016/17.

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 2016/17 to 2019/20 is proposed at £337.2m, of which £129.2m is for 2016/17.

5.2 This section of the report is structured as follows:

- Update on 2015/16 Capital Programme
- Proposed Capital Programme 2016/17 to 2019/20

Update on 2015/16 Capital Programme

5.3 Progress in delivering the 2015/16 Capital Programme has been reported to Mayor & Cabinet and the Public Accounts Select Committee regularly throughout the year. The latest forecast projection was that the revised budget allocated for the year of £116.2m, and reported to Mayor and Cabinet on 11th November 2015, would be delivered this year. However, at this stage, the revised budget shows a slight increase of £1.9m to the last reported budget figure, mainly due to the inclusion of the 2016 Schools Minor Works Programme and re-profiling of budgets on major schemes such as the Primary Places Programme and the Lewisham Homes – Property acquisition Project.

5.4 The capital programme for 2015/16 has seen a number of schemes progress well with the main areas of capital spend involving the provision of school places and housing.

Proposed Capital Programme 2016/17 to 2019/20

5.5 The Council's proposed Capital Programme for 2016/17 to 2019/20 is currently £337.2m, as set out in Table A1:

Table A1: Proposed Capital Programme for 2016/17 to 2019/20

	15/16 £m	16/17 £m	17/18 £m	18/19 £m	19/20 £m	4 Year Total £m
General Fund						
Building Schools for the Future	8.6	1.2	0.0	0.0	0.0	**1.2**
Schools – Primary Places and other Capital Works	36.8	7.4	1.2	1.2	1.2	**11.0**
Highways, Footways and Bridges	7.4	6.0	3.5	3.5	3.5	**16.5**
Major Regeneration Schemes	10.6	11.7	6.1	0.0	9.0	**26.8**
Town Centres and High Street	0.5	3.6	0.0	0.0	0.0	**3.6**

Improvements						
Asset Management Programme	1.1	3.1	3.0	3.0	0.0	**9.1**
Other Schemes	14.3	10.1	2.4	2.4	2.3	**17.2**
	79.3	**43.1**	**16.2**	**10.1**	**16.0**	**85.4**
Housing Revenue Account	**38.8**	**86.1**	**89.6**	**37.6**	**38.5**	**251.8**
Total Programme	**118.1**	**129.2**	**105.8**	**47.7**	**54.5**	**337.2**

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

Table A2: Proposed Capital Programme Resources for 2016/17 to 2019/20

	15/16 £m	16/17 £m	17/18 £m	18/19 £m	19/20 £m	4 Year Total £m
General Fund						
Prudential Borrowing	10.5	14.7	0.0	0.0	9.0	**23.7**
Grants and Contributions	46.4	11.0	0.6	0.6	0.0	**12.2**
Specific Capital Receipts	6.3	4.4	6.1	0.0	2.3	**12.8**
General Capital Receipts / Reserves / Revenue	16.1	13.0	9.5	9.5	4.7	**36.7**
	79.3	**43.1**	**16.2**	**10.1**	**16.0**	**85.4**
Housing Revenue Account						
Prudential Borrowing	0.0	0.0	0.0	0.0	0.0	**0.0**
Grants	0.0	2.1	2.0	0.0	0.0	**4.1**
Specific Capital Receipts	6.3	48.7	27.2	0.0	0.0	**75.9**
Reserves / Revenue	32.5	35.3	60.4	37.6	38.5	**171.8**
	38.8	**86.1**	**89.6**	**37.6**	**38.5**	**251.8**
Total Resources	**118.1**	**129.2**	**105.8**	**47.7**	**54.5**	**337.2**

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

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

5.9 No changes are proposed at this stage to the existing General Fund revenue contributions to capital (CERA) of £2.0m per year from the 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.

5.10 The Capital Programme will be further updated to include future grants, once these are known and will also include the year-end outturn expenditure and resourcing. This is expected to be reported to Members before the summer recess and will not impact on delivery of the Programme for 2016/17.

Summary

5.11 The proposed 2016/17 to 2019/20 Capital Programme totals £337.2m (General Fund £85.4m and HRA £251.8m) 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 2016/17 is £167.6m, including the capital and new build programme.

6.2 It is structured as follows:

- Update on the HRA financial position for 2015/16
- Update on the HRA Business Plan
- Future Years' Forecast

Update on the HRA financial position for 2015/16

6.3 The HRA is budgeted to spend over £100.0m in 2015/16. The latest forecast on the HRA for 2015/16, 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 & rental income estimates, updated for efficiency savings and cost pressures. In addition, policy objectives such as sheltered housing and new build plans are incorporated into the modelling.

6.5 The plan is currently undergoing a major revision following the Government's intention, announced in the July 2015 budget statement, to legislate for a 1% reduction in social rents to be applied each year for the next four years from 2016/17. This is expected to be passed into legislation within the next few months.

6.6 The impact of the change in policy is a total reduction of forecast rental income within the business plan of £1.90m for 2015/16. The expected culmulative rent reduction over the next four years is £25.0m, with £374.0m being lost over the life of the 30 year business plan.

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

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

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

HRA Income & Expenditure Estimates – 5 year Forecast	2016/17	2017/18	2018/19	2019/20	2020/21
	£M's	£M's	£M's	£M's	£M's
Income					
Rental income	-71.7	-69.9	-68.7	-69.8	-71.1
Tenants service charge income	-5.9	-6.0	-6.0	-6.1	-6.2
Leasehold service charge income	-4.0	-4.1	-4.2	-4.3	-4.4
Hostel charges and grant income	-1.3	-1.3	-1.4	-1.4	-1.4
Major Works recoveries	-5.3	-5.6	-5.8	-6.0	-7.4
Other income	-2.0	-2.0	-2.1	-2.1	-2.0
Interest earned on balances	-0.7	-0.5	-0.4	-0.3	-0.3
Total Income	**-90.9**	**-89.4**	**-88.6**	**-90.0**	**-92.8**
Expenditure					
Management costs	34.9	35.3	35.6	35.9	36.2
Repairs & maintenance	15.3	15.4	15.6	15.9	16.0
PFI Costs	5.6	6.1	6.5	7.1	7.5
Interest & other finance costs	4.3	3.9	3.8	3.8	4.1
Depreciation	30.4	30.8	31.2	31.6	32.0
Revenue Contribution to Capital	6.1	1.5	6.4	6.5	-3.1
Total Expenditure	**96.6**	**93.0**	**99.1**	**100.8**	**92.7**
Surplus/(deficit)	**-5.7**	**-3.6**	**-10.5**	**-10.8**	**0.1**
Opening HRA reserves	32.3	26.6	23.0	12.5	1.9
Drawdown from reserves	-5.7	-3.6	-10.5	-10.6	0.1
Closing HRA Reserves	**26.6**	**23.0**	**12.5**	**1.9**	**2.0**
Forecast Capital Programme & Funding	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£M's	**£M's**	**£M's**	**£M's**	**£M's**
Capital programme (including decent Homes)	35.2	36.8	37.5	38.0	39.8
New Build construction & ongoing costs	35.8	-4.5	0.1	0.5	0.5
Total Capital Expenditure	**71.0**	**32.3**	**37.6**	**38.5**	**40.3**
Capital Programme Funded By:					

HRA Income & Expenditure Estimates – 5 year Forecast	2016/17	2017/18	2018/19	2019/20	2020/21
	£M's	£M's	£M's	£M's	£M's
MRR Opening Balance	-34.5	0.0	0.0	0.0	0.0
Revenue Contribution to Capital	-6.1	-1.5	-6.4	-6.5	3.1
Depreciation	-30.4	-30.8	-31.2	-31.6	-32.0
Borrowing	0.0	0.0	0.0	-0.4	-11.4
Total Capital Funding	**-71.0**	**-32.3**	**-37.6**	**-38.5**	**-40.3**
Capital shortfall	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
HRA - Actual Debt Level (Forecast)	74.8	74.8	74.8	75.2	86.6
HRA Self-financing Settlement Debt Level	127.3	127.3	127.3	127.3	127.3

6.10 As can be seen from the above table, the expected total expenditure, before financing, for the HRA in 2016/17 is £167.6m, compromising 96.6m operational costs and £71.0m capital and new build costs.

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

Future Years' Forecast

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

6.13 The HRA is budgeted to spend £167.7m in 2016/17. 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 2016/17. Overall Savings of £1.0m in Repairs & Maintenance budgets for 2016/17 were identified and put before Tenants Panels in December 2015. An explanation of the savings is 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 2016/17, they could be used for investment needs currently identified by the HRA Business Plan, or to partly off-set reductions in rental income following the government's announcement to reduce rents by 1% for each of the next four financial years.

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

Rental Income and allowances

6.15 The average weekly rent is currently £98.42 in 2015/16.

6.16 Due to the requirements to comply with Government legislation, rents are expected to reduce by 1% each year for the next four years.

6.17 A 1% reduction in average rents for 2016/17 will equate to an average decrease of £0.99 over a 52 week period. This will reduce the full year average dwelling rent for the

London Borough of Lewisham from £98.42 to £97.43 per week (pw). The proposed decrease will result in a loss of £0.743m of rental income to the HRA against 2015/16 income levels.

6.18 The government's rent decrease was not anticipated within the HRA financial modelling, which assumed an increase in line with estimated September Consumer Price Inflation (CPI) + 1.0% (with forecast CPI at 2.0%). Therefore the total reduction of forecast rental income within the business plan for 2016/17 is £1.90m. The expected rent loss due to this initiative over the next four years is £25.0m, with £374.0m being lost over the life of the 30 year business plan.

6.19 The table below illustrates the impact the four year rent reduction has on the HRA account.

	2015/16	2016/17	2017/18	2018/19	2019/20
Original Business Plan Forecast Rental Income*	£73.3m	£73.4m	£74.6m	£76.0m	£77.4m
Revised Business Plan Forecast Rental Income	£73.3m	£71.5m	£69.8m	£68.3m	£66.8m
Change	-	-£1.9m	-£4.8m	-£7.7m	-£10.6m
Revised Forecast Average rent	£98.42	£97.43	£96.46	£95.50	£94.55
Change in average Rent	-	-£0.99	-£0.97	-£0.96	-£0.95

* The original business plan forecast for rental increases was based on CPI at 2.0% + 1.0% as per government guidelines issued in May 2014.

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

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

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

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

6.24 Details of the options for the rent & service charge changes for 2016/17 were presented to the Housing Select Committee on 26 January 2016.

6.25 Having regard to the consultation held in December 2015, the Mayor is asked to make a recommendation to full Council that a rent decrease be agreed to accord with Government requirements. The new average rent for 2016/17 is likely to be in the region of £97.43pw, a reduction of approximately £0.99pw from 2015/16 levels.

Other Associated Charges

6.26 There are a range of other associated charges. These include: garage rents, tenants levy, hostels, Linkline, private sector leasing, heating and hot water. These charges and any proposed changes to them for 2016/17 are set out in detail in Appendix X5.

Summary

6.27 The gross budgeted expenditure for the HRA in 2015/16 is £167.6m. The Mayor is asked to make a recommendation to full Council for a rent decrease having considered Government requirements and tenant's feedback following consultation held in December 2015. The current average weekly rent is £98.42 in 2015/16. Rents will reduce by an average of £0.99pw to an average rent of £97.43pw in 2016/17.

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 2016/17. This grant is formula based, calculated by the Government with the Council passing it onto schools. The respective budgets for 2016/17 are £283.5m and £18.0m.

7.2 It is structured as follows:

- Update on 2015/16 Dedicated Schools' Grant
- Dedicated Schools' Grant for 2016/17
- Pupil Premium

Update on 2015/16 Dedicated Schools' Grant

7.3 The level of the Dedicated Schools' Grant (DSG) for 2015/16 is £279.4m. This will be revised later to take account of the pupil count which for early years children is undertaken in January 2016.

7.4 The only current budget pressure in the DSG arises from children with Special Educational Needs (SEN) statements / Education, Care and Health plans within the High Needs block of the grant, which is forecast to overspend by £2.9m. This can be met from a previous year carry forward put aside for this purpose and the contingency held by the Schools Forum. With these measures the grant is expected to be balanced at the year end.

Dedicated Schools' Grant for 2016/17

7.5 The DSG for 2016/17 has provisionally been set by the Department for Education (DfE) at £283.5m, although this will change during the year to reflect updated pupil numbers. The DSG is now £47m (or 20%) larger than the Council's Net General Fund budget.

7.6 In comparison with last year, there is a £4.1m increase (1.5%) in the DSG. This increase is due to the following:

- An increase of £3.6m driven by the estimated increase in pupil numbers, largely in the primary age group, while the amount per pupil has been frozen in cash terms.
- Nationally an extra amount of £92.5m has been added to the High Needs Block. Lewisham will receive an extra £0.5m or 1.1% of this extra amount.

7.7 Once inflation including the cost pressures on salaries and wages budget of 2.8% for the year is taken into account, this funding represents a real terms reduction of 1.3%. It will be for individual schools to manage their budgets in line with this reduced level of funding.

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

7.9 Under the regulations the Schools Forum decides:

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

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

7.11 The projection for 2016/17 is an overspend of £4.1m on the High Needs Block if no action is taken.

7.12 The Schools Forum set up a task group to review the High Needs Pupils costs in 2013. This group made a number of recommendations to the Forum which met on the 10 December 2015 to consider them. The Forum agreed savings of £2.0m but asked officers to consult schools on a number of possible ways to manage the shortfall of £2.1m.

7.13 Since the Schools Forum meeting in December the DfE has sent Local Authorities the data they must use to calculate each school's funding allocation. This is a national requirement and the Schools Forum cannot change the data but it can set the funding rates to apply to the data in order to calculate the ISBs.

7.14 The funding Lewisham receives for the schools block within the DSG is based on pupil numbers only. Lewisham receives £5,966 per pupil. There are 36,579 pupils which equates to schools block funding of £218.237m. The changes in the data such as free meals and the Income Deprivation Affecting Children Index (IDACI) does not influence the funding we receive. It does however alter the funding a school receives in its funding allocation through the formula. If the number of free meals decreases then the amount Schools Forum allocates to schools decreases but the level of the DSG stays the same. There has been a significant drop in the deprivation led data which means that for 2016/17 the funding formula will allocate £1.2m less to schools than in 2015/16. It is proposed to move this undistributed resource to the High Needs block to fund that spending pressure.

7.15 The consultation with schools ended on15 January and was reported back to the Forum on the 19 January 2016. The proposals considered were:

i) That the additional funding of £0.5m for high needs block and the reduced deprivation allocation of £1.2m are applied to the high needs block;

ii) That a £0.2m reduction in National Non Domestic Rates (NNDR) as a result of the change in status of two schools be applied to fund the high needs block;

iii) That £0.2m of the collaborative funding is applied to the high needs block to secure a balance of funding and projected pressures in 2016/17;

iv) That the balance of collaborative funding is applied to the ISB formula funding of schools – a sum of £1.8m – on the same basis as the current calculation where possible to offset the fall in the deprivation data.

v) To increase the lump sum for all schools to £0.14m

7.16 The proposals in i), ii), and iii) above increase the High Needs Block by £2.1m and reduce the schools block by £1.2m. The proposal in iv) transfers the collaborative funding to the schools block.

7.17 The responses to the consultation were largely positive and. having considered them on the 19 January, the Schools Forum concluded they were sufficient for them to agree the proposals as the basis for setting the DSG budget for 2016/17.

Pupil Premium

7.18 In addition to the DSG, schools will continue to receive the pupil premium. The pupil premium in 2015/16 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 to January 2016.

7.19 In 2016/17 the rate of funding is set at the same level as 2015/16. This is £1,320 per primary child, £935 per secondary child and £1,900 per child in Looked After Care. The DfE no longer provide forecasts of the total pupil premium. Officers calculations are for £18.0m for 2016/17, which compares with the current forecast for 2015/16 of £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 2016/17, assuming a Council Tax increase of 3.99%, is £236.218m. Details of the savings anticipated for 2016/17 are provided at Appendices Y1 and Y2

8.2 It is structured as follows:

- Update on 2015/16 Revenue Budget
- The Budget Model
- Saving proposals
- Council Tax for 2016/17
- Overall Budget Position for 2016/17.

Update on 2015/16 Revenue Budget

8.3 The Council's revenue budget for 2015/16 was agreed at Council on 25 February 2015. The general fund budget requirement was set at £246.224m.

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

8.5 Budget holders have been 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 An initial projected overspend of £8.6m was reported at the end of May 2015. Since this position was first reported, to avoid a Directorate overspend of the scale experienced for the first time in many years in 2014/15, significant management attention has been given to containing costs and, where possible, accelerating service changes to reduce costs. 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 £6.9m being reported to the end of November 2015. This is still a significant overspending projection, although there are signs the various management actions continue to help bring the projected overspend down.

<u>Directorates</u>

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

Table C1: Forecast outturn for 2015/16 as at end of November 2015

Directorate	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/ (under) spend November 2015
	£m	£m	£m	£m
Children & Young People	68.9	(17.8)	51.1	6.9
Community Services	172.1	(75.3)	96.7	(1.2)
Customer Services	91.8	(48.2)	43.6	3.6
Resources & Regeneration	43.4	(13.8)	29.6	(2.4)

Directorate Totals	**376.2**	**(155.2)**	**221.0**	**6.9**
Corporate Items	25.2	0.0	25.2	0.0
Net Revenue Budget	**401.4**	**(155.2)**	**246.2**	**6.9**

<u>Corporate Financial Provisions</u>

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

8.9 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 2015/16 budget overspend from reserves.

The Budget Model

8.10 This section of the report sets out the construction of the 2016/17 base budget. This section is structured as follows:

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

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

8.11 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 four to five years. This section of the report summarises a series of proposals that would enable the Council to set a balanced budget for 2016/17 as part of a sustainable financial strategy to 2019/20.

<u>*Council Tax*</u>

8.12 The assumption used in the model for preparing the 2016/17 budget, subject to confirmation by Council, is for the maximum 3.99% Council Tax increase (a 2% for the new social care precept and a 1.99% increase under the referendum principle) and no receipt of the Council Tax freeze grant from Government. This is consistent with the government's financial models for local government funding to 2019/20.

8.13 If Council choose to set a different Council Tax increase they will need to be mindful that any increase below this recommendation will result in additional budget pressures, resulting in a higher savings requirement. And any increase above this recommendation would require support in a local referendum due to the limit set by the Secretary of State. Further information on the options for Council when setting the Council Tax is set out in more detail towards the end of this section.

Inflation

8.14 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.

8.15 On 23 December 2015, the Office for National Statistics (ONS) reported that the rate of Gross Domestic Product (GDP) growth in the economy was greater than 2% with CPI inflation in the UK at 0.1% for the year to November. The November Office of Budget Responsibility forecasts for inflation are a rise from 0.1% in 2015 to 1.0% in 2016 and before returning to near the UK target of 2% annually thereafter with GDP growth remaining above 2% throughout this period.

8.16 For financial planning purposes, the Council has previously assumed an average pay inflation of 1% per annum, which equates to approximately £1.1m. In December 2015, a final offer was made to the unions of a 1% pay award for 2016/17 and 2017/18 by the National Joint Council (NJC) for Local Government Services, with staff on very low pay being offered increases that will bring them up to the new National Living Wage (NLW) introduced by the government in 2015. The NLW is currently set at £7.20/hr from April 2016. Lewisham's lowest pay band well exceeds this amount and therefore a provision of 1% per annum for the next two years has been made.

8.17 The Council currently applies a non-pay inflation rate of 2.5% per annum. This is close to the growth rate of the economy and better reflects underlying commitments in Council contracts. This equates to approximately £2.5m per annum (net). This figure was put forward as an efficiency saving for three years starting from 2015/16.

New Homes Bonus

8.18 The New Homes Bonus (NHB) sits alongside the Council's planning system and is designed to create a fiscal incentive to encourage housing growth. The Department for Communities and Local Government (DCLG) is paying the NHB as 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'.

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

8.20 The provisional allocation for 2016/17 in Lewisham, including on-going payments, is £9.731m with the allocation for Year 6 (2016/17) delivery being £1.889m.

8.21 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	2016/17
Yr 1	0.706	0.706	0.706	0.706	0.706	0.706
Yr 2		0.958	0.958	0.958	0.958	0.958
Yr 3			2.150	2.150	2.150	2.150
Yr 4				2.629	2.629	2.629
Yr 5					1.399	1.399
Yr 6						1.889
Total Allocation	**0.706**	**1.664**	**3.814**	**6.443**	**7.842**	**9.731**
Less London LEP Top slice	**0**	**0**	**0**	**0**	**-2.218**	**0**
Lewisham Total	**0.706**	**1.664**	**3.814**	**6.443**	**5.624**	**9.731**

8.22 The government launched a consultation on refining the scheme from 2017/18 with views being sought on the following options:

- proposals for reductions in the number of years for which the Bonus is paid from the current six years to four years
- withholding the Bonus from areas where an authority does not have a Local Plan in place;
- abating the Bonus in circumstances where planning permission for a new development has only been granted on appeal; and
- adjusting the Bonus to reflect estimates of deadweight.

8.23 The impact of the government's preferred options for NHB outlined in the consultation is estimated to reduce the NHB received by the Council per property by at least one third.

8.24 As set out in the annual Council Tax Base report, officers are focused on bringing empty homes back into use and reducing the number of long term empty properties in the Borough. In recent years the number of empty properties in the borough has fallen.

8.25 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.

8.26 A significant amount of planned growth for the borough is yet to come. The AMR provides an update on the progress of strategic sites within the regeneration and growth areas, including Deptford and New Cross, Lewisham Town Centre and Catford Town Centre. Overall, strategic sites are progressing 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 coming years.

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

8.28 While initially being held with a view to funding future capital works, a review of the NHB has been conducted consistent with the government's commitment that NHB will continue (albeit at a reduced level) for the remainder of the parliament and the expectation that councils use their reserves. Given the pressures on the overall budget, and as in 2015/16, it is now proposed to use some of the NHB for revenue funding shortfalls. This will be effected by releasing £5.0m of the accumulated reserve balance from the NHB scheme to the General Fund for 2016/17 only.

Budget Pressures to be funded

2015/16

8.29 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. Of this £7.5m in the 2015/16 budget £4.3m was allocated to services to fund quantified pressures, leaving £3.2m unallocated and held by the Executive Director for Resources and Regeneration against identified risks.

8.30 In respect of the £3.2m unallocated, it is evident from the financial monitoring reported to members through 2015/16 that despite the measures taken by officers there remain two areas of persistent budget pressure – No Recourse to Public Funds and Temporary Accommodation. It is therefore proposed to adjust the base budgets for these two areas for 2016/17 using the unallocated corporate funds held back in 2015/16. This will be done by allocating £1.2m to the No Recourse to Public Funds and £2.0m to the Temporary Accommodation budget.

8.31 In addition, an element of the £4.3m allocated to pressures in 2015/16 included £2.2m provided to Community Services to cover the anticipated costs of sector wide practice changes for travel time and to pay the London Living Wage. In the event, following the retendering of the relevant care contracts in 2015/16 not all of these costs arose. The £0.5m in respect of travel time did arise. The additional £1.7m of Living Wage costs did not but is expected to do so in future years. It is therefore proposed to transfer £1.7m from Community Services back to the corporate funds in 2015/16.

2016/17

8.32 The budget pressures anticipated in 2016/17 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.

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

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

Table C2: Summary of 2016/17 budget pressures to be funded

Description	£m	£m
Pressures to be set against 2016/17 risk budget		

• Actuarial Valuation	1.00	
• Changes to National Insurance Contributions	2.00	
• Highways and footways pressure	0.35	
• New Licensing Arrangements	0.20	
• Concessionary Fares	0.20	
Total - pressures recommended to be funded		**3.75**

Actuarial Valuation – £1.00m

8.35 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 represented a deterioration of 4.0% 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.

8.36 The actuary has applied a stabilisation mechanism which restricts movements in employer's 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. In line with the actuary's recommendations, additional stabilisation funding of £1.0m will be provided for 2016/17.

Changes in the Employer's National Insurance Contributions - £2m

8.37 The State Pension is changing for people who reach State Pension age on or after 6 April 2016. These changes will help people clearly understand what they will get from their State Pension so they can plan for retirement.

8.38 As Lewisham sponsors a salary related workplace pension, employees are "contracted-out" of the additional State Pension. As a result both Lewisham and its employees may pay National Insurance contributions at a lower rate because of a National Insurance rebate. Three-quarters of people reaching State Pension age in the first two decades of the new State Pension will have been contracted-out at some point. The new State Pension will replace the existing basic and additional State Pension and end contracting-out and the National Insurance rebate.

8.39 From April 2016, both the Council and its employees will pay the standard rate of National Insurance contributions instead of the contracted-out rate.

8.40 For employers, the standard rate of National Insurance is 13.8% of all earnings above the secondary threshold for all employees, Lewisham will no longer get the 3.4% National Insurance rebate (on a proportion of earnings). This is estimated to cost the £2m in 2016/17.

Highways and Footways pressure – £0.35m

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

8.42 Corporate funding of £0.3m for 2016/17 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.

8.43 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 2016/17, a budget allocation of £0.05m will be needed with an additional £0.05m being added to the budget for each of the years to 2023/24.

Additional Licensing Scheme £0.20m

8.44 On 15 July 2015 Mayor and Cabinet received a detailed report on the business case for introducing an "additional" licensing scheme in Lewisham, to improve conditions of private rented flats above commercial premises (primarily over shops) across the borough. This proposal was supported by the Housing Select Committee at its meeting on 19 May 2015.

8.45 The in-principle case for introducing "additional licensing" of private rented flats above commercial premises was accepted and officers were asked to undertake statutory public consultation on the proposals as presented, in line with the current statutory requirements and to report back the findings of the consultation later in the year.

8.46 The Mayor received the full report on the 13 January 2016 with the results of the consultation and approved the recommendation at a cost of £1.0m over five years.

Concessionary Fares – £0.20m

8.47 London Councils have advised of Lewisham's Freedom Pass costs for 2016/17. The figure is £0.2m higher than 2015/16.

Risks and other potential budget pressures to be managed

8.48 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.

8.49 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
- National / London Living Wage
- Redundancy
- Unachieved savings

Demographic pressures

8.50 The population of the Borough is forecast to increase by a net 3,000 annually for the foreseeable future. This is driving the need for additional school places and housing with all the associated services (environment, health and care) such growth brings.

8.51 For example, 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

8.52 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 spend on these services remains a risk.

8.53 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

8.54 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

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

National / London Living Wage

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

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

Redundancy

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

Unachieved savings

8.59 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.

8.60 Such pressures cannot be easily quantified at this stage, although it is estimated that it could be up to £1.7m or 10% on the current proposals of £17.2m for 2016/17. 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

8.61 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.

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

8.63 After allowing for allocations of £7.5m, as summarised in Table C2 above, an unallocated balance of £3.75m 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 certainty.

Saving proposals

8.64 On the 30 September the Mayor:

- Endorsed previously agreed savings proposals from the 2015/16 budget of £6.46m for 2016/17;
- Delegated £11.07m of savings proposals, of which £6.01m relates to 2016/17, to Executive Directors to consult on if necessary, agree and implement;
- Declined for 2016/17 a proposed reduction in the road sweeping budget of £1.00m, and a 2017/18 saving of £1.20m relating to a reduction in the supporting people budget. Officers to revisit in future years;
- Rejected the saving proposal for the reduction of the freedom pass budget of £0.20m in 2016/17 and the alternative proposal of a reduction of £0.02m in each year of 2016/17 and 2017/18.

- Requested that £6.96m savings, of which £2.91m related to 2016/17, be re-submitted to Scrutiny with the further information requested and then back to Mayor and Cabinet if there were any referrals;
- Agreed for consultation and further work to proceed on £5.39m of savings proposals, of which £1.84m are for 2016/17. The results of this work, as was the case for following the libraries consultation in December 2015, will be presented in separate savings reports in due course, for the Mayor's decision.

8.65 As anticipated in the Medium Term Financial Strategy (July 2015) and following the provisional Local Government Finance Settlement in December 2015, the Executive Director for Resources & Regeneration has been considering options to bridge a budget shortfall in order to balance the budget for 2016/17. The options involve using of a mixture of on-going and once-off resources. These include:

- Use, as was done in 2015/16, of £5.0m of the New Homes Bonus reserve in 2016/17.
- Updating the assumptions for accounting for property, plant and equipment and the associated financing of these to better reflect how they are used via the Minimum Revenue Provision policy and related prudential borrowing calculations.

8.66 In total, and assuming all the savings proposals for 2016/17 are delivered, the above means a shortfall of £5.94m of once-off resources is required to balance the 2016/17 budget. This will be a call on the Council's reserves for 2016/17.

8.67 Estimates for Revenue Support Grant in 2017/18 to 2019/20 have been provided by the Government which has offered to provide a four year settlement on Revenue Support Grant up to 2019/20. This offer comes with caveats and the government has yet to set out the full terms (benefits and risks) for authorities to take such a four year settlement. These conditions are expected to be set out with a timetable agreeing with the final local government finance settlement expected in early February. What is known is that it will relate to Revenue Support Grant only (but not the firm amounts yet), will be subject to the government approving a four year efficiency plan (probably for the whole budget not just Revenue Support Grant) for each authority, and require to be confirmed annually following the usual consultation as part of setting the other elements of the local government finance settlement. The prospects for future years' budgets based on the provisional settlement figures are set out in more detail in section 9 of this report.

Council Tax for 2016/17

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 The statutory calculation was carried out for the 15 January (date prescribed by the relevant statutory instrument). This calculation showed there is an estimated surplus on the Collection Fund in respect of Council Tax, for the years 1994/95 to 2015/16 of £3.754m.

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 £2.937m of the £3.754m surplus has to be included in the calculation of Lewisham's Council Tax. The remaining balance of £0.817m will be allocated to the GLA.

8.72 Members should note that the Council agreed on the 20 January 2016 to pass on 3% of the percentage reduction in 2016/17 settlement funding assessment, use the small anticipated in-year surplus from 2015/16 and reduce the Council Tax Reduction Scheme (CTRS) accordingly.

Council Tax Levels

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

8.74 In the November 2015 Spending Review, the Government announced the creation of a social care precept to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on social care. The precept will work by giving local authorities the flexibility to raise council tax in their area by up to 2% above the existing referendum threshold. In Lewisham this will provide additional funding of £1.665m ring fenced for adult social care spend in 2016/17. If implemented this charge has to be identified on the face of the Council Tax bill and made clear in the accompanying guidance for rate payers.

8.75 At the same time a general increase in Council Tax of 1.99% (i.e. within the limit of the 2% referendum threshold) would also provide additional funding of £1.657m.

8.76 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 2016/17 and their general responsibilities to steward the Council's finances over the medium term.

8.77 In 2015/16, the Band D Council Tax in Lewisham is £1,355.35 on a base of 75,526 Band D equivalent properties. Of this, £295 relates to the activities of the GLA which the Council pays over to them on collection.

8.78 The GLA is consulting on a precept of £276 for 2016/17, a reduction of £19, or approximately 6.4% and a final decision is expected from them on or before the 24 February 2016. The majority of this reduction reflects the removal of a significant proportion of the £20 Olympic charge.

8.79 Table C3 below shows, for illustrative purposes, the Council Tax payable by a resident in a Band D property in 2016/17 under a range of possible Council Tax increases, and the financial implications of this for the Council. A full Council Tax Ready Reckoner is attached at Appendix Y3.

8.80 The starting point is for an assumed 3.99% increase in Council for 2016/17. Any reduction from this level of increase will reduce the level of income the Council collects and will increase the draw on reserves for 2016/17 and the savings gap in future years.

Table C3 – Band D Council Tax Levels for 2016/17

	Amounts payable by residents – Band D				Lewisham
Change in Council Tax	Lewisham element	GLA element	Total	Change in total	Annual income forgone
	£	£	£	%	£m
3.99% increase	1,102.66	276.00	1.378.66	+1.72%	0.00
3.50% increase	1,097.46	276.00	1,373.46	+1.34%	-0.41
3.00% increase	1,092.16	276.00	1,368.16	+0.95%	-0.82
2.50% increase	1,086.86	276.00	1,362.86	+0.55%	-1.24
2.00% increase	1,081.56	276.00	1,357.56	+0.16%	-1.65
1.50% increase	1,076.26	276.00	1,352.26	-0.23%	-2.07
1.00% increase	1,070.95	276.00	1,346.95	-0.62%	-2.49
Council Tax Freeze	1,060.35	276.00	1,336.35	-1.40%	-3.32

8.81 Were Council to agree a Council Tax freeze, the Council will not get the freeze grant of approximately £1.0m in 2016/17 as the government has withdrawn this grant.

Overall Budget Position for 2016/17

8.82 For 2016/17, the overall budget position for the Council is an assumed General Fund Budget Requirement of £236.218m, as set out in Table C4 below.

Table C4 - Overall Budget Position for 2016/17

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Settlement Funding Assessment (SFA) for 2016/17	(146.691)	
Council Tax 2016/17 at 3.99% increase	(86.590)	
Surplus on Collection Fund	(2.937)	
Assumed Budget Requirement for 2016/17		**(236.218)**
Total Resources available for 2016/17		
Base Budget for 2015/16	246.224	
Plus: Reversal of reserves drawn in 15/16 (once off)	6.959	
Plus: additional Pay inflation	0.623	
Plus: Non-pay Inflation	2.663	
Plus: Grant adjustments for changes 15/16 to 16/17	1.405	
Plus: Budget pressures to be funded from 16/17 fund	3.750	
Plus: Risks and other potential budget pressures	3.750	
Less: MRP and debt adjustment measures	(1.000)	
Less: Previously agreed savings for 2016/17	(6.462)	
Less: New savings for 2015/16	(10.752)	
Less: Use of New Homes Bonus reserve	(5.000)	
Less: Once off use of provisions and reserves	(5.942)	
Total		**236.218**

<u>Use of Provisions and Reserves</u>

8.83 Should all the above proposals be agreed, then this would leave a remaining gap of some £5.942m to be funded by the once off use of reserves in 2016/17. This has been set out in the Table C4 above.

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

9 OTHER GRANTS AND FUTURE YEARS' BUDGET STRATEGY

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

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

Better Care Fund

9.2 The national Better Care Fund (BCF) was announced by the Government in the June 2013 Spending Round, to support transformation and integration of health and social care services to ensure local people receive better care. The BCF is a pooled budget 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.

9.3 For Lewisham the value in 2015/16 is £21.842m out of a national total of £3.8bn. The local plan was approved by NHS England and the 2016/17 plan is currently being developed. In particular, the 2016/17 plan will take into account those service areas where spend has been lower than expected in 2015/16, with funds redirected to areas of greater need. Individual allocations have not yet been announced but as the national total, £3.9bn, is little different from last year's only a small local increase is expected.

9.4 The Fund must be used in accordance with our final approved plan and through a section 75 pooled fund agreement which is approved annually by Mayor and Cabinet in May 2015 (with final details delegated to officers). The full value of the element of the Fund linked to non-elective admissions reduction target is be paid over to Lewisham Clinical Commissioning Group (CCG) at the start of the financial year. However, the CCG may only release the full value of this funding into the pool if the proposed admissions reduction target is met. If the target is not met, the CCG may only release into the pool a part of that funding proportionate to the partial achievement of the target. Any part of this funding that is not released into the pool due to the target not being met must be dealt with in accordance with NHS England requirements. Contingency arrangements to address this risk were put in place for 2015/16 and will be continued into 2016/17.

Public Health Grant

9.5 At the start of 2015/16, the Council was awarded a £20.1m Public Health Grant. This was subject to an in-year reduction of £1.5m during the current financial year. During the year current financial year responsibility and an annual budget of £7.4m for health visiting was also transferred to local government as part of public health funding.

9.6 While the individual allocations have not yet been announced, further average reductions of 3.9% are expected over the next four years on the total public health funding. The grant remains ring-fenced and the agreed commitment of these funds will therefore need to be reviewed annually and rebalanced to ensure the reductions are met and funds are directed to those services and activities with the greatest public health benefit.

Other Grants and Levies

9.7 Certain specific grants have been reduced or stopped in 2016/17 reducing funding by approximately £1.405m. The main change is in respect of the Council Tax Freeze Grant of approx. £1m. The Education Support Grant has been reduced by 9.4% to £3.5m for 2016/17 and is expected to be phased out over the following three years. The Lead Local Flood grant £0.078m has been rolled in to the Settlement Funding Assessment (SFA) from 2016/17.

9.8 The government has also rolled in to the SFA funding for the Care Act, which previously had a net nil effect on the budget. This funding totals £1.5m in 2016/17, rising to £2.4m by 2019/20 in their projections.

9.9 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 the available resources.

9.10 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 2016/17 have yet to be confirmed and it is therefore assumed these will stay at their 2015/16 levels which are set out in Appendix Y5. Any variations will be absorbed in the corporate provisions and corrected for the following year.

Future Years' Budget Strategy 2016/17 onwards

<u>Revenue Budget</u>

9.11 The Medium Term Financial Strategy was reported to Mayor & Cabinet in July 2015. This set out that an estimated £72m of savings required from 2016/17 to 2019/20 over and above £11m savings already agreed at that time. This position has been superseded by the savings proposals submitted to Mayor and Cabinet in September and the provisional local government finance settlement announced in December 2015.

9.12 The revised profile for savings required is now broadly;

- £29m for 2016/17 (of which £17m has been identified with the balance being met from once off resources),

- £22m for 2017/18 (of which £17m has been identified)
- £13m for 2018/19, and
- £12m for 2019/20

9.13 If the budget for 2016/17 as set out in this report is agreed the expected additional savings required are circa £15m per year for each of the three years 2017/18 to 2019/20. The Lewisham Future Programme (LFP) was established to carry out cross-cutting and thematic reviews to deliver these savings. The savings report received by the Mayor in September 2015 alongside this budget report presents the LFP work to date. This continues and further savings proposals will be bought forward in 2016/17 to close the budget gaps identified above.

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.

Capital Investment Plans

10.3 The Treaury Management Strategy for 2016/17 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 2016, 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

	2014/15 Actual £m	2015/16 Expected £m	2016/17 Forecast £m	2017/18 Forecast £m	2018/19 Forecast £m

External Debt at 1 April	195.4	190.4	191.3	190.9	191.9
Change in External Debt	(5.0)	0.9	(0.4)	1.0	(9.0)
Other Long-Term Liabilities	247.8	245.0	241.9	236.3	228.3
Gross Debt at 31 March	**438.1**	**436.3**	**432.8**	**428.2**	**411.2**
Capital Financing Requirement at 31 March*	**478.5**	**483.0**	**484.0**	**476.0**	**465.6**
Borrowing – over / (under)	**(40.4)**	**(46.7)**	**(51.2)**	**(47.8)**	**(54.4)**

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

Prudential Indicators

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

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

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

	2015/16 Expected £m	2016/17 Forecast £m	2017/18 Forecast £m	2018/19 Forecast £m
Maximum External Debt at 31 March	200.1	209.8	214.0	208.0
Other Long-Term Liabilities	245.0	241.9	236.3	228.3
Operational Boundary for Year	**445.1**	**451.7**	**450.3**	**436.3**

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

	2015/16 Expected £m	2016/17 Forecast £m	2017/18 Forecast £m	2018/19 Forecast £m
Operational Boundary for Year	**445.1**	**451.7**	**450.3**	**436.3**
Provision for Non Receipt of Expected Income	56.0	56.0	56.0	56.0
Authorised Limit for Year	**501.1**	**507.7**	**506.3**	**492.3**

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

	2015/16 Expected £m	2016/17 Forecast £m	2017/18 Forecast £m	2018/19 Forecast £m
HRA Debt "Cap" (Statutory)	127.3	127.3	127.3	127.3
HRA Debt (CFR) at 31 March	(74.8)	(74.8)	(74.8)	(74.8)
HRA Borrowing "Headroom"	52.5	52.5	52.5	52.5

Minimum Revenue Provision (MRP) Policy

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

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

10.14 For 2016/17 it is proposed to change this policy to reflect the useful lives of the specific asset classes on the Council's balance sheet. It is proposed to move to:

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

10.15 As the majority by value of the Council's assets is property, the impact of these changes, subject to agreement with the Council's external auditors, will be a reduction in the annual debt servicing charge to the general fund. As part of this exercise the assumed prudential borrowing attached to these assets will also be reviewed. While these changes are not expected to breach the levels as currently set, once completed, an updated CFR will be prepared and reported to members in the next Treasury update.

Borrowing Strategy (including Treasury Indicators)

10.16 The Council's external debt as at 31 March 2016, gross borrowing plus long term liabilities, is expected to be £436m. 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.

10.17 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.

10.18 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.

10.19 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

10.20 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.

10.21 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.

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

Table D5: Treasury Indicators and Limits

Interest rate exposures	2015/16	2016/17	2017/18
	Upper	**Upper**	**Upper**
Limits on fixed interest rates: • **Debt only** • **Investments only**	 100% 80%	 100% 80%	 100% 80%
Limits on variable interest rates • **Debt only** • **Investments only**	 15% 75%	 15% 75%	 15% 75%
Maturity structure of fixed interest rate borrowing 2016/17			
		Lower	**Upper**
Under 12 months		0%	1%
12 months to 2 years		0%	0%
2 years to 5 years		0%	6%
5 years to 10 years		0%	4%
10 years to 20 years		0%	13%
20 years to 30 years		0%	5%
30 years to 40 years		0%	20%
40 years to 50 years		0%	51%
Maturity structure of variable interest rate borrowing 2016/17			
		Lower	**Upper**
30 years to 40 years		0%	60%
40 years to 50 years		0%	40%

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

Debt Rescheduling

10.23 In the current economic environment and for the forseeable 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 (principally by using internal balances). However, any such savings need to be considered in the light of the current treasury position and the cost of debt repayment.

10.24 The Council has £112 m of LOBO loans (Lender's Option Borrower's Option) of which £53m will be in their call period in 2016/17. 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.

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

Annual Investment Strategy

Introduction: changes to credit rating methodology

10.26 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. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

10.27 In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

10.28 The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. This authority understands the changes that have taken place, and is now proposing to specify a minimum sovereign rating of AA- (previously AA). This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background no longer has as significant an influence on the ratings of a financial institution.

10.29 It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

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

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

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

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

<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. This was reduced to £40m from April 2015 as the government began reducing their support for these banks.

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 complete the sale of its shareholdings in Lloyds Banking Group and extend the reduction of their stage in the Royal Bank of Scotland (RBS) Group.

In the 2015 Summer Budget the Chancellor confirmed this process will continue.

Investment Policy

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

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

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

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

Prospects for Investment Returns

10.45 The Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 1.00%
- 2017/18 1.75%
- 2018/19 2.00%

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

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

10.47 The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and /

or forecasts for increases in inflation rise, there could be an upside risk. A more extensive table of interest rate forecasts for 2015/16, including Public Works Loan Board (PWLB) borrowing rate forecasts is set out in Appendix Z1.

<u>Summary</u>

10.48 This section, in accordance with statutory requirements, sets out the Council's Treasury Management Strategy for 2016/17. The approach remains broadly the same with the following changes proposed:

- A change to the MRP policy to split property and plant & equipment assets and apply a straightline percentage of 2.5% and 14.3% respectively to each and a review of the levels of associated prudential borrowing.
- Note the proposed consideration of the opportunity for reducing risk and making savings in the short term (the next five years) by running down investment balances by repaying some of the PWLB debt prematurely.
- Change the minimum soveriegn rating to AA-.
- Increase the yellow and purple durational bands from 1 to 2 years.
- Inclusion of the option to invest for more than one year in pooled property asset funds in the future.

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

11 CONSULTATION ON THE BUDGET

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

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

11.2 As in previous years, tenants' consultation was in line with Residents' Compact arrangements. This provided tenant representatives of Lewisham Homes with an opportunity in December 2015 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 2015 to hear the proposals and fed back.

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

<u>Business Ratepayers</u>

11.4 Representatives of business ratepayers are being consulted online on Council's outline budget between 21 January and 4 February 2015. The results of this consultation will be made available in the Budget Report Update presented to Mayor and Cabinet on 17 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 four weeks before the effective date; the provision of sufficient information to explain the variation; and an opportunity for the tenant to serve a Notice to Quit ending their tenancy.

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

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

<u>Balanced Budget</u>

13.11 Members have a duty to ensure that the Council acts lawfully. It must set and maintain a balanced budget each year. The Council must take steps to deal with any projected overspends and identify savings or other measures to bring the budget under control. If the Capital Programme is overspending, this may be brought back into line through savings, slippage, or contributions from revenue. The proposals in this report are designed to produce a balanced budget in 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, 2016/17, 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 4 February 2015 and any decisions about the Mayor's proposals on the budget are subject to consideration of that consultation response.

<u>Referendum</u>

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 17 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 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.

Best Value

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

Integration with health

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

14 HUMAN RESOURCES IMPLICATIONS

14.1. There are no specific human resources implications arising from this report. Any such implications were considered as part of the revenue budget savings proposals presented to Mayor & Cabinet on 30 September 2015. A summary of the savings proposals are attached at Appendix Y2 to this report.

15. CRIME AND DISORDER

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

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

16. EQUALITIES

16.1. The Equality Act 2010 (the Act) introduced 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.

16.2. In summary, the Council must, in the exercise of its functions, have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- advance equality of opportunity between people who share a protected characteristic and those who do not.
- foster good relations between people who share a protected characteristic and those who do not.

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

16.4. The Equality and Human Rights Commission 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/

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

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

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

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

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

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

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

17. ENVIRONMENTAL IMPLICATIONS

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

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

18. CONCLUSION

18.1. This report sets out the information necessary for the Council to set the 2016/17 budget. Updates will be made to this report at Mayor & Cabinet on 17 February 2016. Final decisions will be taken at the meeting of full Council on 24 February 2016.

19. BACKGROUND DOCUMENTS AND FURTHER INFORMATION

Short Title of	Date	Location	Contact
Medium Term Financial Strategy	14 July 2015 (M&C)	5th Floor Laurence House	David Austin
Savings Proposals for 2015/16	30 September (M&C) 9 December 2015 (M&C)	5th Floor Laurence House	David Austin
Setting the Council Tax Base & Discounts for Second Homes and Empty Properties	20 January 2016 (Council)	5th Floor Laurence House	David Austin

For further information on this report, please contact:

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David Austin
Head of Corporate Resources on 020 8314 9114

Shola Ojo
Principal Accountant, Strategic Finance on 020 8314 7778

20. APPENDICES

Capital Programme

W1 2015/16 to 2019/20 Capital Programme – Major Projects
W2 Proposed Capital Programme – Original to latest Budget

Housing Revenue Account

X1 Proposed Housing Revenue Account Savings 2016/17
X2 Tenants' rent consultation 2016/17 - *To follow*
X3 Leasehold and Tenants charges consultation 2016/17
X4 Leasehold and Tenants charges and Lewisham Homes Budget Strategy 2016/17
X5 Other associated housing charges for 2016/17

General Fund

Y1 Summary of previously agreed budget savings for 2016/17 and 2017/18
Y2 Summary of Proposed Revenue Budget savings 2016/17 and 2017/18
Y3 Ready Reckoner for Council Tax 2016/17
Y4 Chief Financial Officer's Section 25 Statement – *To follow M&C 17th February 2016*
Y5 Council Tax ~~and~~ Statutory Calculations
Y6 Making Fair Financial Decisions

Treasury Management

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