KEY DECISION*

Mayor and Cabinet

Report title: 2023/24 Budget Report

Date: 08 February 2023

Key decision: Yes

Class: Part 1

Ward(s) affected: All

Contributors: Executive Director for Corporate Resources

Outline and recommendations

The purpose of this report is to set out the overall financial position of the Council in relation to 2022/23 and to set the Budget for 2023/24. This report allows the Council Tax to be agreed and housing rents to be set for 2023/24. It sets the Capital Programme for the next three years and the Council's Treasury Strategy for 2023/24.

The report provides summary information on the revenue budget reduction proposals that were presented at Mayor & Cabinet on the 7 December 2022. The approval and successful delivery of these measures is required in order to help balance the budget for 2023/24 and prepare to address the budget requirement for 2024/25.

The Mayor is asked to consider the recommendations listed in this report at section 2.

Timeline of engagement and decision-making

Public Accounts Select Committee approved the draft 2023/24 Budget Report on the 2 February 2023.

The Council Tax Base was approved by Council on the 18 January 2023.

Financial Monitoring P7 was approved by Mayor and Cabinet on 11 January 2023.

Budget reduction proposals for 2023/24 totalling £14.4m were approved by Mayor and Cabinet on the 7 December 2022.

1. Summary

1.1 This report sets out the context and range of budget assumptions which Council is required to agree to enable it to set a balanced budget for 2023/24. These include the following:

1.2 General Fund

- In respect of the General Fund, the assumed net revenue expenditure budget is £263.679m. This is made up of provisional Settlement Funding from government (revenue support grant and business rates), and forecast Council Tax receipts including an increase in Council Tax of 4.99% with the detail set out in section 6.
- The changes to the prior year General Fund position to meet the 2023/24 net revenue budget of £263.679m are proposed on the basis of the following assumptions:
  - £12.6m of revenue budget reductions have been agreed for 2023/24, of which £3.6m were previously agreed and £9m agreed 7 December 2022;
  - An assumed 4.99% increase in Band D Council Tax for Lewisham's services for 2023/24; including the 2.99% increase in the core Council Tax as announced in the provisional Local Government Finance Settlement and 2% increase for the Social Care precept;
  - £18m of corporate budget for risks and pressures in 2023/24;
  - £3.3m of base budget growth for energy costs;
  - £4.1m of additional pay inflation for 2022/23;
  - £7.1m of pay inflation for 2023/24;
  - £5m of non-pay inflation for 2023/24;

1.3 Fees and Charges

- This report also presents the 2023/24 proposed fees and charges and related annual increase for the majority of chargeable services, statutory and discretionary.

1.4 Dedicated Schools Grant, Pupil Premium and additional Autumn Statement funding

- The 2023/24 overall Dedicated Schools Grant (DSG) allocation is £337.776m (of which, £26.3m is part of Early Years Block and remains provisional). Approximately £10m of this funding relates to previously specific grants, which are now streamlined into the DSG. This shows a net increase of circa £10m.
  - Schools block – A net increase of £11.4m;
  - Central Services to Schools block – A net reduction of £0.4m;
  - High Needs block – A net increase of £7m;
  - Early Years block – A net increase of £1.8m.

- High Needs block, which supports Special Needs – Schools Forum, at their meeting on 19th January 2023, agreed a transfer of circa £0.4m (0.18%) to support the extreme pressure facing the High Needs block. Lewisham council is engaging with the DfE on the delivering best value initiative to consider review of services currently provided within the high needs block. This initiative will supplement the work currently progressing as part of the wider mitigation plan.
- Early Years Funding – Following on from the summer consultation, it was recognised that Lewisham's funding should be increased. The changes here reflect increases as part of that review. Overall, there is an increase in the hourly rates for 3-4 year olds from £6.04 to £6.33 (4.8%) and for 2 year olds £6.87 to £7.52 (9%).
- Central Schools Services Block – this funding is for services that support schools including admission. The overall reduction is circa £0.4m.
- Pupil Premium - funding rates are confirmed to increase by circa 5%, however the school-by-school final allocation will be advised in the summer 2023. For reference the allocation for 2022/23 was £14.7m.
- Additional Autumn statement funding - in addition to the funding noted above, for 2023/24 the Department for Education (DfE) has made a provisional allocation of £7.8m for mainstream schools (as a separate grant) and £3.2m for High Needs (included in the £7m increase in the High Needs block).

1.5 Housing

- A proposed rent increase capped to a maximum of 7.0% (an average of £7.22 per week) in respect of dwelling rents, 7.0% (average £2.63 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 £257.1m, including the capital and full new build programme, for 2023/24.
- The proposed Capital Programme (Housing Revenue Account) budget for 2023/24 to 2027/28 of £641.3m, of which £153.5m is for 2023/24;
- Lewisham Homes developed and implemented an action plan to manage the problems related to damp and disrepair. These include undertaking property MOT's, to fully identify damp & disrepair within the Councils stock managed by Lewisham Homes with the target of completing 1,000 MOT's.
- Lewisham Homes continue to conduct urgent reviews and physical inspections of every property on their damp and disrepair logs.
- Upon completion of MOT's/surveys, repairs and follow-up actions are being taken to resolve the issues identified. This may require the allocation of additional resources which may not be fully forecasted within the current HRA budget allocations. Discussions are on-going with Lewisham Homes on how to fund the cost of these repairs which may result in capital plans being reprioritised for existing stock.

1.6 Other Income and Grants

- Section 6 of the report sets out the detail of changes to other sources of income, including grants.
- The following grants continue into 2023/24 and are broadly unchanged from 2022/23: Public Health Grant, Better Care Fund and the Improved Better Care Fund.
- The following grants have increased and been used to fund pressures for 2023/24: Social Care Grant and the ASC Market Sustainability and Improvement Fund.
- The following grants have continued but at significantly reduced levels and are being used to fund once off pressures only: New Homes Bonus and Services Grant.
- The following grants have been withdrawn or rolled into other grants: Lower Tier grant (withdrawn), Independent Living Fund (rolled into Social Care grant), LCTS

Admin Support grant (rolled into the Settlement Funding Assessment), and Market Sustainability and Fair Cost of Care grant (rolled into ASC Market Sustainability and Improvement Fund).

- The Discharge Grant is new but replaces monies already provided by Health partners and so will not provide capacity for new growth.

1.7 Treasury

- 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 prudent in line with last year, and officers continue to explore alternative investment options and further opportunities to undertake debt restructuring in order to reduce balance sheet risk and best fund the capital plans set out.
- There are no material changes to the strategy although it has been amended to reflect the 2021 requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management.

1.8 Capital

- The proposed Capital Programme (General Fund and Housing Revenue Account) budget for 2023/24 to 2026/27 is £480.6m; split £86.7m (18%) for the General Fund and £393.9m (72%) for the Housing Revenue Account. Of this programme £193.3m is for 2023/24 with £51.4m on the General Fund and £142.0m on the Housing Revenue Account.

2. Recommendations

2.1 It is recommended that the Mayor and Cabinet considers the comments of the Public Accounts Select Committee of 2 February 2023.

2.2 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, as required, the Mayor and Cabinet:

General Fund Revenue Budget

2.3 notes and asks Council to note the projected overall variance of £9.6m (or 3.9%) against the agreed 2022/23 revenue budget of £248.610m as set out in section 6 of this report and that any year-end overspend will be met from corporate provisions and reserves;

2.4 endorses and asks Council to endorse the budget cut reduction measures of £12.587m as per the Mayor and Cabinet meeting of the 7 December 2022, as set out in section 6 of the report and summarised in Appendix Y1 and Y2;

2.5 agrees and asks Council to agree the allocation of £43.848m of resources from the corporate risks and pressures, social care precept, new homes bonus, social care grant, ASC market sustainability and improvement fund and services grant in 2023/24 to be invested in funding quantified budget pressures and opportunities, both recurring and once-off as set out in section 6;

2.6 agrees to recommend to Council that a General Fund Budget Requirement of £263.679m for 2023/24 be approved;

2.7 asks Council to agree to a 4.99% increase in Lewisham's Council Tax element. This will result in a Band D equivalent Council Tax level of £1,492.13 for Lewisham's services and £1,926.27 overall. This represents an overall increase in Council Tax for

2022/23 of 6.02% and is subject to the GLA precept for 2023/24 being increased by £38.55 (i.e. 9.74%) from £395.59 to £434.14, in line with the GLA's draft budget proposals;

2.8 notes the final settlement figure for 2023/24 has not yet been announced and delegates authority to the Executive Director for Corporate Resources to include any change to the provisional settlement of £131,105,977 in the report for Council with any difference covered from provisions and reserves as necessary;

2.9 notes the provisional and estimated precept and levies from the GLA and other bodies as detailed in Appendix Y6 and delegates authority to the Executive Director for Corporate Resources to include any changes to these in the report for Council with any difference covered from provisions and reserves as necessary;

2.10 notes and asks Council to note the Council Tax Ready Reckoner which for illustrative purposes sets out the Band D equivalent Council Tax at various levels of increase. This is explained in section 6 of the report and is set out in more detail in Appendix Y4;

2.11 asks that the Executive Director for Corporate Resources issues cash limits to all Directorates once the 2023/24 Revenue Budget is agreed;

2.12 considers, and asks Council to consider, the Section 25 Statement from the Chief Finance Officer. This is attached at Appendix Y5;

2.13 agrees and asks Council to agree the draft statutory calculations for 2022/23 as set out at Appendix Y6;

2.14 notes and asks Council to note the prospects for the revenue budget for 2023/24 and future years as set out in section 6;

2.15 agrees and asks officers to continue to develop firm proposals to redesign and transform services and inform the capital strategy by bringing them forward in good time to support the work towards a savings and investment round to help plan early to meet the future forecast medium term finance strategy objectives;

Other Grants (within the General Fund)

2.16 notes and asks Council to note the adjustments to and impact of various specific grants for 2023/24 on the General Fund as set out in section 7 of this report;

2.17 accept the funding allocation from the GLA and CLF for the UK Shared Prosperity Fund (UKSPF) of £1.92m (a combination of £0.977m capital and £0.943m revenue), subject to review of the grant funding agreements;

Fees and charges

2.18 approves the approach to setting 2023/24 fees and charges for chargeable services in section 8 of the report and attached at Appendix Y8;

Dedicated Schools Grant and Pupil Premium

Schools Block

2.19 note and recommends that Council notes that the provisional Dedicated Schools Grant allocation of £231.029m (this includes circa £6.18m streamlining of the supplementary grant) be the Schools' Budget (Schools Block) for 2023/24 covering both maintained schools and academies;

2.20 notes an increase in pupil unit funding for primary of £205.26 and secondary of £370.59 and this also incorporates the supplementary grant as mentioned in 1.1 above. However, there has been an overall reduction in primary age pupil by 451, partially off-set by an increase in secondary school numbers of 224;

2.21 notes that following the Schools Forum meeting on the 19 January 2023, submission has been made to the Department for Education with regards to school funding

formula, recommending the application of the National Funding Formula (including unit values) allowing for a maximum 0.5% uplift in Minimum Funding Guarantee (MFG);

2.22 agrees and recommends that Council agrees, (as recommended by Schools Forum) the once-off transfer of circa £0.4m (0.18%) of Dedicated Schools Grant to the High Needs Block;

Central Schools Services Block (CSSB)

2.23 notes, and asks Council to note, the construct and allocation of £3.309m for the CSSB block allocation for 2023/24, a reduction of circa £0.4m from the £3.693m 2022/23 allocation;

High Needs Block (HNB)

2.24 notes, and asks Council to note, the provisional HNB £77.154m to support the Council's statutory duty with regards Special Education Needs (SEN). This includes £3.2m additional funding from the autumn statement. This is a net increase of £7.030m relative to 2022/23. The HNB will be finalised in March for deductions arising for institutions funded by the Education and Skills Funding Agency (ESFA);

2.25 notes that the Schools Forum on 19 January 2023 agreed the transfer of circa £0.4m (0.18%) to the block to support the Council to meet its statutory functions;

2.26 notes that the HNB is expected to overspend by between £4m to £6m in 2022/23, increasing the cumulative overspend to circa £16m in total for 2022/23 as £11m has been brought forward from 2021/22. The overspend is currently ringfenced within the DSG, Lewisham is part of the delivering better value (DBV) tranche 3 initiative with the DfE ;

Early Years Block (EYB)

2.27 notes, and asks Council to note, the Dedicated Schools Grant allocation to the EYB of £26.283m; and that the Department for Education has increased hourly funding for "3 and 4 year old" from £6.04 to £6.33 (this includes 11p for Teacher's Pay and Pension Grant which is now streamlined into the hourly rate). This is therefore an increase of circa 4.8% from 2022/23. With respect to 2 year funding, the hourly rate has increased from £6.87 to £7.52, an 9% increase (i.e. 65p per hour) for 2023/24;

2.28 notes that the maintained nursery supplementary funding allocation for 2023/24 is subject to change but is expected to increase by circa £60k, subject to movement in pupil numbers;

Pupil Premium

2.29 notes, and asks Council to note, that the pupil premium will continue in the 2023/24 financial year. At the time of writing, the overall allocation, which is linked to Free School Meals Ever 6 data (i.e. covers 6 census worth of data), has not been confirmed, the per-pupil funding is expected to increase by 5%. We would expect to receive the final allocation until summer 2023;

Housing Revenue Account

2.30 notes, and asks Council to note, the consultation report on proposed service charge increases to tenants' and leaseholders in the Brockley area, presented to tenants and leaseholders on 5th December 2022, as attached at Appendix X3;

2.31 notes, and asks Council to note, the consultation report on proposed service charge increases to tenants' and leaseholders and the Lewisham Homes budget strategy presented to tenants and leaseholders on 12th December 2022 as attached at Appendix X4;

2.32 agrees, and asks Council, to set an increase in dwelling rents of 7.0% (an average of £7.22 per week) – as per the Governments direction for capping increases to be applied to rents for 2023/24 outlined in section 9 of this report;

2.33 agrees, and asks Council to agree, to set an increase in the hostels accommodation charge by 7.0% (or £2.63 per week), in accordance with Governments direction for capping increases to be applied to rents for 2023/24;

2.34 approves, and asks Council to approve, the following average weekly increases/decreases for dwellings for:

2.34.1 service charges to non-Lewisham Homes managed dwellings (Brockley) to ensure full cost recovery and 13.6% inflationary uplift for 2023/24;

- caretaking 13.6% (£0.46)
- grounds 13.6% (£0.26)
- communal lighting 13.6% (£0.02)
- bulk waste collection 13.6% (£0.18)
- window cleaning 13.6% (£0.00)
- tenants' levy 0.00% (£0.00)

2.34.2 service charges to Lewisham Homes managed dwellings:

- caretaking 10.00% (£0.68)
- grounds 0.00% (£0.00)
- window cleaning -27.00% -(£0.03)
- communal lighting 7.00% (£0.19)
- block pest control -17.00% -(£0.35)
- waste collection 7.00% (£0.14)
- heating & hot water 5.00% (£0.54)
- tenants' levy 0.00% (£0.00)
- bulk waste disposal 7.00% (£0.07)
- sheltered housing 0.00% (£0.00)

2.34.3 approves, and asks Council to approve, the following average weekly percentage changes for hostels and shared temporary units for;

- service charges (hostels) – caretaking etc.; 6.31% or £4.60pw
- energy cost increases for heat, light & power; 20.0% or £1.19pw
- water charges increase; 5.0% or £0.01pw

2.34.4 approves, and asks Council to approve, an increase in garage rents by 10.0% (£1.66 per week) for Brockley and Lewisham Homes residents as outlined in Appendix X5;

2.34.5 notes, and asks Council to note, that the budgeted expenditure for the Housing Revenue Account (HRA) for 2023/24 is £257.1m, split £103.6m revenue and £153.5m capital, which includes the decent homes and new build programmes;

2.34.6 agrees the HRA budget strategy cut proposals in order to achieve a balanced budget in 2023/24, as attached at Appendix X1;

2.34.7 notes the 2022/23 Quarter 2 HRA Capital Programme monitoring position and the Capital Programme potential future schemes and resources as set out in section 9 of this report;

Treasury Management Strategy

2.35 approves and recommends that Council approves the Treasury Management Strategy 2023/24 including the prudential indicators and treasury indicators, as set out in section 10 of this report;

2.36 approves and recommends that Council approves the Annual Investment Strategy and Creditworthiness Policy, set out in further detail at Appendix Z2;

2.37 approves and recommends that Council approves the Investment Strategy as set out in section 10 of this report, along with the operational boundary and authorised limit for the year as set out in section 10 of this report;

2.38 approves and recommends that Council approves the Minimum Revenue Provision (MRP) policy as set out in section 10 of this report;

2.39 agrees and recommends that Council agrees to delegate to the Executive Director of Corporate Resources authority during 2023/24 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;

2.40 approves and recommends that Council approves the overall credit and counterparty risk management criteria, as set out at Appendix Z2, the proposed countries for investment at Appendix Z3, and that it formally delegates responsibility for managing transactions with those institutions which meet the criteria to the Executive Director for Corporate Resources;

Capital Programme

2.41 notes the capital programme position and recommends that Council approves the 2023/24 to 2026/27 Capital Programme of £480.6m as set out in section 11 of this report and Appendix W1;

2.42 agrees that officers prepare governance and a prioritisation process, based on the adaptation of existing arrangements, with a recommendation to:

- Explore an annual Strategic CIL budget for infrastructure project allocation
- Develop an annual process for the allocation of Strategic CIL as part of the budget-setting process
- Vary the existing governance process for s106 monies agreed by Mayor and Cabinet to accommodate CIL and make any necessary updates to reflect the current Constitution
- Develop a prioritisation process for Strategic CIL projects, to be reviewed after its first year of implementation

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3. Policy Context

3.1 The Council's strategy and priorities drive the Budget with changes in resource allocation determined in accordance with policies and strategy. The Council launched

its new Corporate Strategy in November 2022, with seven corporate priorities as stated below:

Corporate Priorities

3.2 The Council's corporate priorities are:

- Cleaner and Greener
- Strong Local Economy
- Quality Housing
- Children and Young People
- Safer Communities
- Open Lewisham
- Health and Wellbeing

3.3 The Council also takes account of the 'Mayor's pledges', as outlined in the 2022 Labour Manifesto. These pledges are as follows:
• Place - We want Lewisham to be a place for everyone.
• Community - We will be relentlessly focused on local.
• Diversity - We will celebrate Lewisham's diversity.
• Inward investment and Opportunity - We will work to attract inward investment.
• Innovation and New Ideas – We will take risks to innovate and seize new opportunities.

Values

3.4 Values are critical to the Council's role as an employer, regulator, and 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.

3.5 The setting a balanced budget for 2023/24 directly supports the achievement of the Council's corporate priorities. As required under the CIPFA Financial Management Code of Practice, the Council must demonstrate how its budget is aligned to its corporate priorities. Appendix Y3 sets out how the proposed budget for 2023/24 would align to the seven priorities set out above.

3.6 As noted in the 2022/23 budget, the Council's strong and resilient framework for prioritising action has served the organisation well in the face of austerity and on-going cuts to local government spending. This continues to mean, that even in the face of the most daunting financial challenges facing the Council and its partners, we continue to work alongside our communities to achieve more than we could by simply working alone.

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

3.8 It remains clear that the Council cannot do all that it once did, nor meet all those expectations that might once have been met, for we are in a very different financial position than just a decade ago. Severe financial constraints have been imposed on Council services with budget reductions to be made year on year on year, and this on-going pressure is addressed in this report, incorporating further budget reduction proposals for 2023/24 and noting that the Autumn Statement suggested that Local Government funding from 2025/26 would be severely constrained. This is pending the outcome of the Fair Funding Review (FFR) and Business Rates Retention (BRR) consultations now expected to be announced in 2025/26 at the earliest.

3.9 At the same time, as set out at section 6 of the report, the use of resources to address risks and pressures through positive investments is an opportunity. These investments are also supported via the capital programme at section 11. This spending deals with both existing pressures, additional significant inflationary pressures (including energy) and supports the Council in refocusing and changing services where new opportunities and expectations for how the Council can better deliver them to support the community are identified.

3.10 The cost of living crisis is affecting our residents, businesses and the Council alike. For the Council this is manifesting as energy costs which have tripled and inflationary pressures from the higher than budgeted 2022/23 pay award and the 40 year high rate of inflation of over 10%.

4. Structure Of The Report, Policy Context, And Background

4.1 The 2023/24 Budget Report is structured as follows:

Section 1	Summary
Section 2	Recommendations
Section 3	Policy Context
Section 4	Structure of the Report, Policy Context, and Background
Section 5	Background
Section 6	General Fund Revenue Budget and Council Tax
Section 7	Other Grants and Future Years' Budget Strategy
Section 8	Dedicated Schools Grant and Pupil Premium
Section 9	Housing Revenue Account
Section 10	Treasury Management Strategy
Section 11	Capital Programme
Section 12	Consultation on the Budget
Section 13	Financial Implications

5. Background

5.1 This section sets out the main national macro-economic and public spending position, the current position in respect of local government finance, and some of the key Council services as context for the Budget spending details.

National Context

5.2 In 2022, the United Kingdom's economy was in a period of recovery following the Covid-19 pandemic. GDP growth for the year was around 4.2% as at December 2022, which was a moderate rate of growth compared with 7.5% in 2021, although the economy is expected to contract by a forecasted 0.4% in 2023, which is the worst performance across G7 countries. Globally, the rapid tightening financial conditions, the ongoing war in Ukraine, sanctions on Russia and a synchronised slowdown in Europe, Mainland China and the US will likely push global GDP growth down from 6% in 2021 to around 1.7% in 2023 — the weakest performance since 1991 aside from the financial crisis of 2008 and Covid-19 pandemic.

5.3 The UK unemployment rate remained static at 3.7% in 2022, however long-term sick has increased to a record high amid concerns of shortages of workers in the UK economy which comes off the back of the Covid pandemic, and Brexit which has restricted UK economic recovery. Inflation increased rapidly to a 41-year high, around 10.7% as at November 2022, which forced the Bank of England to increase interest rates to 3.5% which aimed to slow down spiralling inflation, and potential recession.

5.4 High inflation rates have contributed to the "cost of living" crisis which people in the UK and across the world are currently facing. The cost of living crisis refers to the fall in "real" disposable incomes that the UK has experienced since late 2021. It is being caused predominantly by high inflation outstripping wage and benefit increases and has been further exacerbated by recent tax increases.

5.5 The Government has tried to intervene, to support households, by providing financial support through initiatives such as the energy bills support scheme which gives a £400 discount off energy bills over the winter, however the energy price cap has increased from £1,971 in April 2022 to an expected £4,279 in April 2023. The drastic increase in energy costs, is predominantly passed on to consumers which in turn increases the price of goods and directly reduces the purchasing power of incomes as they remain stagnant, and below inflation. The impact of this is evermore present in the media, as can be seen by industrial action across the NHS, transport and education to name a few sectors striking for fair pay increases.

5.6 Public debt remained high at around 97.3% of GDP, and this is expected to peak at 106.7% in 2023 before reducing over the next five years to 2027/28.

5.7 Overall, the UK economy in 2022 was slowly recovering from the global pandemic with moderate GDP growth rate and no reduction in labour market but there are still some challenges like the cost of living crisis, spiralling inflation and increasing public debt, all of which the UK Government and Bank of England will have to manage appropriately to reduce the risk of recession.

Local Government

5.8 The provisional Local Government Finance Settlement was announced on 19th December 2022, with the final settlement expected in February 2023. This is another one year only settlement pending the review of relative needs and resources (also known as the fair funding review). However, this also covered announcements for 2024/25 which were included in the policy statement published on 12th December 2022.

5.9 The settlement has provided a potential increase of 9.2% in council core spending power in cash terms nationally, and 9.3% for Lewisham, however this is still less than the published CPI inflation level of 10.7% in November 2022. Existing funding streams will continue; however, the Market Sustainability and Fair Cost of Care Fund will be replaced by the Adult Social Care Market Sustainability and Improvement Funding. The government expects these will support councils to meet the extra cost and demand-led pressures to keep providing services at pre-pandemic levels. Despite this, there is continuing widespread concern from the Local Government Association and others that there remains a significant funding gap for the sector to meet all its statutory service requirements, for example social care. The government's response to this has been increasing the social care precept, and the overall social care grant funding.

5.10 Along with the settlement announcement, the Government confirmed the continuation and an increase of 2% to the Social Care (SC) precept on Council Tax in 2023/24, created to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on Adult Social Care. In 2022/23, the Council applied a SC precept of 1%. In 2023/24, the Council is permitted to apply a maximum precept of 2% which will generate an extra £2.525m of revenue for Adult Social Care.

5.11 The Government also announced that the limit by which Councils can increase their core Council Tax (inclusive of levies) without a referendum, has increased to a maximum level of 2.99%.

5.12 With 2023/24 effectively being another roll forward year with some additional grants, the Government has deferred the fundamental review of the way local government is financed until at least 2025/26 financial year, but potentially later. The fair funding review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence and not indices from 2013/14. Sitting alongside this is a review of the Business Rates Retention arrangements, which aims to reform the elements of the business rates retention system in England.

5.13 While this position is confirmed for one year only, officer's medium-term assumptions are that this recognises a higher funding baseline, including housing, health, social care and market sustainability grants, as the starting point for the fair funding review, but excluding the services grant. Nonetheless, due to the uncertainty surrounding the public finances overall, levelling up and the local government fair funding review, combined with the expectation that there remain growing demands of the people it serves; the Council fully expects to have to continue to seek further savings for future year's budgets.

5.14 Last year the Council was able to set its budget without needing to use reserves. This year again, the Council has identified the £12.587m of savings necessary to set a balanced budget, being £3.611m identified in setting the budget for 2021/22 and 2022/23 and a further £8.976m identified and brought before Mayor and Cabinet on the 7 December 2022. Assuming the measures proposed and the 2023/24 budget as set out in this report are agreed, the Council can set a balanced budget for the next financial year without using its reserves.

Cost of Living Crisis

5.15 It's estimated that one in four households in Lewisham are now affected by food and fuel poverty with 61,000 local people falling behind on their bills, meaning they require assistance with bills or will be accessing a food bank. On the 23 November Council passed a motion to declare a Cost of Living Emergency, calling on the Government to use its powers to support people through the worst financial crisis to hit the country in decades.

5.16 Lewisham Council has already provided over £7 million worth of support since the pandemic, and as part of the response to the cost of living crisis, from council tax support, food and fuel vouchers, to help with rent payments and securing somewhere to live.

5.17 Since the pandemic Lewisham Council has supported families and residents by:

- Providing £3.1m in council tax support to over 21,000 households
- Distributing £2.67m in food and fuel vouchers
- Awarding £1.6m to almost 700 families to help them cover rent payments and secure somewhere to live
- Making free school meals available in the school holidays to over 11,000 children
- Donating £126,000 to local foodbanks to help meet their demand
- Giving around 3,000 laptops to school children to help them with their studies
- Delivering over 1,200 new social homes between May 2018 and March 2022, providing Lewisham families with a safe, secure and affordable social home
- Leading the South London Energy Efficiency Partnership which has supported more than 5,000 vulnerable and low-income households to reduce their energy costs
- Created the £750,000 Lewisham Works in Lewisham Shopping centre that will work with local businesses to provide skills and employment training to 500 local people
- Launched the £500,000 Lewisham Creative Futures project to support residents, focussed on people with learning disabilities, to work in the digital and creative industries
- Supported 20,855 families with children and 8,832 elderly households with grants from the Household Support Fund to help with food and utility bills
- Reinvested £40m into our local economy through community wealth building policies, helping create well-paid, local jobs for local families

5.18 Councillors also resolved to work with partners to support local communities, particularly the most vulnerable, through the coming months, by:

- Continuing the Warm Welcomes programme across the borough. Twelve warm spaces have opened, run by the council in libraries and council buildings, so people can stay warm during the day and access financial advice and our jobs and skills programmes
- Working with the community, Lewisham Mayoresses and local food banks through the Lewisham Food Action Plan to address food insecurity
- Working with the Citizens Advice Bureau, Lewisham Local, Age UK Southwark & Lewisham, and other organisations within the voluntary and community sector to ensure residents can access the support and financial advice they need

- Continuing our award-winning apprenticeships programme and jobs and skills service to support Lewisham residents into good, sustainable jobs
- Building on Lewisham Council's status as a Living Wage Council to become a Living Wage Place to create more well-paid local jobs for local people

5.19 The motion includes a call to Government to fund free school meals during school holidays, provide protections to those in the private rented sector, while ensuring that recent commitments in the Autumn Statement around the increase in benefits in line with inflation and tackling low pay are delivered. The motion also points out that everyone pays the same for their energy costs and standing charges, regardless of whether they are on a pre-payment meter or pay via direct debit. With energy bills uncapped, many households will end up spending much more, with those on pre-payment meters paying even more for their energy than those who pay by other methods. This could be up to £1,130 per year.

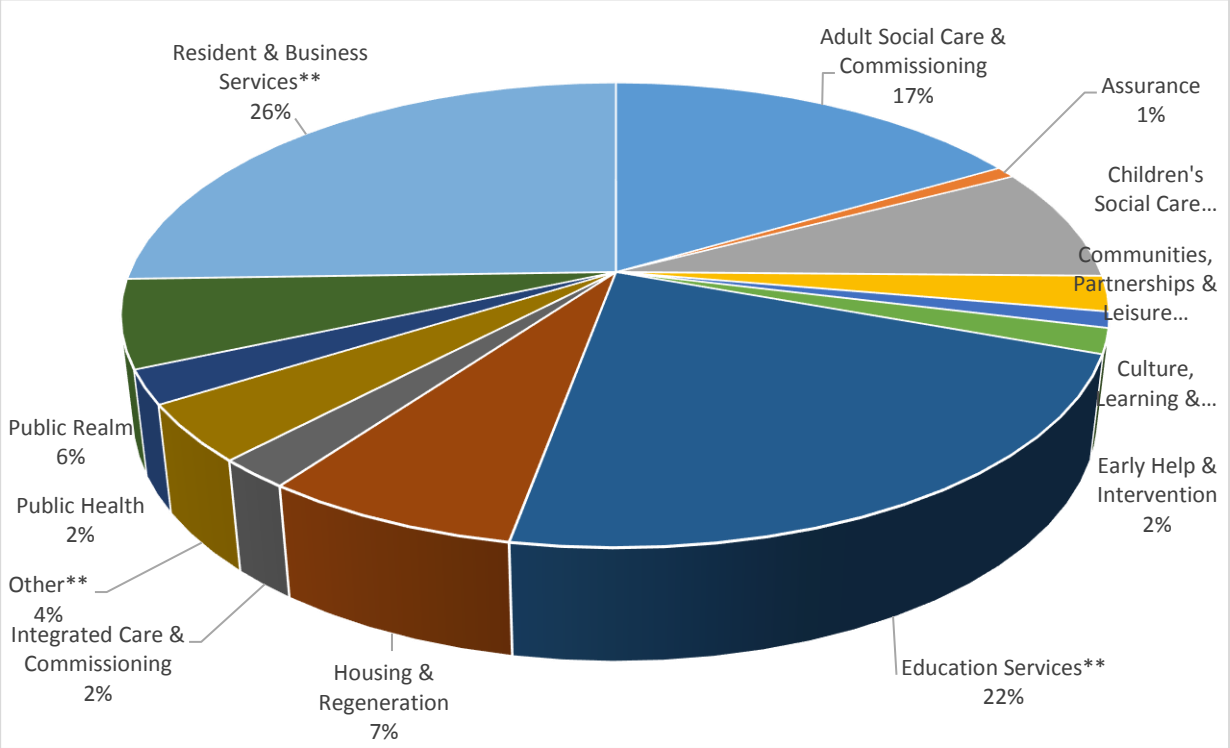
5.20 In addition to Council led programmes, Lewisham is lucky to have an incredible network of community groups, charities and other local organisations, that offer a wide range of support. The webpage found here: https://lewisham.gov.uk/myservices/cost-of-living is regularly updated as more information becomes available.

5.21 This webpage offers residents links to a range of services to support them during this difficult time, including: food support; coping with debt; warm welcomes; extra support for those with children; support staying warm; help with employment and training; help with household bills; mental health and well-being advice; and finally links for those fortunate enough to be able to support others through donating to the Lewisham Local cost-of-living crisis appeal or through volunteering opportunities with Lewisham Local.

Budget context

5.22 The Council spends over £1.2bn annually on services for residents. The gross expenditure budgets for each service area in the Council are as below:

2022/23 Gross Expenditure of £1.28bn



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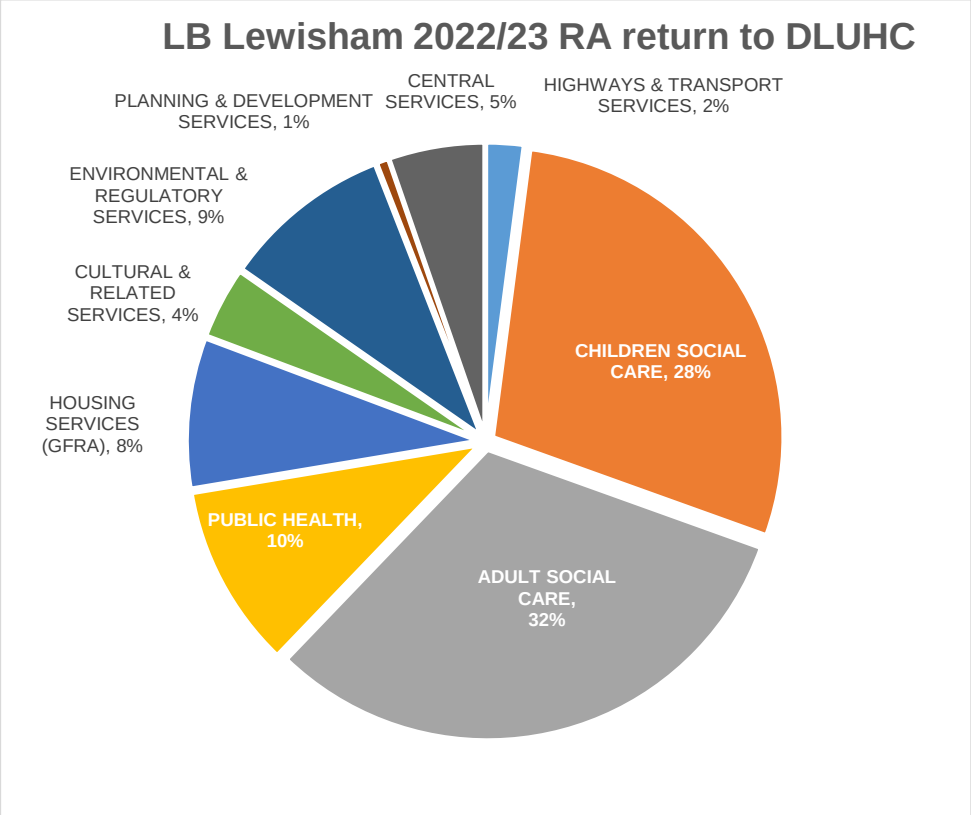
***The Resident and Business Services and Education Services gross budgets include Housing benefits being transferred to claimants and DSG being transferred to schools.*

5.23 In respect of the £340m services element of this annual spend, this is the gross spend built from the £248m general fund budget and income from grants, fees and charges, the money is directed as follows:



5.24 The Council serves a population of 300,553 people who live in 130,977 households. Residents of Lewisham are diverse, with people of more than 70 nationalities speaking over 170 languages. The number of residents is also growing; nearly 9% since the last census in 2011 and is higher than both the increase for London of 7.7% and the overall increase for England of 6.6%. Lewisham now ranks 44th for total population out of 309 local authority areas in London, moving up one place in a decade, and is the 13th most densely populated of the 33 London boroughs.

5.25 The Council works hard to be available for residents when they need it. Through the Customer Services access point, the Council responds to over 500,000 items of correspondence and receives over 18,000 visits a year. In addition, through the registry office, the Council processes over 7,500 births, deaths and marriages.

5.26 In addition to supporting a diverse and growing population, the budget contributes to the Council's commitment to extend local democracy. As a consequence of the Covid-19 pandemic the Council jointly sponsored research with the University of Birmingham into the impact on BAME communities alongside wider socio-economic factors.

5.27 While the resettlement of refugees was paused due to the pandemic in 2020/21, in line with the corporate strategy Lewisham has resumed this work and continues to welcome more of those seeking asylum in the UK, including the introduction from 2022/23 of a new 25% 'sanctuary' discount for Council Tax to ensure residents eligible for a single person discount are not financially worse off as a result of housing a refugee. The Council also continues to welcome Ukrainian refugees fleeing the war

with Russia. In addition to specific support for refugees, the Council provided support for the cost of Council Tax to over 22,000 households.

5.28 The budget supports a wide range of age groups across more than 600 individual services.

5.29 For young people, the schools' budget provides for 75 maintained schools from nursery level through to secondary. The Borough had the highest school attendance in inner London for primary and secondary, with the lowest persistent absence numbers across inner London. With 96% of pupils attending a "Good" or "Outstanding" school. Furthermore the Council ran over 100 holiday programme days with free activities and lunches for school children and young people aged 4 to 16.

5.30 Our Strategic Housing service benefits a large number of residents. The work done with partners to deliver Social Housing and Temporary Accommodation helps provide for the accommodation needs of a quarter of our households with 72,100 households in various forms of social housing and temporary accommodation. The Council made 895 social lets to households on the housing register in the previous year, however the numbers in temporary accommodation continues to rise following both the pandemic and the current cost of living crisis. The Council delivered 626 social homes between 2018 to 2021, and a further 621 are under construction.

5.31 The Borough has over 10,000 businesses registered and, in line with our corporate priority to assist with access to high-quality job opportunities, the budget funds adult education and apprenticeships. In the prior year the Council has supported 104 apprentices to undertake work in the borough and helped 46 employees to upskill.

5.32 The Adult Social Care service provides a range of support to vulnerable users that helps them remain active and independent, with 1,149 older and vulnerable residents being supported to return to everyday life following a hospital stay. The service undertook 6,046 adult social care assessments and reviews and supported 3,457 older and vulnerable residents to stay independent across all packages of care. As well as physical care needs, these services provide support to those with mental health or disability needs. The work of these services has been under particular scrutiny with the Covid-19 pandemic and the Council has worked closely with the NHS to help manage pressures in the system (in particular hospital discharges). The Social Care reforms which are in part being delayed will impact how we deliver services to residents and the provisional Local Government Settlement includes some funding towards the implementation of this in 2023/24, although more will be required in future years as the full impact of the change in legislation is understood and quantified.

5.33 The budget also maintains key universal services such as libraries, arts and entertainment centres and sports and recreation facilities. In the 2021/22 the Council had 475,778 library visits and 724,603 leisure centre visits, a return to pre-pandemic activity more broadly for residents in the borough.

5.34 Maintaining a clean and green environment is beneficial for all. The amount of waste recycled, composted or re-used is growing year on year. In 2021/22 the service undertook 39,260 commercial waste, 580,110 green waste and 12,781,730 household waste bin collections, totalling 80,960 tonnes of waste collected and processing 27,005 tonnes of recycling.

5.35 The Council is also responsible for maintaining 397km of roads and 12km of footpaths. There was 50,862m^2 of road carriageway, and 15,238m^2 of pedestrian footway laid or resurfaced in 2021/22. Council also manages the parking service, including permits and enforcement. These are service areas which will play a significant part in supporting the delivery of a zero-carbon borough. The Council issued 79,629 parking

permits during the preceding year as activity levels start to recover from the pandemic, although levels continue to remain below pre-pandemic.

5.36 Residents enjoy the Borough's green spaces and the budget supports the work that the Green Scene service does to maintain the high standard of Lewisham's parks. There are 47 parks in the borough and 18 of these have the coveted 'Green Flag' rating. Our achievements in this service area have been recognised by our residents with 74% of residents who responded to the 2018 'Parks and Open Spaces survey' felt the standard of the parks in Lewisham has been maintained at a good or fair level.

5.37 2022 also saw Lewisham host the Borough of Culture. Created by and with the people of the borough, our year-long programme, We Are Lewisham, is about coming together to create incredible moments of celebration and change. Led by Lewisham Council and the Albany and created by the people of the borough, the programme was inspired by Lewisham's proud history of activism and of standing up for equality. Together, we celebrated the borough's diverse communities and our trailblazers past and present, highlighting the power of culture to create change.

5.38 The year long programme included 350 events and counting, from live music and dance to family fun, from Deptford to Downham. Across the year over 200,000 people attended these, including both residents and visitors, coming together to create and enjoy fantastic moments of celebration and change. This could not have been possible without the support of our partners, with over 200 partner organisations working with the Council and more than 1,500 volunteers via our volunteering partner Lewisham Local generously giving their time and energy to make this incredible year happen.

5.39 Our children and young people were critical to its success – with over 84% of our local schools involved across our primary and secondary schools. The Creative Futures programme has supported over 1,800 young people, removing barriers and creating accessible opportunities to help 16 -30 year olds enter the creative sector. In addition young people benefitted from career advice, training and mentoring.

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

- General Fund Revenue Budget for 2023/24;
- Council Tax level for 2023/24;
- Other Grants for 2023/24;
- Dedicated Schools Grant (DSG) for 2023/24;
- Housing Revenue Account (HRA) and level of rents for 2023/24;
- Treasury Management Strategy for 2023/24; and
- Capital Programme for 2022/23 to 2026/27.

6. General Fund Revenue Budget And Council Tax

6.1. This section considers the General Fund revenue budget and Council Tax. The General Fund budget for 2023/24, assuming a Council Tax increase of 4.99%, is £263.679m. Details of the budget reduction measures approved for 2023/24 are provided at Appendices Y1 and Y2.

6.2. It is structured as follows:

- Update on 2022/23 Revenue Budget;
- The Budget Model;

- Budget Reduction Proposals;
- Council Tax for 2023/24; and
- Overall Budget Position for 2023/24.

Update on 2022/23 Revenue Budget

6.3. The Council's revenue budget for 2022/23 was agreed at Council on 2 March 2022. The general fund budget requirement was set at £248.610m.

6.4. The financial position of the council is monitored on a monthly basis by officers with support from the Finance team, these monitoring reports have been presented quarterly to Mayor and Cabinet and scrutinised by the Public Accounts Select Committee.

6.5. Budget holders are challenged to maintain a tight control on spending throughout the year. The Council operates a devolved system of financial accountability with clear delegations and responsibility set out in the financial and procurement regulations and schemes of delegation in the Constitution.

6.6. The July budget monitoring report was reported to Mayor and Cabinet in September 2022, this report presented a pressure of £6.5m on General Fund budgets after the application of £4m remaining £4m Covid Local Authority support grant as well as £7.6m of corporate funding to cover items such as the unbudgeted element of the proposed pay award of £4.5m.

Directorates

6.7. Table A1 sets out the latest forecast budget variances on the General Fund by Directorate based on December budget monitoring.

Table A1: Forecast outturn for 2022/23 as at end of December 2022

General Fund	Net budget 2022/23	Forecast Outturn 2022/23	Period 8 Forecast Variance 2022/23
	£m	£m	£m
Children & Young People	61.3	71.2	9.6
Community Services	82.4	84.5	2.1
Housing, Regeneration and Public Realm	21.7	27.7	6.0
Corporate Resources	32.4	32.4	0.0
Chief Executives	11.8	11.8	0.0
Salary and Energy Pressures	0.0	6.6	6.6
Directorate Totals	**209.6**	**234.3**	**24.3**
Covid Funding	0.0	(4.0)	(4.0)
Reserves	0.0	(6.6)	(6.6)
Corporate Items	39.0	36.9	(4.1)
Corporate Budget	**39.0**	**26.3**	**(14.7)**
Total	**248.6**	**260.6**	**9.6**

6.8. The paragraph below explains the reported position at Period 8 in more detail:

Children and Young People £9.6m Pressure

6.9. **Children's Social Care:** A £8.1m pressure is reported on the service. There are currently 458 Children Looked After (CLA) at the end of November 2022, compared to 465 CLA's in November 2021. Placements is a demand led budget, with the cost of placements dependent on the needs of the child. However, it is important to note that whilst edge of care preventative interventions helps to manage placement demand, the children who do enter care are the most complex and require higher cost placements. The expenditure forecast is comparable with the level of expenditure incurred in 2022/23 suggesting that additional costs incurred due to Covid remain within the system or have been replaced by costs at a similar level.

6.10. **Education Services:** £2.8m pressure across the service due to recruitment challenges in Education Psychology leading to increased agency usage of £0.5m and £0.3m on Continuing Care due to the level of complexity and associated costs of children with complex needs. There is a £2m overspend on Home to School Transport, the number of Children being transported to schools by taxi's has increases significantly since 2019/20 with the percentage of Children being transported out of borough (longer, more costly journeys) also increasing.

6.11. **Family, Quality and Commissioning:** £1.3m underspend due to robust management of the staffing budget, service delivery has been reviewed and a restructure was undertaken however some elements are yet to fully implemented leading to posts still being vacant.

Communities £2.1m Pressure

6.12. **Adult Social Care:** A pressure of £1.9m is reported due to the delayed delivery of savings related to care packages as well as pressures from children transitioning to Adulthood and hospital discharges. This is based on the level of commissioned care on Controcc at Period 8 with adjustments made for anticipated further in year demand and inflationary increases, as well as adjustments for any health funding or savings delivered over the course of 2022/23.

6.13. **Community, Leisure and Partnerships:** A pressure of £0.1m is reported due to reduced income generation compared to the budgeted level on bereavement services.

6.14. **Culture, Learning and Libraries:** A pressure of £0.1m is reported for the service as a result of an income shortfall for the Libraries Service where the level of income has not recovered to pre Covid levels.

Housing, Regeneration and Public Realm £6m Pressure

6.15. **Strategic Housing:** A pressure of £4.5m is reported on Temporary Accommodation, after the application of available grant funding. The number of people accommodated in nightly paid accommodation has risen from 745 at the start of April 2021 to 1,031 at the end of November 2022. The monthly average number of people accommodated for financial year 2021/22 was 865, the current monthly average for 2022/23 is 1,018. This increase in numbers has put additional pressure on the service in terms of landlord payments and recharges for Housing Benefit payments which have exceeded the caps and limits (otherwise known as HB limitation recharges) and therefore not payable through the DWP Housing Benefit claim. These are currently forecast to be £10m in Period 8, which is £2.5m over and above the budgeted level.

6.16. The remainder of the pressure is due to £1m of incentive payments to Landlords over and above the budgeted level, these payments are made to maintain housing arrangements for people at significant risk of becoming Temporary Accommodation Service users. A further £1m pressure is due to prior tenant arrears from unpaid rental income (over and above the housing benefit contribution) that people make towards

their nightly paid accommodation. Once the service users have moved out of nightly paid accommodation this income is extremely challenging to recover.

6.17. **Public Realm:** A pressure of £1.2m is arising due to an overspend of £0.4m in relation to the cost of an enhanced Fly Tipping Service, and a highways and transport pressure of £0.8m.

6.18. **Regeneration:** There is a £0.3m pressure on the service despite the shortfalls against Copperas Street, Hughesfield and Downham Enterprise, the commercial income portfolio has seen a slight uplift through rent reviews across the estate. This is because some of the rents (particularly for the Old Town Hall) are RPI index linked, and the current rate of inflation has led to higher than expected rises in rents across the portfolio. This has had an overall positive impact on the current projected income from the estate.

Corporate Resources Balanced

6.19. **Assurance:** An underspend of £0.1m due to staff vacancies across the teams.

6.20. **Finance:** An underspend of £0.2m due to staff vacancies across the teams.

6.21. **Residents and Business Services:** A net pressure of £0.3m. There is a £1.2m pressure on the staffing budget within Revenue and Business Services, as the service restructure was delayed due to additional workload arising from the administration of several central government grants including the Council Tax Energy Grant, Household Support fund and Covid Additional Relief Fund (CARF). The employee pressure is partially offset by a £0.5m underspend due to the reduction in supported accommodation costs and an underspend within the Facilities Management service area of £0.4m largely due to an underspend on cleaning services.

Salary and Energy £6.6m Pressure

6.22. **Staff Pay Award**: The financial impact of the pay award over and above the budgeted level is £4.1m, this is after the recent reversal of the National Insurance (NI) increase.

6.23. **Energy Tariff Increases:** The energy pressure over and above the budgeted level due to tariff price rises is £2.5m, this is further broken down as; £1m on Corporate Buildings, £0.6m on the Council's Leisure contract, £0.2m on Glassmills Leisure centre which sits outside the main leisure contract, £0.6m on Street Lighting and £0.1m within Regeneration for buildings they operate.

6.24. Officers are working hard to reduce the financial pressure further between now and the end of the financial year. The final position will be declared in the outturn report to Members.

Corporate Financial Provisions

6.25. Corporate Financial Provisions are budgets that are held centrally for corporate purposes and which do not form part of the controllable expenditure of the service directorates. They include Capital Expenditure charged to the Revenue Account (CERA), Treasury Management budgets such as Interest on Revenue Balances (IRB) and Debt Charges, Corporate Working Balances and various provisions for items such as early retirement and voluntary severance.

6.26. Spend of the Corporate Financial Provisions is expected to be £4.1m less than budget which consists of monies to be held for inflationary pressures and to support service risks released against the CYP overspend in line with the previously agreed budget reduction measures to reduce the persistent overspend. There is also an underspend in the concessionary fares charged by TfL (expected to increase in 2023/24) and interest earned from cash balances due to the Bank of England increases in the base rate over the previous six months. The increases in interest earned has been built into the savings proposals for 2023/24.

6.27. Consideration is now being given to employing the use of further corporate measures to balance the budget at year end. It is proposed to meet the 2022/23 budget overspend from provisions if available and then reserves if required, with the final position declared in the outturn report to Members.

The Budget Model

6.28. This section of the report sets out the construction of the 2023/24 base budget. This section is structured as follows:

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

Budget assumptions, including: Cuts, Council Tax, and Inflation

6.29. The Council has made substantial reductions to its expenditure over the last thirteen years. Subject to the outcome of the multi-year Comprehensive Spending Review (CSR) and the outcome of the government's fair funding review, now not expected earlier than 2025/26, the Council expects to continue to need to make further reductions for at least the next three to four years. This section of the report summarises a series of proposals that would enable the Council to set a balanced budget for 2023/24 as part of a sustainable financial strategy to 2026/27.

Council Tax

6.30. Since 2016/17, the government has allowed councils with social care responsibilities to apply a percentage increase on council tax (the Social Care precept), the funds of which are ring-fenced to Adult Social Care (ASC) services. To date, Lewisham has applied a 14% increase over the seven year period. The government is once again allowing councils to apply a precept for 2023/24 and 2024/25 of 2%. For 2023/24 this will generate £2.525m of additional income for ASC services. This report proposes that the Mayor recommends that Council approve the 2% ASC precept for 2023/24 to obtain the maximum benefit permitted.

6.31. The provisional Local Government Finance Settlement announced on the 19 December 2022 confirmed the intention for a core council tax referendum principle of up to 3% in 2023/24 and 2024/25, as announced at the Autumn Statement on the 17 November 2022. This is in addition to the flexibility to raise the Social Care Precept set out above.

6.32. The assumption used in the model for preparing the 2023/24 budget, subject to confirmation by Council, is for a total Council Tax increase (Lewisham element) of 4.99%. A 2% increase for the social care precept and a 2.99% increase in the core element.

6.33. Should Council choose to set a different Council Tax increase, Members will need to be mindful that any increase below this recommendation will result in additional budget pressures, resulting in greater use of resources in the short term and a higher budget reduction requirement going forward. Any increase in the core element above this recommendation would require support in a local referendum due to the limit set by the Secretary of State.

6.34. 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

6.35. 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.

6.36. 2022 has seen CPI reach 40 year highs, with the rate continuing to rise throughout the year and reported at 10.7% in November 2022. At the point of agreeing its Medium Term Finance Strategy in July 2022, the Council was assuming to budget 3% for pay award and 2.5% for non-pay inflation. There was a further allowance of £5m to cover a combination of Covid 'drag' and unfunded inflation. The Council was assuming that the energy pressures for 2023/24 would be funded via once off funding (either grant or reserves) and would not be funded via base budget. At that point no agreement had been reached for the 2022/23 pay award.

6.37. Over the Autumn CPI continued to increase and the pay award was agreed which equated to almost 6% increase in budget terms and a pressure of £4.1m above the allocated funding for 2022/23. This has led to a revision of the inflation funding assumptions for 2023/24 with a proposed pay award allocation of 5% and non-pay inflation budgeted for £5m. These proposed budgets have increased from the MTFS but there remains some risk that if inflation does not return to the Bank of England's long term forecast of 2% as quickly as expected that there may be additional pressures in 2023/24 or 2024/25. This will be reviewed and reported to Members as part of the 2023/24 MTFS process and regular financial monitoring.

6.38. Unless pre-defined by statute or otherwise agreed, all services are expected to uplift their fees and charges annually in line with inflation, or for full cost recovery if this is higher, to allow for stability in real terms.

Budget Pressures to be funded

2022/23

6.39. In 2022/23, the funds set aside in the budget model to meet specific identified budget pressures and potential budget risks was £6.500m. This was supplemented by £1.950m of additional Social Care grant uplift, the £0.923m of the new Market Sustainability and Fair Cost of Care Fund grant and the ASC precept of £1.227m to fund £10.600m of identified risks and pressures.

2023/24

6.40. The MTFS for 2023/24 sets aside a further £25.131m for inflation, budget pressures and risks. To this it is recommended that the £1.899m of the £3.852m of additional social care grant which was received for 2022/23 but not taken into base budget be used to address current pressures. It is also recommended that the new £3.203m ASC Market Sustainability and Improvement Fund (which is netted off against the £0.923m Market Sustainability and Fair Cost of Care Fund grant which falls away) be included. In addition the uplift in the Social Care grant of £8.780m will be included (although netted off against the Independent Living Fund which has been rolled into this). These actions will provide £37.513m to be allocated to selected budget pressure and growth areas that will present as challenges in future budgets if not corrected. See section 7 below for more detail on these grants for 2023/24.

6.41. To the funding of these pressures can be added the NHB of £0.114m, and a second year, although reduced, allocation of the Services Grant of £3.696m for 2023/24. These will fund once off pressures given the temporary nature of these grants.

6.42. In terms of accounting for these, it is proposed that these investments and pressures are allocated in line with the decisions of this budget from the corporate risk and pressures monies and £2.525m from the Social Care precept to the relevant Directorates when determining their cash limits for 2023/24.

6.43. Using cash budgets (in particular grants such as the Social Care Grant and ASC Market Sustainability and Improvement Fund) presents a risk for future years, although the medium planning assumptions are that this level of funding for 2023/24 from government is in recognition of the pressures faced by local authorities and will effectively form the baseline pending fair funding review.

6.44. The budget pressures anticipated in 2023/24 have been reviewed and it is recommended that the following identified pressures are funded now, set against the Corporate Strategy priorities.

6.45. Table A2 provides a summary of the corporate risk and pressures budget and those pressures and risks that are being recommended to be funded. The detail of these and the allocation between once off and ongoing funding is in Appendix Y7.

Table A2: Summary of 2023/24 budget pressures to be funded

Description	£'000	£'000
Social Care precept	2,525	2,525
Ongoing		
Inflation, Risk & Pressures budget available in 2023/24	25,131	
ASC Market Sustainability and Improvement Fund (net)	2,280	
2022/23 Social care grant (additional)	1,899	
2023/24 Social care grant (additional and net of Independent Living Fund)	8,203	37,513
Once-off		
New Homes Bonus	114	
Services Grant	3,696	3,810
Total Resources Available for Risks and Pressures in 2023/24		**43,848**
Recommended Allocations		
Corporate Strategy priorities		
Open Lewisham	-1,022	
Local Support Schemes		
Borough of Sanctuary		
Planning		
Quality Housing	-4,100	
Temporary Accommodation		
Strategic housing		
Giving Children the best start	-1,500	
Schools and School Transport		
Strong local economy	-600	
Business rates revaluation		
Asset income generation		
Health and wellbeing	-6,918	
Changes in care needs and demand		
Market Sustainability and Fair Cost of Care		
Capital investment		
Leisure support		

Description	£'000	£'000
Cleaner and greener	-1,650	
Environment Services - waste		
Fly tipping		
Parking		
Safer Communities	-200	
Catford library		
Total Corporate Strategy priorities		**-15,990**
Organisational value for money		**-5,307**
Corporate Services		
Technology and Audit		
Centralised income achievement		
Revenues and Benefits		
Energy		**-6,327**
Salary inflation for 2023/24		**-7,120**
Salary uplift shortfall for 2022/23		**-4,104**
Non-pay inflation for 2023/24		**-5,000**
Grand Total Funded Pressures		**-43,848**

Open Lewisham – £1.022m

6.46. The commitments to this priority include additional resource to ensure that the Council can deliver on its priority as being a borough of sanctuary. In order to ensure that our residents most in need of support receive this, there is the need to ensure that the funding for the local support schemes is maintained to the appropriate levels, this is even more vital in the current cost of living crisis. Government has also announced that the LCTS administration grant will be rolled up into the SFA, meaning that this ring fenced funding stream will fall away. The Council's Planning service is critical to keeping Lewisham open and ensuring that it can continue to grow and thrive as a place for both residents and businesses. Legislative and service changes have necessitated additional funding into the service.

Quality Housing – £4.100m

6.47. The costs and demand for temporary accommodation has increased significantly as an outcome of both the Covid pandemic and the current cost of living crisis which outstrips the current grant allocations. There is also additional pressures on the housing budget due to income generating schemes not progressing as expected.

Children and Young People - £1.500m

6.48. There is a statutory requirement to provide home to school transport for children with Educational Health & Care Plan where the plan specifies a transport service. From 2015 to 2021 the number of EHCPs in Lewisham increased by 107.1% from 1,408 to 2,916. The number of ECHPs in Lewisham now stands at 3,317, representing a further 13.8% increase since the January 2021 SEN2 census date. The service has committed to reduce the persistent overspend in this service, but it is proposed that this is part funded to enable a base budget that better reflects the increased level of need.

Strong local economy - £0.600m

6.49. The Council seeks not only to provide high quality social infrastructure (schools, roads, homes etc) to support its residents directly, but to also ensure that it plays a role in place shaping within the borough and seeking to generate long term income streams from assets to support service delivery. The pandemic and ensuing economic inflation has meant that some income generating asset schemes have not been able to be delivered as planned. Furthermore, whilst the Council constantly looks to makes best use of its asset base, the introduction of the 2023 ratings list by the Valuation Office has meant that the budget for paying business rates is under pressure.

Health and Wellbeing - £6.918m

6.50. This proposed budget increase applies the Social Care precept and the ASC Market Sustainability and Improvement Fund to support the work of Adult Social Care services. This will enable the service to ensure that the legislative changes and reform implementation, especially the Fair Cost of Care and able to be delivered in line with Government requirements whilst not destabilising an already fragile marketplace for care services. The funding available for discharge costs will also be used within this service, but will replace existing funding available from the ICB. The specific funding available for 2023/24 will allow the Council to fund capital investment in infrastructure, reducing our reliance on independent providers. There is also the need to fund pressures in leisure as this sector was only just returning to pre-pandemic levels when the cost of living crisis (including energy costs) took effect.

Cleaner and Greener - £1.650m

6.51. The risk and pressures to be invested against this priority aim to support the Council's commitment to be carbon neutral by 2030 in line with the declared climate emergency. This includes investing in the Council's waste collection services, which are experiencing very high levels of inflation coupled with the permanent growth in volumes as post pandemic more people continue to work from home to a greater extent. The Council is also committed to taking action against fly-tipping and investment is required for this service. Finally, the Council adopted an emissions based charging policy for parking in 2021 to support the ambition of carbon neutrality by 2030. The Council's plans to roll out Controlled Parking Zones across the borough remain under review and development, and the pace of this is creating pressures within the service which require once off support.

Safer Communities - £0.200m

6.52. The Catford Library has been relocated out of Laurence House and into the Catford Centre, putting this service at the heart of the town centre for the residents of Catford. This funding for 2023/24 will ensure that the library has a sustainable budget going forward.

Organisational value for money - £5.307m

6.53. In addition to the corporate strategy the Council is a large and complex organisation. Through the decade of austerity to 2022 the Council's support services have borne a significant proportion of the budget cuts. This was recognised in the 2019/20 and 2020/21 budget round and this investment is to reverse some previously agreed cuts and enhance the resourcing for some of these services. In particular; resident services and technology – which has underpinned the Council's ability to transform its ways of working and engagement with residents during and post pandemic. In addition work as part of the capital strategy is underway to assess the level of capital investment required to sustain the Council's technology infrastructure in a secure, resilient, and optimal state. Whilst many services have transferred more and more content and resident engagement onto digital platforms, the digital divide – made more acute during the cost of living crisis – has meant that support is needed for both the digital content

functions and the call centre to ensure that we continue to support our residents using all forms of communication. In prior years savings have been put forward predicated on increasing our attainment of income, mainly Council Tax and sundry income, either through service redesign or through increased collection. The Covid pandemic saw a 3% fall in the collection rate of Council Tax and whilst this has recovered in part it remains slightly below pre-pandemic levels and below that assumed in the MTFS. The Council now needs to unwind these proposals to ensure that these reflect reality.

Energy - £6.327m

6.54. The war in Ukraine saw energy costs soar, with energy being the single biggest element driving the current levels of inflation. The Council will fund the additional costs of energy in 2022/23 via reserves or corporate provisions if possible, and in the MTFS was assuming that theses would similarly be funded from reserves or once off grants in 20223/24. However, with the removal of Government support for Council's energy costs, and the forecast of these taking longer than originally anticipated to return to normal levels, it is deemed prudent to fund circa 50% of the anticipated energy increases in base budget for 2023/24 and fund the remaining 50% using once off grants funds.

Salary inflation 2023/24 - £7.120m

6.55. The 2023/24 assumed salary uplift has been based on a pay award of 5%. This reflects both the final 2022/23 agreement which averages to almost 6%, and the current and forecast levels of inflation anticipated for 2023/24. This is 2% more than the 3% assumed within the MTFS.

Salary inflation 2022/23 unfunded - £4.104m

6.56. The 2022/23 budget of £2.7m for the pay award was equivalent to 2%, this was set in the absence of an agreed position. The final agreed settlement equates to an average uplift of circa 6%, which has created an assumed budgetary pressure of £4.104m which has been funded from reserves or corporate provisions. This increase needs to be permanently funded in 2023/24.

Non-pay inflation - £5.000m

6.57. The MTFS assumed a 2.5% uplift for non-pay inflation with a potential allowance within the £5m pressures funding earmarked for both unfunded inflation and Covid 'drag'. Given the increase in CPI during the year this has been increased to £5m, which represents a circa 5% budget uplift. This is in addition to any specific pressures funding set out above, and it's the Council's assumption fees and charges are uplifted by inflation to partially offset this pressure.

6.58. 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.

6.59. 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:

- Childrens Social Care placement costs
- Legislative or policy changes
- Service Investment
- National / London Living Wage;
- Redundancy;
- Unachieved budget reduction; and
- Further inflation.

Childrens Social Care placement costs

6.60. A £8.1m pressure is reported on the service. There are currently 458 Children Looked After (CLA) at the end of November 2022, compared to 465 CLA's in November 2021. Placements is a demand led budget, with the cost of placements dependent on the needs of the child. However, it is important to note that whilst edge of care preventative interventions helps to manage placement demand, the children who do enter care are the most complex and require higher cost placements. The expenditure forecast is comparable with the level of expenditure incurred in 2022/23 suggesting that additional costs incurred due to Covid remain within the system or have been replaced by costs at a similar level. The service is continuing to seek to reduce these costs but in the event that they are not contained then these may place pressure on the 2023/24 budget.

Legislative or policy changes

6.61. There are a number of areas within the Council where it is expected that government will introduce new legislation or policy which will require service changes and drive cost increases. Specifically in waste services, where Government has consulted on resource and waste strategy reforms. There are 3 main reforms proposals:

- A Deposit Return Scheme for drinks containers, where consumers will be incentivised to take their empty drinks containers to return points hosted by retailers.
- Extended Producer Responsibility for packaging, where manufacturers will pay the full costs of managing and recycling their packaging waste, with higher fees being levied if packaging is harder to reuse or recycle.
- Consistency in household and business recycling collections. The Environment Bill requires all local authorities to arrange for the collection of glass, metal, plastic, and paper and card, from households, for recycling. Domestic properties to receive separate weekly food waste collections from households, including flats, proposal for the free collection of garden waste and to provide separate collections for dry recycling.

6.62. Though Lewisham currently provide the collection of the glass, metal, plastic, paper and card from household and offers the service to businesses within the borough, we collect co-mingled. Once guidance has been provided, Lewisham will need to carry out a TEEP assessment, to assess whether a single stream service would be technically, environmentally and economically practicable (TEEP). Lewisham also provide a weekly collection of food waste from kerbside properties; this will now need to be rolled out across the borough to estates and flats.

6.63. We also currently charge for garden waste collections and there is a possibility that this will now need to be provided for free. Though all LA's have argued this point, there is a possibility that this won't be approved.

6.64. As stated above we are still awaiting on further guidance on the reforms and how the calculation will work for any funding that Council's will receive to assist with the cost for vehicles and containers, but some of these changes are due to be implemented in 2024, excluding the roll out of food waste which is currently due to commence 2023/24.

6.65. The expansion of the Ultra Low Emission Zone (ULEZ) will assist in reducing carbon emissions and improving air quality in the borough but may also have a negative impact on parking and highways income streams.

6.66. Similarly, the roll out of a borough wide CPZ programme is being consulted on, and the outcome of that may also impact on the delivery of previously agreed income increases predicated on this programme.

6.67. Whilst government has provided some grant funding to address the introduction of the Fair Cost of Care the implementation of a number of other care reforms has been

delayed and it is not yet clear whether government will fund these, either in part or in full, and this presents a risk to adult social care budgets.

6.68. In 2020, DLUHC introduced a statutory override that separated local authorities; Dedicated Schools Grant (DSG) deficits from the wider finances, the effect of this override is that the council does not need to make provision from our general reserves to cover the DS deficits. The statutory override was due to end at the end of 2022/23 but has recently been extended. However, the extension of the override is not permanent and the DSG deficit is forecast to be circa £15m by the end of 2022/23. In the event that the override was removed this risk and deficit would fall to the general fund reserve and budget to meet.

Service Investment

6.69. It may be that in addition to the broader, macro-economic pressures set out below, that specific service pressures will arise in year that cannot be contained within existing budget and will require specific and additional funding.

National / London Living Wage

6.70. 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 works contracts and contracting for some care services. The recent increases in living wage and focus on modern slavery and ethical charter considerations in procurement rules go some way to closing this remaining gap to ensure all employees are paid a fair wage.

6.71. The budget impact of these changes is a risk of additional contract costs to the Council. These will vary according to 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

6.72. The Council will seek to minimise the impact of cuts on services and jobs. However, a significant proportion of the Council's budget goes on staff salaries and wages, so it will not always be possible to make significant investments in service transformation and redesign to achieve budget cuts 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. For these reasons the risk cannot be easily quantified at this time.

Unachieved Budget Reductions

6.73. The strategic governance process for monitoring the delivery of agreed budget reduction measures, overseen by EMT, will provide visibility of progress, risks, challenges and robust governance of the programme as a whole. Alongside, the PMO will be monitoring and reporting on programme-wide delivery of cuts, risks and equalities impact. Clear roles and responsibilities (between the PMO and service Directors) have been drawn up in order to ensure there are clear lines of accountability.

6.74. In the event that this approach cannot ensure the full delivery of the budget cuts and pressures arise in the year and are not able to be contained with Directorate budgets, they may become an additional call on corporate provisions and reserves until alternative cuts are agreed and implemented.

Summary of Budget Pressures and Investment

6.75. 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.

6.76. There are some pressures to be funded, which can be quantified within a reasonable range. These fully commit the MTFS allocation and additional resources received for 2023/24.

6.77. There are also a number of other risks and potential budget pressures to consider which are less easy to quantify with any certainty which may become an additional call on reserves through the year if they arise. These will be regularly monitored and reported.

2023/24 Budget Reduction Proposals

6.78. On the 7 December 2022, the Mayor and Cabinet agreed £14.437m of budget reduction proposals for 2023/24, of this £3.611m are proposals which were considered as part of the 2021/22 and 2022/23 budget setting exercise and a further £10.826m of proposals which were identified in 2022. The £10.826m of proposals included both Executive and non-Executive decisions with Mayor and Cabinet approval required for £1.378m and £9.448m of proposals which are decisions not requiring Mayor and Cabinet approval. Of the non-Executive proposals, COR_SAV_01 which is a £500k reduction in the annual cost of the employer's pension contribution, has been increased to £650k as the triennial valuation of the pension fund has completed enabling the actual saving to be quantified. Cut ALL_SAV_01 which was the £2m absorption of the unfunded pay award has been reversed as proposals to achieve this cut were not able to be identified. A summary of these cuts is attached as Appendix Y1 and Y2 to this report.

6.79. These net budget reduction measures of £12.587m have been included in the 2023/24 budget calculation. They must be achieved in order to maintain a balanced budget and manage the persistent overspend. The delivery of these cuts will be monitored, any shortfall will have to be covered, in the short term pending services offering alternative proposals, through the use of reserves.

6.80. No clear estimates for Settlement Funding Assessment (SFA) in 2024/25 have been provided by the Government. 2023/24 is effectively a roll forward year for the SFA, with some adjustments for inflation and additional social care funding and the outcome of the fair funding review is not expected later before 2025/26. The prospects for future funding remain uncertain.

2023/24 Council Tax

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

<u>Collection Fund</u>

6.82. 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.

6.83. 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 to 2022/23 of £398,403. This reflects the ongoing work of the Public Services team to carefully collect all monies owing to the Council and the adjustment made to the assumed collection rate given the impact of Covid-19.

6.84. 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. Taking account of the cumulative surplus and the forecast contributions for prior year deficits, £302,871 is forecast to be the net surplus to be included in the calculation of Lewisham's budget as the additional Council Tax collected in year and transferred to a collection fund reserve for future year deficits. The remaining balance of £95,532 is allocated to the GLA.

Council Tax Reduction Scheme

6.85. Members should note that the Council agreed on the 18 January 2023 that no changes are to be made to the Council Tax Reduction Scheme (CTRS) for 2023/24 and that the Council should continue to pass on the government cuts in funding to working age claimants. Members agreed that the fixed percentage reduction in liability for the working age claimants of the scheme should remain at 25% for 2022/23. This means that everyone of working-age has to continue to pay a minimum of 25% of their council tax liability.

Council Tax Levels

6.86. In the 2023/24 provisional Local Government Finance Settlement, the Government announced a 3% limit to the amount by which Councils can increase their Council Tax (inclusive of levies) without a referendum. In addition, there is also the opportunity to increase Council Tax by up to a further 2%, for the Social Care Precept in 2023/24 and 2024/25. The government's assumptions in the local government finance settlement 2023/24 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.

6.87. In 2023/24, the recommendation is that the Council approve a 2% Social Care precept which will provide additional funding of £2.525m, ring fenced for Adult Social Care spend. 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.

6.88. At the same time an increase in core Council Tax of 2.99% (i.e. within the limit of the 3% referendum threshold) would provide additional funding of approximately £3.776m.

6.89. In considering budget reduction proposals and the level of Council Tax, Members make political judgements, balancing these with their specific legal responsibilities to set a balanced budget for 2023/24 and their general responsibilities to steward the Council's finances over the medium term.

6.90. In 2022/23, the Band D Council Tax in Lewisham is £1,816.81 on a base of 88,904.9 Band D equivalent properties. Of this, £395.59 relates to the activities of the GLA which the Council pays over to them on collection, Lewisham's element is £1,421.22.

6.91. The GLA is consulting on a precept of £423.4 (Band D equivalent) for 2023/24, an increase of £27.89 or 7.05%, and a final decision is expected from them on or after the 23 February 2023.

6.92. For 2023/24, the Band D Council Tax in Lewisham is recommended to be £1,926.27 on a base of 88,848.5 Band D equivalent properties (the base was approved by Council on the 18 January). Of this, £434.14 relates to the activities of the GLA which the Council will pay over to them on collection. Lewisham's element will therefore be £1,492.13, which includes a 2023/24 increase of £70.91 (4.99%).

6.93. Table A3 below shows, for illustrative purposes, the Council Tax payable by a Lewisham resident in a Band D property in 2023/24 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 Y4.

6.94. The starting point is for an assumed 4.99% increase in Lewisham's Council Tax for 2023/24, which includes the maximum core increase permissible without a referendum. Any reduction from this level of increase will reduce the level of income the Council collects and will increase the draw on reserves for 2023/24 and the budget gap in future years.

Table A3 – Band D Council Tax Levels for 2023/24

Amounts payable by residents - Band D					
Change in Lewisham Council Tax	Lewisham element	GLA element	Total Council Tax	Increase in overall Council Tax	Lewisham Annual income forgone
	£	**£**	**£**	**%**	**£m**
4.99% increase	1,492.13	434.14	1,926.27	6.02	-
3.99% increase	1,477.92	434.14	1,912.06	5.24	-1.263
2.99% increase	1,463.71	434.14	1,897.85	4.46	-2.525
1.99% increase	1,449.49	434.14	1,883.63	3.68	-3.788
1.00% increase	1,435.42	434.14	1,869.56	2.90	-5.038
0.50% increase	1,428.32	434.14	1,862.46	2.51	-5.700
Council Tax Freeze	1,421.22	434.14	1,855.36	2.12	-6.300

6.95. In January 2023 at the Council meeting, Council set the Council Tax base for 2023/24 and agreed the maximum incentives available to bring properties back into use including the new policy of removing the 100% discount awarded for a period of four weeks to empty homes – Class C (a substantially empty and unfurnished property). Council also agreed to continue the Council Tax exemption for Care Leavers up to the age of 25 in the Borough and the 25% sanctuary discount to residents currently in receipt of a single person discount who accommodate a refugee in their home.

Levies

6.96. There are three bodies which charge a levy against Lewisham's Council Tax: the London Pensions Fund Authority (LPFA); the Environment Agency; and the Lee Valley Park Authority. No formal notification from these bodies has been received, and officers have estimated the levies and assumed no change. The details of these levies are provided in Appendix Y6.

Overall Budget Position for 2023/24

6.97. For 2023/24, the overall budget position for the Council is an assumed General Fund Budget Requirement of £263.679m, as set out in Table D6 below:

Table A4 - Overall Budget Position for 2023/24

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Settlement Funding Assessment (SFA) for 2023/24	(131.106)	
Council Tax 2023/24 at 4.99% increase	(132.574)	
Assumed Budget Requirement for 2023/24		**(263.679)**
Base Budget for 2022/23	248.610	
Plus: Additional Pay inflation 2023/24	7.120	
Plus: Unfunded Pay Inflation 2022/23	4.104	
Plus: Non-pay Inflation	5.000	
Plus: Budget pressures to be funded	18.022	
Plus: Energy	3.267	
Plus: Adult Social Care Precept	2.525	
Less: Uplift in Social Care Grant 2022/23*	(1.899)	
Less: Net uplift in Social Care Grant 2023/24*	(8.203)	
Less: Net Market Sustainability and Improvement Fund*	(2.280)	
Less: Budget reductions proposed for 2023/24	(12.587)	
Total		**263.679**

***Note:** the uplift in Social Care grant and Market Sustainability and Improvement Fund grants will be fully applied to growth and pressures within social care in accordance with the provisional Local Government Finance Settlement but not built into the net base budget requirement.

6.98. The statutory calculation for the 2023/24 budget requirement is attached to this report at Appendix Y6.

6.99. At this time, on the budget assumptions for the General Fund set out above, no use of reserves is required for 2023/24 to enable the Council to set a balanced budget.

Fees and Charges – 2023/24

6.100. Lewisham Council is involved in a wide range of services and the ability to charge for some of these services has always been a key funding source to support the cost of providing the service. The Local Government Act 2000 gave local authorities a wide power to act for the economic, social and environmental well-being of their areas. The general power to charge for discretionary services was included in the Local Government Act 2003.

6.101. The Fees and Charges report aims to ensure a structured, transparent process to review and approve the proposed fees and charges for the coming financial year. The report setting out the fees and charges for 2023/24 and the relevant service commentary are included at Appendix Y8.

Use of Provisions and Reserves

6.102. If the need should arise to balance the budget for any in-year pressures using reserves, the Executive Director for Corporate Resources advises that ongoing 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.

6.103. In addition to the above, as part of the accounts closing process, the ability for the Council to replenish reserves for ongoing work planned for over more than one year and the impact of any risks will be reviewed and assessed and reported on. These risks include:

- Agreed budget reduction proposals experience delays or are not delivered;
- Service pressures cause overspends;
- Transformation and change projects overrun;
- Capital programme overruns hit revenue; and
- Further savings are not identified, putting strain on future budgets.

6.104. Further discussion of the use of reserves and planning for future budgets will be reviewed and brought back for Member consideration as part of the next Medium Term Financial Strategy update in July 2023.

7. Other grants and future years' budget strategy

7.1. This section of the report considers the other funding streams which the Council currently receives and implications for future years. The critical point for the budget is that spend of these grants is managed by the Council to ensure commitments are maintained within the resources available. This is to avoid putting pressure on the General Fund.

7.2. These other funding streams are Public Health, Better Care Fund, and various other grants. This section of the report is structured as follows:

- New Homes Bonus;
- Better Care Fund and improved Better Care Fund 2023/24;
- Discharge Fund;
- Public Health Grant 2023/24;
- Social Care Grant;
- Adult Social Care Precept;
- Market Sustainability and Improvement Fund;
- Services Grant;
- LCTS Administration Support Grant; and
- UK Shared Prosperity Fund

New Homes Bonus

7.3. 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 Ministry of Housing, Communities and Local Government (MHCLG) has been paying the NHB as un-ringfenced grant to enable local authorities to decide how to spend the funding. The scheme design sets some guidance about the priorities that spend should be focused on, in that it is being provided to 'help deliver the vision and objectives of the community and the spatial strategy for the area and in line with local community wishes'.

7.4. In the provisional Local Government Finance Settlement statement, the Secretary of State announced that for 2023/24 the NHB would 'roll forward' for one more year but without legacy payments.

7.5. The provisional allocation for 2023/24 in Lewisham is £0.114m, this is a significant reduction on the £1.011m received in 2022/23 as a result of the loss of legacy payments. Given the reducing and uncertain nature of this funding the NHB is being treated as one off monies to be used to support energy costs above the growth built into base, not recurring spend.

Better Care Fund and improved Better Care Fund

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

7.7. For Lewisham the value in 2022/23 is £25.972m, increased from the £24.581m in 2021/22, the Council's share of this is £10.730m in 2022/23. The allocation for 2023/24 is expected to be at least the same although local allocations have yet to be confirmed. The local plan must be agreed with the Integrated Care Board (which replaces the Lewisham Clinical Commissioning Group (CCG)), and will require the approval of NHS England.

7.8. The Fund must be used in accordance with the final approved plan and through a section 75 pooled fund agreement. The full value of the element of the Fund linked to non-elective admissions reduction target is be paid over to Lewisham ICB at the start of the financial year. However, the ICB 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 ICB may only release into the pool a part of that funding proportionate to the partial achievement of the target. Any part of this funding that is not released into the pool due to the target not being met must be dealt with in accordance with NHS England requirements. The partners have agreed contingency arrangements to address this risk and they will continue into 2023/24.

7.9. In 2017/18, the government also introduced the improved Better Care Fund (iBCF) to work alongside the BCF. The iBCF in 2022/23 was £14.941m, a small increase from the 2021/22 funding of £14.502m, with the formerly separate winter pressures funding included. This grant has not been increased for 2023/24, this is intended to fund adult social care activity. Plans for its use in 2023/24 will also require the agreement of the local ICB. The grant is likely to be spent in substantially the same way as in 2022/23.

Discharge Fund

7.10. The Provisional Local Government Finance Settlement announced a new grant, the Discharge Fund, ring fenced for ASC and intended to support capacity and discharge. Whilst this is a new grant allocation it is expected as to a like-for-like replacement of existing funding currently made available from the ICB for discharge pressures and is therefore not being allocated in 2023/24 towards new ASC pressures.

Public Health Grant

7.11. In 2022/23 the Council's allocation for Public Health Grant is £26.1m, an increase from the 2021/22 allocation of £25.4m. The 2021 Spending Review indicated that this is expected to rise by inflation in 2023/24 but allocations have not yet been published.

7.12. The grant remains ring-fenced and the agreed commitment of these funds will therefore need to be reviewed annually by the Director of Public Health in consultation with the section 151 officer.

Social Care Grant

7.13. The provisional Local Government finance settlement in December 2022 committed £1,506m more for Social Care grant nationally for 2023/24. This has increased Lewisham's grant from £14.622m in 2022/23 to £23.4m in 2023/24 (a 60% increase) with the discretion to spend this on both adults and children social care. However, the Independent Living Fund of £0.577m has been rolled into the Social Care Grant, meaning that the net increase is £8.2m. The budget proposes that the increase be used in 2023/24 to fund pressures within both Children's and Adults Social Care, including salary and non-salary inflation pressures. The detail is set out in the allocation of resources to pressures in section 6 above.

Social Care Precept

7.14. The 2% precept on Council Tax for social care (expected to be £2.525m in 2023/24) will be used to address the increased levels of packages of care required in Adult Social Care as well as the changing and increased complexity of the care needs.

Lower Tier Services Grant

7.15. The Lower Tier Services Grant for 2022/23 is £0.802m, however, this has been withdrawn in 2023/24. Given the once off nature of this grant the Council had not used it to fund ongoing services, but rather once off costs and therefore there is no permanent budget pressure arising from its loss.

Market Sustainability and Improvement Fund

7.16. In 2021 Government announced wide-ranging and ambitious reform of the adult social care system, intended to protect people from unpredictable costs, offer more choice and control over care received, offers outstanding quality and is accessible to those that need it. This reform must be underpinned by a sustainable care market. To support this ambition and fund the implementation of the reforms government announced an additional £1.4bn of funding over the next three years. For Lewisham in 2022/23 this is a grant allocation of £0.923m. This funding will be ring-fenced for Adult Social Care pressures arising from the implementation of the reforms to support the care market. While the ASC funding reforms have been pushed back to October 2025 (as set out in the Autumn Statement), the existing £162m Market Sustainability and Fair Cost of Care Fund has been combined with the £400m of ringfenced new funding, also set out in the Autumn Statement. Funding will be distributed using the ASC relative needs formula, and for Lewisham this equates to £3.2m of funding, or £2.3m of net new funding. The government expects this new grant funding to enable local authorities to make tangible improvements to adult social care in particular to address discharge delays, social care waiting times, low fee rates and workforce pressures in the adult social care sector. As with the additional iBCF funding, there will be reporting requirements placed on the new Adult Social Care Grant against these objectives.

Services Grant

7.17. The Services grant was introduced in 2022/23 and the Council allocation was £6.6m. The Department of Levelling Up Communities and Housing (DLUCH) explicitly stated that the Services Grant is a once-off funding source and will not be taken into consideration for transitional protection or as part of our core funding when the Fair Funding Review takes place, with likelihood of funding to be directed out of London. As such, this funding was not used to support our baseline funding requirement but instead provided us with once-off capacity to manage the financial risks we were carrying. Whilst there has been a second year allocation of this, it has significantly reduced to £3.7m for 2023/24. Again the Council will not rely on this grant for ongoing budget funding and will utilise it to support energy costs and other once off pressures funding as set out in section 6 above.

LCTS Administration Support Grant

7.18. The Council has been in receipt of the LCTS Administration Support Grant for a number of years. The 2022/23 allocation is £0.4m. The provisional Local Government Finance Settlement announced that this grant is being rolled up into the Settlement Funding Assessment, which is not ringfenced. The loss of this specific grant is being treated as a pressure within the 2023/24 budget to ensure that the specific support remains within the services budget.

UK Shared Prosperity Fund

7.19. In 2022 the Government launched the UK Shared Prosperity Fund (UKSPF). This provides £2.6billion of funding for local investment across the UK by March 2025. It forms part of the Government's Levelling Up agenda and is intended as the replacement for funding which previously came through the European Union (e.g. European Social Fund). The Government has made an allocation to each local authority area in the UK. In London, the GLA are the lead for UKSPF.

7.20. The GLA prepared an Investment Plan for UKSPF in London, in line with the funding priorities set by the Government. This plan was approved by the Government in December 2022. This has allowed the GLA to make allocations of funding to London boroughs. For Lewisham the GLA is proposing to allocate grant funding of £1.92m to be spent by March 2025. This is a mixture of capital (£977k) and revenue (£943k) funding. The funding is allocated to the following activities, in line with the GLA's overall investment plan for London and the investment priorities set by the Government:

- Communities and Place: £977,467 capital and £472,936 revenue – creating or improving commercial workspace; supporting vibrant town centres and high streets; addressing the cost of living; enabling social action and community activation
- Supporting local businesses: £469,891 revenue – providing outreach, advice and support to local enterprises and potential entrepreneurs

7.21. Further UKSPF for the People and Skills investment priority is expected from April 2024. This is being allocated by the GLA to sub-regional partnerships, in Lewisham's case this is Central London Forward. It is anticipated that CLF will allocate a proportion of this funding directly to boroughs. This funding would be used to support local residents in to employment through services such as Lewisham Works.

7.22. The GLA will provide a grant funding agreement before the end of the financial year. Approval is sought to accept the funding allocation from the GLA and CLF, subject to review of the grant funding agreements.

8. Dedicated schools grant and pupil premium

Update on 2022/23 Dedicated Schools Grant

8.1. The gross level of the Dedicated Schools' Grant (DSG) for 2022/23 is £319.387m (this includes the supplementary grant of £2.632m), following the adjustment undertaken by the DfE to recoup funding for Academy Schools and the adjustment necessary for the inter-borough use of high needs places, the net budget is £275.063m.

8.2. Overall, the 2022/23 DSG outturn is currently expected to be overspent by between £4m to £6m as a consequence of the pressure on the High Needs Block, this increases the cumulative position to circa £16m as £11m cumulative has been brought forward from 2021/22. Officers within the CYP directorate are progressing a detailed mitigation plan, the basis of which will be used to develop a Management Action Plan for submission to the DfE, this is a requirement where an overspend is forecast. The mitigation plan is being progressed in partnership with the Schools Forum, and this includes a working group of Head teacher representatives and Officers. Lewisham will also be working with the DfE as part of the Delivering better value initiative commencing summer 2023, which should further support the local mitigation plan. It should be noted that Lewisham is one of 55 LAs in the delivering better value initiative. LAs with larger deficit are part of more enhanced initiatives including "safety valve".

8.3. Whilst the additional funding is welcomed, schools remain concerned that the increases are not sufficient to fund the current cost of living crisis/pressures arising in schools e.g. pay award of 5% in 2022/23 with a further 3% in 2023/24, energy crisis, increase in school meals cost and other contractual commitments, which are currently in line with inflation (i.e. circa 10%). The same applies to budgets managed by the LA, including HNB and CSSB.

8.4. The Schools Finance Team (SFT) will continue to work with schools in developing sustainable budget plans. These plans now incorporate management metrics which have been developed to enable schools to be more strategic in their approach to setting and managing budgets. For example, these metrics allow schools to compare and benchmark their resource deployment on leadership, teaching, support administration, and contact time to name a few. In 2020/21, the SFT launched a process known as Deficit Prevention Plans which enable schools to work effectively towards a 3-year balanced budget position, and the feedback from schools has been very positive, this approach continues. We are working effectively with the DfE to support those schools from the DfE funded School Resources Management Advisers Programme (SRMA) initiative. In 2022/23, 6 schools were supported as part of this initiative with a further 5 schools planned over the next 6 months.

Dedicated Schools' Grant and Pupil Premium for 2023/24

8.5. This section of the report considers the Dedicated Schools' Grant (DSG) and the Pupil Premium Grant for 2023/24.

8.6. The Dedicated Schools Grant is the main source of funding for Schools and Early Year Providers. The grant is constituted of four parts, the Schools Block, Central Services Schools Block (CSSB), High Needs Block (HNB), and the Early Years Block (EYB). There is a national funding formula which determines each of the blocks and collectively determines the overall DSG. The gross allocation of DSG for 2023/24 is £337.776m, this includes the streamlining of the supplementary grant and the teacher's pay and pension grant, resulting in a net increase of circa £20m.

8.7. It should be noted that this is the gross DSG allocation before the adjustment undertaken by the DfE to recoup funding for Academy Schools and the adjustment necessary for the inter-borough use of high needs places.

8.8. The Schools Block is the main basis to support the Schools Delegated budget share. There is an overall increase of £11.4m, which includes the streamlining of the supplementary grant (circa £6m).

8.9. The High Needs Block, which supports SEND, remains under continued financial strain, despite the net increase in funding of circa £7m. A point to note is that the pupil led funding is based on pupils in special schools and units. As the Council's mitigation strategy progresses towards more in house provision, funding should also improve which is a double benefit as costs would also reduce from in house provision. Lewisham will the part of the DfE delivering better value initiative from 2023/24, which will further support the current mitigation strategy.

8.10. The Central School Services Block has again been reduced in 2023/24, with a reduction of £0.4m from 2022/23. There is an expectation that this will continue to reduce year-on-year. This reduces the funding available to support Local Authority Statutory functions. The service is currently working with Schools to consider how the delivery of Statutory and Regulatory services can be met within the reduced funding levels.

8.11. Early Years Funding – the funding for this area remains provisional subject to a pupil data cleansing exercise based on January 2023, as such the final budget will not be known until the summer of 2023, which is in line with previous years. The DfE utilised the estimated 2022/23 position data for the indicative settlement. This includes an increase in the hourly rate for 3-4 year olds from £6.04 to £6.33 (4.8%) and for 2 year olds £6.87 to £7.52 (9%). Schools forum at its meeting on 19th January 2023 approved the distribution of the funding between hourly rate paid to providers, inclusion fund, deprivation fund and central holdback, in compliance with the current local determination. The increased funding is mainly targeted to support providers whilst continuing to build on support for an inclusion fund, which plays an important part in the Early Help and prevention strategy.

8.12. The pupil premium will continue in the 2023/24 financial year. Funding rates are confirmed to increase by circa 5%, however the school-by-school final allocation will be advised in the summer 2023. For reference the allocation for 2022/23 was £14.7m.

8.13. As part of the autumn statement (2022), the DfE has confirmed £7.8m increase for mainstream schools as a specific grant and £3.2m to support the high need block.

8.14. Whilst there is extra funding in the settlement, many costs are rising by more than funding, exasperated further where pupil numbers are falling. Schools continue to face pressures in their budgets, for example, salary increments – circa 8% over two years, non-teaching pay increase – circa 10%, contract price increases including utilities, school meals etc at inflationary or above levels.

8.15. Table B1 below sets out the gross DSG provisional allocation (incorporating streamlined grant and additional funding from the autumn statement)

Table B1: DSG Allocation

	Schools block (£m)	Central school services block (£m)	High needs block (£m)	Early years block (£m)	Total DSG allocation (£m)
	A	B	C	D	E=A+B+C+D
2023/24	238.630	3.309	77.155	26.283	345.376

2022/23	227.257	3.693	70.124	24.501	325.576
Movement	11.372	-0.385	7.031	1.782	19.800

*to facilitate a like-for-like comparison, the effect of the supplementary grant, teacher's pay and pension grant and the additional funding from the autumn statement have all be factored in the table above.

Pupil Numbers

8.16. The total changes in pupil numbers are as shown in table B2 below. Overall, there is a net reduction in numbers of 227, which, whilst relatively small at present, is the fifth consecutive year of fall and a risk for the schools concerned as funding for schools is driven by pupil numbers and associated characteristics (e.g. Free School Meals). This reduction in numbers could potentially have implications for those schools directly affected.

8.17. The primary numbers are continuing to decrease year-on-year with the secondary schools now benefitting from the previous primary school bulge classes/expansions now feeding into the secondary schools. Also, more secondary school aged children choosing to stay in Lewisham secondary schools.

Table B2: Pupil Numbers

	Oct-22	Oct-21	Change No	Change %
Primary	22,551.50	23,003.00	-451	-1.961%
Secondary	11,627.50	11,403.50	224	1.964%
Net	**34,179.00**	**34,406.50**	**-227**	**-0.659%**

High Needs Block

8.18. The 2023/24 allocation for Lewisham is an overall net increase of £7m, which against the 2022/23 allocation of £70.124m is an 10% increase, £500k of this increase relates to increase in pupil numbers in special schools settings.

8.19. It is expected that the High Needs Block will overspend for 2022/23 by up to £6m which will be the first call on this budget. In addition to this there remains a £11m overspend brought forward from 2021/22, providing a revised cumulative overspend position of circa £16m. There is a mitigation plan in place that is being progressed with Schools Forum. This will be further supported by the delivering better value DfE sponsored initiative.

Potential Risks

8.1. As set out in this section, there remain a number of risks in respect of funding for schools. These include:

- Impact of any overspends and the resultant requirement to establish a deficit recovery plan if the overspend is greater than 1%. In the event that the deficit cannot be contained, this pressure could potentially fall on the Schools Block, or potentially the General Fund triggering a review of services within CYP;

- In 2019, the DfE introduced changes which now mean that where schools have deficits, these must be held against the overall schools reserves not exceeding 40%. However, if, on conversion to an academy, a school has a deficit this must supported by the local authority;
- Schools continue to face pressures arising from changes in policy. Examples include teachers' pay awards, support staff pay award, and pension's changes. This could have varying degree of impact for Schools;
- Budget plans from Schools suggest that some are operating with a structural deficit dependent on reserves. Schools Finance are working with these schools to mitigate this risk;
- The rising costs of utilities and other pressures, e.g. increase in contracts such as school meals has not been recognised in the funding allocations, and schools may struggle to meet these costs over the coming year; and
- The forecast level of inflation may mean that contract uplifts and potential pay awards will continue to outstrip the increases in the funding allocations.
- Cost of living crisis for individuals may potentially mean that more children need additional support.

9. Housing Revenue Account (HRA)

9.1. The budgeted expenditure for the HRA in 2023/24 is £257.1m, including the capital and full new build programme.

9.2. It is structured as follows:
- Update on the HRA financial position for 2022/23;
- Update on the HRA Business Plan; and
- Future Years' Forecast.

Update on the HRA financial position for 2022/23

9.3. The HRA is budgeted to spend over £100m in 2022/23. The latest forecast on the HRA for 2022/23, is that net expenditure can be contained within budget by the year end. There are currently reported pressures in both income and expenditure 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

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

9.5. The plan underwent a major revision in 2015 for a 1% reduction in social rents applied each year for four years from 2016/17 to 2019/20. The impact of the change was a loss of actual rental income of £2.8m when measured against the actual rent roll for the 4 financial years. A loss of £25m against the budgeted resources for the same period and an overall loss of resources assessed at £374.0m over the life of the 30 year business plan.

9.6. Subsequently, from April 2020 government lifted the rent reduction policy and allowed councils with social housing stock to return to the previous method of rent increase calculations to at least 2025.This method of rent increase is based on CPI + 1%, which was the Government's policy for rent increases. This method had been implemented in Lewisham and became effective for rental increases applied from April 2020 onwards.

9.7. However, due to the current cost of living crises and current high inflation which would impact on rent increases, Government issued a consultation in September 2022 seeking opinion from Local Authorities on capping rent increases for 2023/24 to 3%, 5% or 7%, or to allow increases to follow the policy guidance of CPI + 1%. Any capping of increases would result in a loss to the HRA. The consultation closed on 12th October 2022.

9.8. The council responded to the consultation and agreed that, like local authorities across London and the country, we were very concerned about the impact of the cost of living crisis on residents and that we are doing everything we can to support residents, target help at those who need it most and that it is right that something is done to protect social housing tenants.

9.9. However, we face significant challenges in doing so and that without further support from Government to mitigate the funding gap, the imposition of a rent cap will severely impact on our ability to maintain decent homes, maintain and invest in our existing stock, meet building safety and new regulatory requirements and continue building new social homes.

9.10. It was imperative that the Government recognise the financial pressures on Councils and provide us with additional funding. Significant financial pressures are already bearing down on local authority HRAs. Primarily these pressures have been driven by the previous policy to reduce social housing rents by 1% for four years from 2016/17 but have also been compounded by the impacts of the COVID-19 pandemic, rising inflation impacting on the HRA cost-base and increasing demands on funding as noted above whilst continuing to achieve a balanced HRA.

9.11. While it is essential that rents increases are kept as low as possible, any cap in rent increases should be accompanied by additional funding from the Government, via a grant of some kind or through re-opening of the HRA self-financing settlement, in order to allow housing providers to continue to invest in their stock and meet their obligations.

9.12. The government's response to the consultation was to confirm and issue a notice to the regulator of social housing to cap rent increase to a maximum of 7%, without additional funding to housing providers.

9.13. We therefore propose to increase rents by an average 7% for 2023/24. We would have liked to have been able to propose a lower increase but, without additional funding from Government, this would have resulted in unsustainable pressures on the HRA and left us unable to carry out essential works to buildings. This results in an average increase of £7.22pw over a 52 week period. This will increase the full year average dwelling rent for the London Borough of Lewisham HRA stock (as at April 2022) from £103.25pw to £110.47pw.

9.14. The HRA financial model has therefore been updated with current government directions to cap rental increases to a maximum of 7% for financial year 2023/23, rather than using the standard formula rent calculation which would have resulted in a rental increase of 11.1%. The capped rental increase has resulted in a loss of resources to the HRA account of £3.0m for 2023/24 and £160m for the 30 year life of

the business plan when compared to rental increases based on CPI + 1%. Long term rental forecasts are based on the assumption of rent increases based on CPI + 0.5%.

9.15. Following Grenfell, our top priority is to make our blocks safe; we also want to get of all of homes to decent homes standard and, particularly following the tragic case of Awaab Ishaak, make all homes safe from damp and mould. Given the age of much of our stock, these works are costly and will severely impact the HRA. The lack of funding from the government means we are increasingly having to choose which of these crucial works to prioritise.

9.16. There is a further complication in that due to recent legislative changes, leaseholders cannot be recharged for some of the fire remediation works leading to further income losses.

9.17. Sustainability and carbon reduction ambitions, as well as improving thermal comfort for our tenants is another pressure on the HRA.

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

9.19. For financial planning purposes, the HRA is assuming average pay inflation, for the longer term of 2% per annum, based on the Governments CPI Inflation target. Non-pay inflation is also based on the Governments CPI inflation target of 2.0% per annum. In the short term, pay inflation is estimated at 6% for 2023/24 and 4% for 2024/25. Non-pay inflation such as R&M, materials and contract costs are forecast at 10.1% for 2023/24 and 6% for 2024/25.

9.20. In order to protect the business plan and provide the same level of investment and services, any reduction in income will need to be off-set though increased efficiencies and reprioritisation of investment requirements across stock condition and/or development plans.

9.21. A review of current investment needs and priorities has been undertaken, based on updated surveys and inflation estimates. This includes assumptions on future liabilities, such as maintaining decent homes, fire programme, sustainability, planned works and improvements, cuts, and other requirements. These assumptions have been used to inform the resource need and identify potential gaps in funding and opportunities for additional income and grants. Work is continually ongoing to identify and update investment needs. As this work is completed and updated information becomes available, which includes the results of the damp and disrepair MOTs, the resource needs will be updated which may affect future requirements.

9.22. The plan also contains costs associated with the new build programme currently being implemented by the authority. Table C1 provides an illustration of the expected HRA budget for the next five years, which includes the current 7.0% capped rent increase estimates for 2023/24. The HRA debt cap which was imposed when the self-financing regime was implemented (£127.3m) has now been abolished. The HRA will now be subject to prudential borrowing rules (as per the General Fund).

Table C1: Update on the HRA Business Plan

HRA Income & Expenditure Estimates - 5 year Forecast	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Income					

Rental income	(81.4)	(88.1)	(93.5)	(97.3)	(98.9)
Tenants service charge income	(7.0)	(7.5)	(7.6)	(7.7)	(7.7)
Leasehold service charge income	(6.2)	(6.6)	(6.7)	(6.8)	(7.0)
Hostel charges and grant income	(1.5)	(1.5)	(1.5)	(1.6)	(1.6)
Major Works recoveries	(6.2)	(6.3)	(6.4)	(6.5)	(6.7)
Other income	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
Interest earned on balances	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Total Income	**(104.3)**	**(112.0)**	**(117.7)**	**(121.9)**	**(123.9)**
Expenditure					
Management costs	45.7	49.0	47.7	49.2	51.9
Repairs & maintenance	17.1	18.0	18.3	18.5	19.7
PFI Costs	8.2	8.8	9.0	9.2	2.0
Interest & other finance costs	5.6	10.0	14.2	16.1	17.0
Depreciation	26.3	26.8	27.2	27.7	28.2
Revenue Contribution to Capital	0.7	0.0	0.8	0.7	5.0
Total Expenditure	**103.6**	**112.6**	**117.2**	**121.4**	**123.8**
Surplus/(deficit)	**0.7**	**(0.6)**	**0.5**	**0.5**	**0.1**
Opening HRA reserves	8.4	9.1	8.5	9.0	9.5
Contribution to/(Drawdown) from reserves	0.9	(0.6)	0.5	0.4	0.1
Closing HRA Reserves	**9.1**	**8.5**	**9.0**	**9.5**	**9.6**
Forecast Capital Programme & Funding					
Capital programme (including decent Homes)	69.5	70.9	72.3	57.8	55.1
New Build construction & on-going costs	84.0	121.3	74.2	16.5	19.6
Total Capital Expenditure	**153.5**	**192.2**	**146.5**	**74.3**	**74.7**
Capital Programme Funded By:					
MRR Opening Balance	0.0	0.0	0.0	0.0	0.0
Revenue Contribution to Capital	(0.7)	0.0	(0.8)	(0.7)	(5.0)
Depreciation	(26.3)	(26.8)	(27.2)	(27.7)	(28.2)
GLA Grants	(12.3)	(13.3)	(10.0)	(12.4)	0.0
RTB Receipts	(15.5)	(26.0)	(12.9)	(2.1)	(1.0)
Sale Receipts	(1.9)	(1.8)	(7.3)	(21.4)	(2.3)
Other Receipts	0.0	0.0	0.0	0.0	0.0
Borrowing	(96.8)	(192.2)	(88.3)	(10.0)	(38.2)
Total Capital Funding	**(153.5)**	**(188.4)**	**(146.5)**	**(74.3)**	**(74.7)**
Capital shortfall	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
HRA Actual Debt Level (Forecast)	186.8	309.9	396.9	406.8	443.9

Note: The New Build construction costs includes all approved schemes and unapproved pipeline schemes within the programme and may change as scheme assessments progress.

9.23. As can be seen from the above table, the expected total expenditure, before financing, for the HRA in 2023/24 is £257.1m, comprising £103.6m operational costs and £153.5m capital and full new build costs.

9.24. The HRA capital forecasts in the table above differ from the figures presented in section 11 (Table E3). This is because the overall capital programme in section 11 only includes schemes that have been approved by Mayor & Cabinet, whereas the HRA forecast business plan includes both approved schemes and unapproved pipeline schemes.

9.25. The current HRA budget allocations do not yet take account of the in-sourcing of the authorities ALMO, as agreed by Mayor & Cabinet in their meeting of 9th December 2022.

9.26. Plans are currently being drawn-up to facilitate the insourcing of the ALMO including the appropriate timing of the change and once-off costs and savings that may be achieved. A further update will be provided to Mayor & Cabinet once plans are sufficiently progressed.

Future Years' Forecast

9.27. 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, a key priority for the current administration, delivery of new social homes in the borough.

9.28. There is an ongoing process to identify opportunities for efficiencies to deliver services for improved value for money and this is described in Appendix 1. Although no direct savings have been identified so far for 2023/24, any savings and efficiencies delivered against the HRA business model and future budgets can be re-invested to off-set constrained rent rises or to help bridge any investment gap identified. Discussions are ongoing to identify appropriate savings. For example, there is already an assumed reduction in the Lewisham Homes fee in 2023/24 to reflect stock losses through Right to Buy Sales.

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

<u>Rental Income and allowances</u>

9.30. Following completion of the legislative requirements for 4 years of rental contraction, Government confirmed rents would return to the previous method of rent increase calculations for 2020/21 onwards. This was based on the previous formula rent calculation of CPI + 1%, and would be for a minimum 5 year period to financial year 2025/26. For the purpose of business and financial planning, it was assumed that that rental charges will be increased in line with this guidance.

9.31. In line with the formula rent calculation policy, rents would have been expected to rise by 11.1% based on CPI of 10.1% (as at September 2022) + 1% for 2023/24 and CPI + 1% up until 2025.

9.32. An 11.1% increase in average rents for HRA dwelling stock 2023/24 would have equated to an average increase of £11.45pw over a 52 week period. This would have increased the full year average dwelling rent for the London Borough of Lewisham from £103.25pw to £110.47pw. The proposed increase would have resulted in additional income of £8.185m for the HRA against 2022/23 income levels.

9.33. However, due to the current cost of living crises and current high inflation which would impact on rent increases, Government issued a consultation seeking opinion from Local Authorities on capping rent increases for 2023/24 to 3%, 5% or 7%, or to allow increases to follow the policy guidance of CPI + 1%. The capping of increases could take affect for either 1 or 2 years. At the time, Government stated that their preferred preference was for an increase capped at 5%.

9.34. Following the autumn statement on 17th November 2022, Government confirmed that rents would be capped at a maximum increase of 7% for financial year 2023/24. Given the lack of additional funding by the Government, we are therefore proposing to increase by an average 7% for 2023/24. This results in an average increase of £7.22pw over a 52 week period. This will increase the full year average dwelling rent for the London Borough of Lewisham HRA stock (as at April 2022) from £103.25pw to £110.47pw.

9.35. Whilst it is right that rents are kept lower for tenants in these difficult times, without support from the government, lower rents will impact on our ability to invest further in the stock. A capped 7% increase in rents will raise an additional £5.162m, but will be some £3.0m lower than an increase based on CPI + 1% and result in a total of £160.0m of lost resources over the 30 year period of the HRA business plan, which isn't compensated for by the Government.

9.36. It should be noted that the HRA cost base for management and maintenance, materials and capital investment will be inflated based on inflation increases similar to or based on the CPI/RPI output data. In addition, debt interest charges will also increase based on the need to borrow for HRA investment needs and increase in interest rates applied to debt.

9.37. At the present time, for financial planning purposes, the financial models used by the council currently forecast future CPI to be 2.0% annually for the period beyond 2025 and would equate to an annual average increase of 2.5% to be applied to rents. It should be noted that any variation to the forecast CPI rate of 2% would affect the annual average forecasts stated above. The financial model for the HRA is assuming average pay inflation, for the longer term of 2% per annum, based on the Governments CPI Inflation target. Non-pay inflation is also based on the Governments CPI inflation target of 2.0% per annum. In the short term, pay inflation is estimated at 6% for 2023/24 and 4% for 2024/25. Non-pay inflation such as R&M, materials and contract costs are forecast at 10.1% for 2023/24 and 6% for 2024/25.

9.38. A rent rise higher than the rent limit 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.

9.39. Tenants were asked to provide comments and feedback on the proposed rent changes and illustration for inclusion in the Mayor and Cabinet budget report at meetings held with Brockley PFI and Lewisham Homes tenants. Full details of residents' feedback, additional comments received, minutes of meetings and the response to the additional comments received are contained in Appendix X2.

9.40. The main comments received from Lewisham Homes' residents concerning the proposals for rents and garages was that there are issues of affordability given the current cost of living crises and increase in unemployment. The main comments regarding service charges were questioning value for money as charges are increasing but service delivery is not improving.

9.41. Comments received from the RB3 Brockley residents were in a similar vein to the Lewisham Homes residents comments regarding affordability and value for money concerning the proposals for rents, garages and service charges.

9.42. Details of the options for the rent and service charge changes for 2023/24 were presented to the Housing Select Committee on 5th January 2023. The committee noted the contents of the report.

9.43. Having regard to the outcomes of the consultations held in December 2022 as set out above (and with more detail in Appendices X2, X3, and X4), the Mayor is asked to make a recommendation to full Council that a 7.0% rent increase be agreed as per the Governments capped increases for 2023/24. The new average rent for 2023/24 is likely to be in the region of £110.47pw, an increase of approximately £7.22pw from 2022/23 levels.

Other Associated Charges

9.44. 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 2023/24 are set out in detail in Appendix X5 and Appendix X6.

Summary

9.45. The gross budgeted expenditure for the HRA in 2023/24 is £257.1m, £103.6m revenue and £153.5m capital. Mayor and Cabinet is asked to recommend that Council approve a rent increase of 7.0% having considered tenant's feedback following consultation held in December 2022. The current average weekly rent is £103.25 in 2022/23. This will increase to £110.47pw in 2023/24.

10. Treasury Management Strategy

10.1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate, with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

10.3. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either for day-to-day revenue purposes or for larger capital projects. Treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is

paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund.

10.4. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, arising usually from capital expenditure, and are separate from the day to day treasury management activities.

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

10.6. The Council complies with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management which was revised in December 2021 with the new requirements taking affect this year, more information is set out in Appendix Z7. The primary requirements of the CIPFA Code are as follows:

a) Maintenance of a Treasury Management Strategy Statement (TMSS) which sets out the policies and objectives of the Council's treasury management activities;

b) Maintenance of Treasury Management Practices (TMP) which set out the manner in which the Council will seek to achieve those policies and objectives;

c) Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead. During the year there will be a Mid-year Review Report and an Annual Report covering activities during the previous year;

d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;

e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Public Accounts Select Committee;

f) The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report (this is a separate report) which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

g) The aim of the Capital Strategy is to ensure that all the Council's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

10.7. Additionally, this report sets out the current economic conditions in which the Council is operating in respect of its investments and borrowing. It details the Council's treasury performance (focused on security, liquidity and return in that order) and forecast capital position and provides updates on performance against the current Treasury Management Strategy as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

10.8. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

Capital Investment Plans

10.9. The Treasury Management Strategy for 2023/24 incorporates the capital plans of the Council, which are a key driver of treasury management activity. The output of capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

10.10. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet service activity and the Council's Capital Strategy. This involves both the management and monitoring of cash flows and, where capital plans require, the arrangement of appropriate borrowing facilities.

Capital Strategy

10.11. The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to produce a Capital Strategy, which will provide the following:

- A high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- An overview of how the associated risk is managed; and
- The implications for future financial sustainability.

10.12. The aim of the strategy is to ensure that all elected Members on full Council fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

10.13. The Capital Strategy is reported separately from the Treasury Management Strategy; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Strategy shows:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- For non-loan type investments, the cost against the current market value; and
- The risks associated with each activity.

Capital Position (Prudential Indicators)

10.14. Forward projections for borrowing as at 31 March 2023 are summarised below in Table D1, which shows the actual external debt from treasury management operations and other long-term liabilities against the underlying capital borrowing need (the Capital Financing Requirement - CFR) which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, and its underlying borrowing requirements.

Capital Expenditure and Financing

10.15. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Table D1: Capital Expenditure forecast

Capital expenditure Forecast	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	£m	£m	£m	£m
Non-HRA	45.0	51.4	16.6	14.4
HRA	140.1	142.0	149.5	91.0
Total	**185.1**	**193.4**	**166.1**	**105.4**

10.16. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table D2: Capital financing forecast

Capital financing forecast	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	£m	£m	£m	£m
Grants	12.6	13.1	7.3	3.4
S106 & CIL	5.7	6.6	4.2	0
Capital Reserves	10.5	5.3	0.5	0.3
Corporate Reserves	4.3	3.2	0.3	0
Capital Receipts	4.5	1.1	3.2	10.1
Prudential Borrowing	7.4	20.1	1.1	0.6
General Fund	**45.0**	**51.4**	**16.6**	**14.4**
Grants	32.9	25.3	29.1	12.1
S106 & CIL	0	0	0.2	0.4
Capital Reserves & Revenue Contribution	50.7	27.0	26.8	28.1
Capital Receipts	20.4	1.7	1.3	3.9
Prudential Borrowing	36.1	88.0	92.1	46.6
HRA	**140.1**	**142.0**	**149.5**	**91.0**
Total	**185.1**	**193.4**	**166.1**	**105.4**

10.17. The Council's Borrowing Need or CFR (Capital Financing Requirement) is shown below:

Table D3: External Debt Projections

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
External Debt at 1 April	224.9	216.7	254.5	353.8	434.9
Expected change in External Debt	(8.2)	37.8	98.7	80.8	34.0
Other Long-Term Liabilities	203.4	209.8	198.4	186.1	172.2
Gross Debt at 31 March	**420.0**	**464.3**	**551.6**	**621.7**	**641.2**
CFR - HRA	55.5	91.6	176.9	262.7	303.1
CFR – General Fund and Other Long-Term Liabilities	451.7	454.5	469.7	465.7	461.5
Total Capital Financing Requirement at 31 March*	**505.1**	**546.1**	**646.6**	**728.5**	**764.6**
Borrowing – over / (under)	**(85.1)**	**(81.8)**	**(94.4)**	**(107.8)**	**(122.9)**

***The Capital Financing Requirement includes the prudential borrowing figures shown in the 2023/24 Capital Strategy. There is a risk given the scale and ambition of the capital programme, particularly in the HRA. We will ensure that we only borrow as the need arises.

10.18. Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

10.19. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

10.20. The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes.

Limits to Borrowing Activity

10.21. There are two measures of limiting external debt; the 'operational boundary' and 'authorised limit for external debt', which the Council reports on as part of its prudential indicators. Both are described in further detail in the following paragraphs.

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

10.22. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending

on the levels of actual debt and the ability to fund under-borrowing by other cash resources. The Council's operational boundary is set out in Table D3.

Table D3: Operational Boundary

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Maximum External Debt at 31 March	254.5	353.2	434.9	69.0
Other Long-Term Liabilities	209.8	198.4	186.1	172.2
Provision for Non Receipt of Expected Income	56.0	56.0	56.0	56.0
Operational Boundary for Year	**520.3**	**607.6**	**677.0**	**697.2**

The Authorised Limit for External Debt

10.23. This key indicator represents a control on the maximum level of borrowing, and provides a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term but is not sustainable in the longer term.

10.24. This is a statutory limit determined under Section 3(1) of the Local Government Act 2003 and needs to be set and revised by full Council. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

10.25. The authorised limits are as set out in Table D4.

Table S4: Authorised Limits for External Debt

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Operational Boundary for Year	**520.3**	**607.6**	**677.0**	**697.2**
Additional 10% Margin	52.0	60.8	67.7	69.7
Authorised Limit for Year	**572.3**	**668.4**	**744.7**	**766.9**

Liability Benchmark

10.26. A new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

10.27. There are four components to the LB: -

1. Existing loan debt outstanding: the Council's existing loans that are still outstanding in future years.

2. Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

3. Net loans requirement: this will show the Council's gross loan debt at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Table D5: Liability Benchmark

London Borough of Lewisham Liability Benchmark				
	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Capital Financing Requirement (CFR)				
General Fund	454.5	469.7	465.7	461.5
Housing Revenue Account (HRA)	91.6	176.9	262.7	303.1
Capital Financing Requirement	**546.1**	**646.6**	**728.4**	**764.6**
PFI Liabilities	(193.2)	(182.4)	(170.7)	(157.3)
Finance Lease Liabilities	(16.6)	(16.0)	(15.5)	(14.9)
Underlying Borrowing Requirement	**336.3**	**448.1**	**542.3**	**592.4**
External Borrowing	(216.7)	(254.5)	(353.8)	(434.6)
Loan Repayments	1.1	1.1	1.1	1.1
External Borrowing	(38.9)	(100.4)	(81.9)	(36.2)
Under / (Over) Borrowing	**(254.5)**	**(353.8)**	**(434.6)**	**(469.6)**
Underborrowing as a % of Underlying Borrowing Requirement	**81.8**	**94.9**	**107.8**	**122.9**

Minimum Revenue Provision (MRP) Policy

10.28. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision – VRP). The MRP must be determined by the Council as being a prudent provision having regard to the DLUHC (Department for Levelling Up, Housing and Communities) (previously MHCLG) Statutory Guidance on Minimum Revenue Provision.

10.29. 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.

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

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

10.31. In 2017/18, a third element was added to the Council's MRP policy, whereby no MRP need be charged on capital expenditure where the Council has assessed that sufficient collateral is held at a current valuation to meet the outstanding CFR liability, and that should it be determined at any point that insufficient collateral is held to match the Council's CFR liability, a prudent MRP charge will commence.

10.32. In 2019/20 the Council commissioned an independent review of its current MRP policy to ensure it is fit for current and future spending plans, as well as a review of historic calculations and a reconciliation to the CFR to identify any potential efficiencies. The review was undertaken by the Council's treasury advisors, Link Group.

10.33. The Council implemented one of the recommendations from the report from 2019/20 onwards, specifically to adjust for an historic overcharging of MRP from 2003/04 as a result of a miscalculation in the 'Adjustment A' figure (an accounting adjustment designed to ensure minimal changes in liability when new capital financing regulations were introduced in 2003/04). The Prudential Code allows for MRP to be reduced appropriately, in line with an authority's own judgement, where Adjustment A reflects an error that increases the current MRP liability. As such, the Council reduced its ongoing liability by reducing its MRP charge to account for the higher Adjustment A figure, whilst additionally offsetting current and future years' MRP charges to recover the historic overcharging since 2003/04.

10.34. Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).The value of the overcharge has been Cumulative VRP overpayments made as at 31 March 2022 is £7.1m.

10.35. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

10.36. Capital expenditure incurred during the year will not be subject to an MRP charge until the following year, or in the year after the asset becomes operational.

10.37. MRP in respect of assets acquired under Finance Leases or PFI will be charged at an amount equal to the principal element of the annual repayment.

10.38. For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Borrowing, Treasury Indicators and Debt Rescheduling
Borrowing Strategy

10.39. The Council's external debt as at 31 March 2023, gross borrowing plus long term liabilities, is expected to be £464.34m. The Council's borrowing strategy is consistent with last year's strategy. The Council is currently maintaining an under-borrowed position in that the CFR is not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as an alternative funding measure. In the current economic climate, this strategy is considered prudent while investment returns are low and counterparty risk remains an issue to be considered.

10.40. The Executive Director for Corporate Resources 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 long and short term rates then long term borrowing will be postponed and potential rescheduling from fixed rate funding into short-term borrowing considered. Any such decisions would be reported to Mayor and Cabinet and subsequently Council, at the next available opportunity.

10.41. Alternatively, if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast (perhaps arising from an acceleration in rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks) then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in future years. Once again, any such decisions would be reported to Mayor and Cabinet and subsequently Council, at the next available opportunity.

Policy on Borrowing in Advance of Need

10.42. 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 forward 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.

Debt Rescheduling

10.43. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

10.44. If rescheduling is to be undertaken, it will be reported to the Mayor and Cabinet at the earliest meeting following its action.

Sources of borrowing

10.45. The approved sources of long-term and short-term borrowing are:

1. HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
2. any institution approved for investments (see below)
3. any other bank or building society authorised to operate in the UK
4. any other UK public sector body
5. UK public and private sector pension funds (except Lewisham Pension Fund)
6. UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
7. investors in capital market bonds and retail bonds issued by the Council
8. individuals lending via a peer-to-peer platform where appropriate Individuals lending via a peer-to-peer platform where any necessary counterparty checks (for example proof of identity or money laundering requirements) are conducted by the platform
9. investors in capital market bonds and retail bonds issued by the Council

10.46. Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

1. Leasing
2. Hire purchase
3. Private Finance Initiative
4. Sale and leaseback

Treasury Indicators

10.47. There are three debt-related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing 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.

10.48. 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; and
- 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.

10.49. The treasury indicators and limits are set out in the table below:

Table D6: Limits of Interest Rates

Limits on Interest Rate Exposures	2023/24	2024/25	2025/26
	Upper	**Upper**	**Upper**
Limits on fixed interest rates: • **Debt** • **Investments*:**	 100% 90%	 100% 90%	 100% 90%
Limits on variable interest rates • **Debt** • **Investments***	 15% 50%	 15% 50%	 15% 50%
* For this calculation short term investments (less than 12 months) are treated as fixed interest rates. Money Market Funds are included in investments.			
Limits on Maturity Structure of Fixed Interest Rate Borrowing 2022/23			
		Lower	**Upper**
Under 12 months		0%	10%
12 months to 2 years		0%	10%
2 years to 5 years		0%	10%
5 years to 10 years		0%	25%
10 years to 20 years		0%	25%
20 years to 30 years		0%	25%
30 years to 40 years		0%	50%
40 years to 50 years		0%	60%
Limits on Maturity Structure of Variable Interest Rate Borrowing 2022/23			
		Lower	**Upper**
30 years to 40 years		0%	60%
40 years to 50 years		0%	40%

Long Term Investments Indicator

10.50. This indicator sets a limit on the total principal funds invested for greater than 365 days. This limit is set with regard to the Council's liquidity requirements and to manage the risks associated with the possibility of loss which may arise as a result of having to seek early repayment, or redemption of, principal sums invested.

10.51. The indicator is set out in Table 6 below. As at 31 March 2023, the Council is not expected to hold any investments for longer than 365 days.

Table D7: Treasury Indicators and Limits

Maximum Principal Sums Invested for Longer than 365 days			
	2023/24 £m	2024/25 £m	2025/26 £m
Limit on principal sums invested for longer than 365 days	50.0	50.0	50.0

Debt Rescheduling

10.52. As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate efficiencies by switching from long-term debt to short-term debt. However, these efficiencies will need to be considered in light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

10.53. The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cash flow savings;
- Helping to fulfil the Treasury Strategy; and
- Enhancing the balance of the portfolio (to amend the maturity profile and/or the balance of volatility).

10.54. The Council will continue to explore rescheduling opportunities as appropriate in respect of the financing of its PFIs and external loans.

10.55. The Council has £120m of LOBO loans at nominal value as at 31 March 2023 of which £35m will be in their call period in 2023/24 for fixed rate LOBO loans, along with £13.7m of capitalised interest in respect of the stepped LOBO loan. In the event that the lender exercises the option to change the rate or terms of the loans within their call period, the Council will consider the terms being provided and also the option of repayment of the loan without penalty.

10.56. Debt rescheduling opportunities will be monitored on a regular basis and if an opportunity arises to repay borrowing on favourable terms then this will be considered by the Executive Director of Corporate Resources. Any debt rescheduling that takes place will be reported to Mayor and Cabinet and subsequently to Council at the earliest meeting possible.

Annual Investment Strategy
Investment Policy – Management of Risk

10.57. The Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals predominantly with financial instruments (as managed by the Strategic Finance – Treasury Team); non-financial investments, essentially the purchase of income yielding assets, are summarised at the end of this report and covered in detail within the separate Capital Strategy.

10.58. The Council's investment policy has regard to DLUHC's Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"), and CIPFA's Treasury Management Guidance Notes 2021.

10.59. The Council's investment priorities will be security first, liquidity second, then return. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite. In the current economic climate it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also to consider investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

10.60. The Council uses Link Group, Treasury Solutions as its external treasury management advisor. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information including, but not solely, our treasury advisors. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

10.61. The Guidance and CIPFA Treasury Manangement Code place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.
2. **Other information**; ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end, the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings, as well as information on outlooks and watches. 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 2.
3. **Other information sources** used will include the financial press, share prices and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. The Council has defined the list of **types of investment instruments** that the treasury team are authorised to use in the financial year, and these are listed in Appendix 2 under the categories of "specified" and "non-specified" investments:
   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year; and
   - **Non-specified investments** are those with less high credit quality, may be

for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

5. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the credit criteria provided by advisors, and are set out in Appendix 2.
6. **Interest rate limits** are set out in Table 5 above and place restrictions on the exposure to variable and fixed rate investments.
7. The Council has placed a limit on the amount of its investments which are invested for **longer than 365 days** Table 6 above.
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see Appendix Z5).
9. All investments will be denominated in **sterling**.
10. As a result of the change in accounting standards for 2022/23 under IFRS 9, the Council will, on an ongoing basis, consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant changes at the end of the year to the General Fund. (In November 2018 a temporary override allowed local authorities a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government. The Council does not at present have any pooled investments, though has scope to do so as per the creditworthiness policy in Appendix Z2.

10.62. Investments will be made with reference to the core balances and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). In order to maintain sufficient liquidity, the Council will seek to utilise its notice accounts, certificates of deposit, money market funds and short-dated deposits (overnight to three months. The remainder of its investments will be placed in fixed term deposits of up to 24 months to generate improved returns, depending on prevailing market conditions.

10.63. The Council will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Creditworthiness Policy

10.64. The Council's Treasury Team applies the creditworthiness service provided by its advisors Link Group. 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 that may give early warning of changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

10.65. 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 5 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 (CNAV) money market funds and collateralised deposits where the collateral is UK Government debt.
**except for those building societies rated BBB- or higher as set out in the policy.

Country limits

10.66. The Council has determined that it will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix Z5. This list will be added to, or deducted from, by officers should country ratings change in accordance with this policy.

Building Societies

10.67. The Council can invest in UK building societies with a minimum credit rating of BBB- from Fitch (or equivalent), specifically those that are shown on Link Group's lending list only (but which may be rated 'No colour') for a maximum of three months and limited to £20m per institution.

10.68. Very few building societies have credit ratings assigned to them due to the lack of large ticket funding transactions that would warrant a formal credit rating being issued by one of the three main ratings agencies, and only a select few within the top ten by asset size have been issued with one. A credit rating of BBB- remains within the 'investment grade' category, subject to moderate credit risk, which is reflected by the monetary and duration limits as set out above.

10.69. This addition to the strategy was made as a result of economic conditions and the reduced options available for investing at positive yields; in practice it opens up a limited number of two-three additional counterparties for consideration. Officers will continue to monitor the rating movements against these counterparties to ensure that any investments fall within the set criteria.

Prospects for Investment Returns

10.70. Investment returns are likely to remain high during 2023/24 but rates are expected to fall in 2024/25 if the inflation rate is falling. The war in Ukraine has caused huge economic damage to the UK and economies around the world by putting up the costs of food and energy. The inflation rate increased to over 10% which put up the cost of living. The Bank of England has taken strong action by raising the Bank Rate from 0.10% to 3% over the course of eight months and indicated that there could be further rate increase in 2023.

10.71. Money market yields have increased in line with increases in the Bank of England base rate. Additionally, investor cash flow uncertainty.

10.72. The Council uses the services of its advisor, Link Group, to formulate a view on interest rates; their view is that there will be a slowdown in the Bank Rate rises in 2023 and rates will start to fall in 2024/25. It will be at least March 2025 before the UK economic starts to recover and it is expected to be a slow recovery. Given this uncertainty, suggested fixed investment returns are expected to remain high at about 4% and money market funds for short term cash investment will provide a lower return of about 2%.

10.73. In light of these predictions for high returns and the uncertainty in the markets the Council will continues to invest in fixed term deposits of 3 to 12 month duration. The Council assess, with support from its advisors, will look at other investments for 2-3 years so that it may be able to fix into a good rates of return if the interest rates are expected to fall in 2024/25.

10.74. The Council's investment will be reviewed on a regular bases so that it can monitor the Council's liquidity requirements and the requirement for cash towards the capital programme. The capital programme is expected to require funding from the Council as set out in Capital Funding in section 7 of this report. The Council can use the cash from its investments or take out new borrowing to fund the capital programme. Any new investments will be carried out using guidance from the Council's advisors and will continue to meet the objectives of security, liquidity and return.

10.75. A more extensive table of interest rate forecasts for December 2022 onwards, including Public Works Loan Board (PWLB) borrowing rate forecasts, is set out in Appendix Z1.

Non-Treasury Investments

10.76. Treasury management investments represent the placement of cash in relation to the S12 Local Government Act 2003 investment powers, i.e. they represent investments using the residual cash available to the Council from its day to day activities, under security, liquidity and yield principles.

10.77. The Council recognises that non-treasury investments in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful management. Such investments tend to be either:

- Service type investments; whereby capital or revenue cash is advanced for a specific Council objective and will be approved directly through Committee. This may be an advance to a third party for economic regeneration, investments in subsidiaries and joint ventures, etc.
- Commercial type investments; whereby the objective is primarily to generate capital or revenue resources to help facilitate Council services.

10.78. The Council's risk appetite for these investments is reviewed on a case-by-case basis depending on the scale and nature, and strategic fit, of the proposed investment. Where such non-treasury investments exist, they will be identified and summarised at high level within this strategy. The detail and rationale for non-treasury investments are covered in the separate Capital Strategy.

Subsidiary Companies

10.79. The Council has two wholly owned subsidiary companies, Lewisham Homes Limited and Catford Regeneration Partnership Limited (CRPL). It has invested in these subsidiaries as summarised below.

Lewisham Homes Limited

10.80. Lewisham Homes is an arms-length management organisation (ALMO) set up in 2007 as part of the Council's initiative to deliver better housing services and achieve the Decent Homes Standard. The company manages approximately 19,000 homes.

10.81. The Council has to date agreed two separate loan facilities with Lewisham Homes, the first on commercial terms financed from internal borrowing and the second on cost-neutral terms financed through the PWLB. Both loans allow Lewisham Homes to purchase properties to address temporary accommodation needs in the borough, and will be repaid on set maturity dates.

10.82. Agreement of the property acquisition programme and relevant loan agreements was obtained from Mayor and Cabinet. State Aid issues and other risks and mitigations were considered in the approval of the loan facilities, including for the second loan the requirement for collateral against the loan in order to obtain MRP exemption.

10.83. As at 31 March 2023 the Council has advanced all £20m of the commercial loan facility, and all £20m of the agreed facility financed from PWLB debt.

Catford Regeneration Partnership Limited (CRPL)

10.84. The CRPL is a property investment company created in January 2010 which owns the Catford Shopping Centre and several neighbouring properties used to generate income whilst driving forward a regeneration programme for the town centre and surrounding area.

10.85. The Council has existing loan agreements in place with the CRPL, currently on an interest only basis, with interest being capitalised until 2024/25. As at 31 March 2023 the Council expects the outstanding loan principal to be approximately £16.1m.

Other Non-Treasury Investments

Besson Street Joint Venture

10.86. The Council is an equal equity partner in a joint venture with Grainger Plc. to bring forward the development of the currently vacant Besson Street site to provide properties for the Private Rented Sector on long term tenancies. The Council has invested land at this stage and will be required to put forward an estimated £22-27m of cash to make up its share (50%) of the 40% equity, with 60% external long-term borrowing, to be invested once the scheme is built. This is currently forecast to be in 2026/27.

10.87. The Council also holds minority stakes in the following:

- 10% in Lewisham Schools for the Future LEP Limited, a Local Education Partnership established under the Council's Building Schools for the Future (BSF) programme to rebuild and refurbish secondary schools within the borough;
- Less than 1% in South-East London Combined Heat and Power Ltd (SELCHP), a joint venture with the London Borough of Greenwich for the provision of waste disposal and waste to energy processes; and
- A minority share in Newable Ltd (formerly Greater London Enterprise Ltd) which provides property management and consultancy services.

Investment Portfolio (as at 1 January 2023)

10.88. In accordance with the Treasury Management Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information. As set out above, interest rates have been on the rise and the Bank Rate is now at 3.00%. Given the current risk environment and economic uncertainty, investment returns are expected to remain high in 2023/24.

10.89. Money Market Fund (MMF) yields have also increased in line with the increases in the Bank of England base rate. The Money Market Funds are used to invest surplus cash that is then available to meet the needs of the Council to meet its obligations. for cash flow purposes to pau the are still offering a marginally positive return, as are a number of financial institutions. The increase to the Bank Rate in December 2021 has resulted in a slight increase to interest rates although these remain considerably lower than pre-pandemic levels.

Performance as at 1 January 2023

10.90. The Council is a member of a treasury benchmarking group (organised by Link Asset Services) containing 15 authorities, including 12 other London authorities. An extract from the latest available benchmarking report is shown in Appendix Z3; this shows that the return on investments as at September 2022 is above the benchmarking group model weighted average rate of return, which is adjusted for the risks inherent in the portfolio. The Council's portfolio performance is ahead of the overall benchmarking group, as well as a wider group of 22 London boroughs.

10.91. **Table D8.** A full list of outstanding investments held as at 1 January 2023 is shown below:

Counterparty	Duration (Days)	Value £m	Interest Rate	Interest £
Fixed Rate Investments – Banks and Building Societies				
National Westminster Bank PLC (RFB)	364	10.0	1.03%	£102,718
DBS Bank Ltd.	364	5.0	0.95%	£47,500
Goldman Sachs International Bank	184	20.0	2.94%	£296,416
Standard Chartered Bank	184	5.0	3.02%	£76,121
National Westminster Bank PLC (RFB)	181	20.0	3.36%	£333,238
Bank of Montreal	364	15.0	1.83%	£273,748
DBS Bank Ltd.	182	5.0	4.10%	£102,219
Toronto-Dominion Bank	364	5.0	1.98%	£99,000
Landesbank Hessen-Thueringen Girozentrale	273	10.0	2.80%	£209,425
Standard Chartered Bank	181	15.0	4.03%	£299,766
Australia and New Zealand Banking Group	365	15.0	2.05%	£306,658
Toronto-Dominion Bank	184	5.0	2.10%	£105,000
DBS Bank Ltd.	365	15.0	2.75%	£412,500
OP Corporate Bank plc	365	25.0	2.95%	£737,500
National Westminster Bank PLC (RFB)	364	10.0	4.75%	£473,699
Australia and New Zealand Banking Group	365	10.0	4.93%	£493,000
Landesbank Hessen-Thueringen Girozentrale	365	15.0	5.07%	£760,500

Counterparty	Duration (Days)	Value £m	Interest Rate	Interest £
Bank of Montreal	364	10.0	4.68%	£468,000
Toronto-Dominion Bank	365	15.0	4.85%	£725,507
Norddeutsche Landesbank Girozentrale	92	15.0	3.80%	£140,548
Variable Rate Investments – Money Markets				
Aberdeen Standard	N/A	30.0	3.28%	N/A
BlackRock	N/A	30.0	3.21%	N/A
Federated Hermes	N/A	30.0	3.26%	N/A
Goldman Sachs	N/A	0.0	3.18%	N/A
Insight	N/A	20.3	3.18%	N/A
TOTAL INVESTMENTS		**355.3**		

10.92. The current investment counterparty criteria as set out in the Credit Worthiness Policy and included at Appendix 2 of this report are meeting the requirements of the treasury management function, although the current low rate environment and the reluctance of banks and building societies to accept new deposits reduces the available pool of counterparties that meet guideline investment rates.

Training

10.93. The CIPFA Code 2021 state that they expect all organisations to have comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

11. Capital Programme

Introduction

11.1. This section highlights the 2022/23 Capital Programme position as at December 2022 and also presents the proposed Capital Programme for 2023/24 to 2026/27.

Update on 2022/23 Capital Programme

11.2. Progress in delivering the 2022/23 Capital Programme has been reported to Mayor and Cabinet and the Public Accounts Select Committee throughout the year. The latest forecast projection was an in year revised budget allocation of £196.7m, reported to Mayor and Cabinet on 11th January 2023 as part of Financial Monitoring P7.

11.3. The revised capital programme budget allocation for the year 2022/23 is now £185.1m to P9, of which £45.0m relates to General Fund schemes and £140.1m to Housing Revenue Account (HRA) schemes. This is summarised in Table E1.

Table E1: Current position of the 2022/23 Capital Programme

2022/23 Capital Programme	Revised Budget - Dec 2022	Spend to Date - 31st Dec 2022	% Spend to Date
	£m	£m	
GENERAL FUND			
Achilles St Development	0.8	0.4	54%
Asset Management Programme	0.7	0.4	53%
Beckenham Place Park (Inc. Eastern Part)	0.7	0.6	80%
Broadway Theatre	6.2	4.4	72%

Catford Library (Winslade Way)	0.4	0.4	97%
Catford Phase 1 – Thomas Lane Yard/ CCC	0.3	0.1	47%
Catford Station Improvements	0.1	0.0	29%
Catford Town Centre	0.3	0.1	40%
CCTV Modernisation	0.5	-	0%
Corporate Estate Maintenance	1.7	0.4	22%
Deptford Southern Sites Regeneration	1.0	0.5	52%
Edward St. Development	1.3	0.1	12%
Greenvale School	2.1	1.9	91%
Highways & Bridges – LBL	4.7	1.5	32%
Highways & Bridges – TfL	0.4	0.3	66%
ICT - Tech Refresh	0.6	-	0%
Lewisham Gateway (Phase 2)	2.9	0.8	28%
Milford Towers Decant	0.3	0.0	0%
Other AMP Schemes	1.0	0.5	52%
Other General Fund Housing Schemes	2.6	1.0	37%
Other Miscellaneous Schemes	1.6	0.7	45%
Place Ladywell	1.0	0.6	55%
Private Sector Grants and Loans	0.6	0.3	47%
Public Sector Decarbonisation	1.8	1.5	81%
Riverside Youth Club	0.1	0.0	17%
Schools – Minor Works	3.8	2.8	74%
Schools – Other	0.2	0.1	43%
Schools - School Places Programme	0.7	0.3	43%
Temporary Accommodation - Canonbie Rd	0.6	0.2	38%
Temporary Accommodation - Manor Avenue	0.2	0.0	38%
Temporary Accommodation - Mayow Rd	5.9	4.3	16%
Temporary Accommodation - Morton House	0.1	0.0	72%
Travellers Site Relocation	0.0	0.1	70%
Watergate School	0.2	0.1	40%
TOTAL GENERAL FUND	**45.0**	**24.3**	**54%**
HOUSING REVENUE ACCOUNT			
Building for Lewisham Programme(BFL)	65.6	28.2	43%
Decent Homes Programme	67.3	29.3	44%
Housing Management System	2.2	0.0	1%
Other Schemes, including PFI and Acquisitions	4.2	-	0%
Other HRA Schemes	0.9	0.3	34%
TOTAL HOUSING REVENUE ACCOUNT	**140.1**	**57.8**	**41%**
TOTAL CAPITAL PROGRAMME	**185.1**	**82.1**	**44%**

11.4. Spend to date as at 31st Dec 2022 is £82.1m which is 44% of the revised in-year budget allocation. This is split into £24.3m (54%) for the General Fund, and £57.8m (41%) for the Housing Revenue Account. Notwithstanding, the relevant services are reporting that they expect the remaining budget for the majority of schemes will be spent in the last three months of the year. This is due to a number of schemes with large contracts that are committed for completion in the later stages of the year.

11.5. If a scheme is underspent due to slippage at the end of financial year, then the remaining budget will be rolled forward and added to the budget for the following financial year(s).

11.6. The financing of the 2022/23 Capital Programme is set out in the Table 2. This shows the sources of funding used to finance the £45.0m General Fund programme, with the

majority coming from capital reserves and grants and the £140.1 HRA programme, with the majority coming from prudential borrowing and HRA reserves.

Table E2:2022/23 Financing

	2022/23 Financing
	£m
GENERAL FUND	
Capital Receipts	1.6
Capital Reserves	10.5
Community Infrastructure Levy (CIL)	0.0
Corporate Reserves	4.3
Grants	12.6
HRA Receipts	0.0
Prudential Borrowing (incl. internal borrowing)	7.4
Right to Buy (RTB) Receipts	2.9
s106	5.7
TOTAL GENERAL FUND	**45.0**
HOUSING REVENUE ACCOUNT	
Prudential Borrowing (incl. internal borrowing)	36.1
Grants	32.9
Sale Receipts	2.6
Other Receipts	17.8
s106	0.0
Reserves/Revenue/MRR	50.7
TOTAL HOUSING REVENUE ACCOUNT	**140.1**
TOTAL CAPITAL PROGRAMME	**185.1**

Building for Lewisham (BfL) - Capitalisation of Development Costs

11.7. The BfL programme, across both the General Fund and Housing Revenue Account, has continued to experience significant slippage in 2022/23 on the delivery of capital schemes. The reasons largely follow the macro-economic challenges being faced in the UK currently, and include:

- The time taken to bring schemes forward to planning and complete successful engagement with the community before moving to procuring main contractors;
- Following the Covid pandemic there have been global supply chain disruptions for construction materials, up to and including company failures mid-project;
- Made more challenging with labour shortages, exacerbated by the impact of Brexit on net migration, in this sector and the South East in particular and;
- Inflation rising to over 40 years highs which has put further unexpected cost pressures on scheme budgets, evidenced through contractors seeking to negotiate variances to scheme costs.

11.8. In addition to the direct site preparation and construction costs of schemes, within the total scheme costs capital budgets are set aside for preparing schemes (development allowances) and the cost of borrowing. The slippage does not immediately impact the cost of borrowing as the debt is not taken on until there is certainty the scheme is being built out. However, the slippage does affect the development allowance budgets. They are currently £0.5m for the Council's work and £1.9m for Lewisham Homes' work. Where capital schemes have not progressed, but these budgets have been spent by the development teams these costs cannot be capitalised (i.e. cannot be amortised

over the 40 year life of the scheme nor funded from capital reserves, grant or borrowing) and must be taken in full to the Council's or Lewisham Homes' revenue account. Effectively this is a pressure to reserves as a result of slippage.

11.9. For 2022/23 the outturn forecast for the Building for Lewisham charge to revenue is c£2m, compared to £0.7m in 2021/22. There are no longer the Covid funds from government to meet such costs of business disruption so these costs will need to be funded from reserves. Looking forward to 2023/24, the development teams in both the Council and Lewisham Homes are being merged to mitigate this risk while the market stabilises and to enable the Council to maintain focus on the ambition of the Building for Lewisham capital programme.

Proposed Capital Programme 2023/24 to 2026/27

11.10. The proposed Capital Programme budget for the General Fund and Housing Revenue Account for the four years from 2023/24 to 2026/27 is £480.6m. This is split into £86.7m for the General Fund and £393.9m for the Housing Revenue Account. Of this programme £193.3m is phased into 2023/24 with £51.4m with the General Fund and £142.0m with the Housing Revenue Account. This is detailed in Table E3.

Table E3: Capital Programme 2023/24 – 2026/27

	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget	Total
	£m	£m	£m	£m	£m
GENERAL FUND					
Achilles St Development	3.4	3.4	7.8	-	14.6
Asset Management Programme	0.4	0.3	-	-	0.7
Beckenham Place Park (Inc. Eastern Part)	1.2	-	-	-	1.2
Broadway Theatre	0.4	-	-	-	0.4
Catford Phase 1 – Thomas Lane Yard/ CCC	2.4	0.3	-	-	2.7
Catford Station Improvements	1.0	0.3	-	-	1.3
Corporate Estate Maintenance	3.0	-	-	-	3.0
Edward St. Development	13.7	0.7	-	-	14.5
Greenvale School	0.4	-	-	-	0.4
ICT - Tech Refresh	0.5	-	-	-	0.5
Lewisham Gateway (Phase 2)	4.8	-	-	-	4.8
Milford Towers Decant	0.3	0.3	2.9	-	3.4
Other AMP Schemes	1.0	-	-	-	1.0
Other General Fund Housing Schemes	2.9	2.3	2.8	3.3	11.3
Other Miscellaneous Schemes	0.9	0.1	-	-	0.9
Private Sector Grants and Loans	0.7	0.8	0.9	1.0	3.4
Riverside Youth Club	1.2	0.0	-	-	1.2
Schools – Minor Works	1.7	-	-	-	1.7
Schools – Other	2.5	-	-	-	2.5
Schools - School Places Programme	0.7	0.3	-	-	1.0
Schools - Unallocated	1.0	-	-	-	1.0
Temporary Accommodation - Manor Avenue	1.1	-	-	-	1.1
Temporary Accommodation - Mayow Rd	0.3	-	-	-	0.3
Temporary Accommodation - Morton House	1.5	-	-	-	1.5
Travellers Site Relocation	1.0	2.7	-	-	3.7
Watergate School	3.5	5.1	-	-	8.6
TOTAL GENERAL FUND	**51.4**	**16.6**	**14.4**	**4.3**	**86.7**
HOUSING REVENUE ACCOUNT					

Building for Lewisham Programme(BFL)	72.7	78.8	19.0	4.9	175.4
Decent Homes Programme	66.3	67.5	68.8	3.4	206.1
Other Schemes, including PFI and Acquisitions	2.1	2.2	3.1	3.2	10.6
Other HRA Schemes	0.9	0.9	-	-	1.8
TOTAL HOUSING REVENUE ACCOUNT	**142.0**	**149.5**	**91.0**	**11.5**	**393.9**
TOTAL CAPITAL PROGRAMME	**193.3**	**166.1**	**105.4**	**15.8**	**480.6**

11.11. The HRA figures in the above table differ from the figures presented in section 9 in the HRA Business Plan. This is because the above table only includes schemes that have been approved by Mayor & Cabinet, whereas section 9 includes both approved schemes and unapproved pipeline schemes.

11.12. Although the value of the overall Capital Programme will remain largely the same, the Capital Programme is subject to change for various reasons:

- New schemes may be agreed and added to the programme throughout the balance of 2022/23 and into 2023/24.
- Some schemes may no longer be seen as viable and may be paused or aborted.
- The Council will continue to look for opportunities to secure additional funding from sources such as grants, which can be used to pursue alternative or additional Capital Projects.
- There will also be a twice yearly re-profiling exercise, in which project managers will have an opportunity to change the profile of their budget to reflect any changes in the project.
- If a scheme is underspent at the end of a financial year, then the remaining budget will be rolled forward and added to the budget for the following financial year. Therefore, the 2023/24 budget will be amended to include any 2022/23 outturn slippage.

11.13. Proposals to bring forward pipeline schemes or amend individual schemes within the programme will be subject to future Member approvals for their inclusion in the funded capital programme. This will ensure the overall strategic fit and affordability criteria for the programme are assured.

11.14. The Financing of the 2023/24 to 2026/27 Capital Programme is set out in Table E4.

Table E4: 2023/24 to 2026/27 Financing

	2023/24 Financing	2024/25 Financing	2025/26 Financing	2026/27 Financing	Total
	£m	£m	£m	£m	£m
GENERAL FUND					
Capital Receipts	1.1	0.3	2.3	0.0	3.7
Capital Reserves	5.3	0.5	0.3	0.3	6.4
Corporate Reserves	3.2	0.3	0.0	0.0	3.5
Grants	13.1	7.3	3.4	4.0	27.8
HRA Receipts	0.0	3.1	3.8	0.0	6.8
Prudential Borrowing	20.1	1.1	0.6	0.0	21.8
RTB Receipts	1.8	0.0	4.0	0.0	5.8
s106	6.6	4.2	0.0	0.0	10.8
TOTAL GENERAL FUND	**51.4**	**16.6**	**14.4**	**4.3**	**86.7**

HOUSING REVENUE ACCOUNT					
Prudential Borrowing	88.0	92.1	46.6	1.5	228.2
Grants	25.3	29.2	12.1	2.1	68.6
Sale Receipts	1.7	1.3	3.9	3.1	10.0
s106	0.0	0.2	0.4	0.0	0.6
Reserves/Revenue/MRR	27.0	26.8	28.1	4.8	86.5
TOTAL HOUSING REVENUE ACCOUNT	**142.0**	**149.5**	**91.0**	**11.5**	**393.9**
TOTAL CAPITAL PROGRAMME	**193.4**	**166.1**	**105.4**	**15.8**	**480.6**

11.15. The financing breakdown for the General Fund is 78% internally, from either current reserves, anticipated receipts, and grants or contributions (including s106) with the remaining 22% to be funded externally from borrowing.

11.16. The financing breakdown for the Housing Revenue Account is 58% from external borrowing with the remaining 42% from internal reserves, sale & other receipts, and grants or contributions (including s106).

Key Risks to the Capital Programme

11.17. There are many risks to the Capital Programme, some of the key ones are listed below:

- Global supply chain disruptions for construction materials due to the COVID-19 pandemic.
- Increased cost pressures caused by rising inflation rates. This could lead to contractors looking to renegotiate scheme costs.
- Labour shortages, exacerbated by the impact of Brexit on net migration, in this sector and the South East in particular.
- Council may need to make additional savings meaning certain schemes may need to be paused/aborted.
- Contractors going into administration and being unable to complete work on projects.
- A project may not deliver the expected benefits.
- Competing priorities for limited resources requires statutory requirements (for example Health & Safety works or new building regulations) to be met first, potentially limiting the number or scale of schemes within the programme.

11.18. These risks will all be carefully considered when both monitoring existing schemes and putting forward potential new schemes.

General Fund Capital Programme Highlights

11.19. The General Fund Capital Programme includes a wide range of projects and schemes with the aim of making improvements to the Borough. These Schemes include projects to develop assets owned by the Council, projects to develop schools in the Borough and many other projects. Some of the high value General Fund schemes are detailed below.

11.20. **Watergate School:** The aim of the project is to expand Watergate Special School to provide an additional 79 primary level Severe Learning Difficulty (SLD) places taking the total number in the expanded school to 187 pupils. The additional spaces will be

provided in a new 2 storey annex, providing 8 classrooms and associated external play space positioned as close to the school as possible. With 1 additional classroom being refurbished within the main school to provide a total of 9 classrooms. The main driver for this project is the projected and current demand for Special Educational Needs (SEND) Places. The Place Planning Strategy 2017-2022 identified the need for an increased number of SEND school places, as a high number of SEND students currently receive out-of-borough provision (resulting in a high cost to the Authority, and inconvenience to the families). The budget for 2022/23 is £200k most of which is for design work. The total project budget is £9.2m.

11.21. **Lewisham Gateway (Phase 2):** Lewisham Gateway is a public-sector led development project between Greater London Authority Land and Property Limited (GLAP) (previously the LDA), Transport for London (TfL), TfL Buses (London Bus Services Limited) and the London Borough of Lewisham. The aim of this project is to improve the highway layout to better integrate Lewisham town centre and the transport interchange and create a development plot. The total project budget is £23.1m, with current and future budgets of £7.6m remaining. 28% of the in-year budget has been spent to date.

11.22. **Resurfacing Works (BVR):** The Council's Highways Group Service is currently updating its inventory of highway assets and conducting road condition surveys Borough-wide, in renewed efforts to ensure best value applies and that the worst roads in the Borough are prioritised for treatment. The 2022/23 Highways & Bridges Carriageway Resurfacing and Footway Renewal capital programme is £1.2m.

HRA Capital Programme Highlights

Decent homes Programme

11.23. Lewisham Homes are responsible for ensuring council owned stock under their management is brought up to and maintained to a decent level, covering both internal and external works. Through the course of 23/24 these service will be insourced to the Council.

11.24. Following on from recent issues highlighted, an action plan has been developed to manage the problems related to damp and disrepair. These include undertaking property MOT's, to fully identify damp & disrepair within the Councils stock managed by Lewisham Homes with the target of completing 1,000 MOT's.

11.25. The current stock condition survey shows that 2,400 properties have been identified as suffering from some degree of damp in the stock condition survey. Lewisham Homes are also conducting urgent reviews and physical inspections of every property on their damp and disrepair logs.

11.26. Once the results of the MOT's/surveys are known, repairs and follow-up actions are taken to resolve the issues. This may require the allocation of additional resources which are not currently forecast within the current HRA budget allocations. Discussions are on-going with Lewisham Homes on how to fund these works.

11.27. The current stock condition survey shows that 2,400 properties have been identified as suffering from some degree of damp in the stock condition survey.

11.28. Lewisham Homes are undertaking face to face, briefings with all DLO operatives and supervisors on reporting poor conditions and safeguarding, where it is being emphasised that not reporting is a failure in their duty of care. This is also being raised in contract meetings with external contractors and making it a standard performance monitoring agenda item.

11.29. A review of all repair orders is being carried out to identify inter-property leak cases. Lewisham Homes will be undertaking calls and visits to check problems are resolved. They will also be ensuring decorative damage and making good is carried out as required.

11.30. A detailed formal action plan is being developed, and, subject to agreement, the action plan will be populated with timescales and targets for the deliverables and improvements. This plan will be monitored and formally reported against to the Lewisham Homes board and the council.

Building for Lewisham Programme Highlights (General Fund and HRA)

11.31. The BfL programme will deliver a significant proportion of new council housing for the borough. In addition, funding for feasibility and preparation of planning and tender information for major strategic projects at Ladywell, Achilles Street Estate and Catford has been allocated; as well as funding for wider feasibility studies for sites across the borough.

11.32. The Council, via its development team is also investigating acquisition opportunities on land and sites from the market. These schemes may offer an opportunity to deliver more homes on an expedited timescale.

11.33. The current consolidation of the HRA element of the BfL programme notes funding for 1,296 new homes across a mix of tenures. There is also funding for 125 General Fund new homes, giving a total of 1,421. This has been modelled over a 40-year period and has been inflation-adjusted accordingly. However, the assumptions used in this report represent an over-programming of developments and not all developments modelled will necessarily come forward. Therefore, this represents the most budget-intensive scenario. The financial and programme risk associated with the BfL programme will be monitored closely and mitigations implemented accordingly. Should any material changes to this budget be required, approval from Members will be sought.

Edward Street Development & Home Park Housing

11.34. There is currently uncertainty surrounding two large committed projects within the Capital Programme, namely “Edward Street Development” & “Home Park Housing”. This uncertainty has arisen due to the original contractor for these projects going into administration. The situation for both of these projects is fluid as work & negotiations are ongoing to determine the next steps. This was reported to Mayor and Cabinet in 2022/23.

11.35. Revised costs have been received for the Edward Street project. The following options have arisen and are currently being considered:

- Complete the consented scheme as per current design. This will significantly exceed the agreed budget because the design is coming at a premium compared to the original contracted cost.
- Complete the scheme with a number of value engineering options, design intent will be reduced and this may require a return to planning.
- Complete the scheme, but undertake a redesign to increase the number of homes from 34 to 44. This will require a new planning application.

11.36. Costs are yet to be received for Home Park. Once received, work will be undertaken to determine the best option for this project. Officers are working at pace to bring forward the options in 2023/24 for both these schemes

Other planned capital developments

Community Infrastructure Levy (CIL)

11.37. CIL has been collected in the borough since 2015 and to date, £16.1m has been collected. It must be spent by the Council on the provision, improvement, replacement, operation, or maintenance of infrastructure to support the development of the borough as set out in Regulation 59 of the CIL Regulations 2010. The infrastructure itself may be in or outside the borough as long as it supports its development. In section 216(2) of Planning Act 2008 (as amended by Regulation 63), it states that "infrastructure" includes: (a)roads and other transport facilities, (b)flood defences, (c)schools and other educational facilities, (d)medical facilities, (e)sporting and recreational facilities, and (f)open spaces.

11.38. The borough's strategic infrastructure needs are listed in the Council's Infrastructure Delivery Plan (IDP) which is a living document and updated regularly. This recognises that strategic infrastructure needs in the Borough cannot be fully met by CIL, meaning that projects which are eligible for CIL funding need to be prioritised.

11.39. CIL income fluctuates year on year, with c£3m being the average which has been received per year over the last 7 years. None has been spent to date with the Council instead focussing on and prioritising the spend of Section 106 receipts which are legally ring-fenced and in many cases subject to spending deadlines.

11.40. It is intended that from the start of the 2022/2023 financial year, CIL monies will be considered for spend on strategic infrastructure projects alongside the Council's general fund. Governance and prioritisation processes will therefore need to be developed.

11.41. In accordance with legal requirements, Strategic CIL spend by the Council must be restricted to the provision, improvement, replacement, operation, or maintenance of infrastructure to support the development of the borough. An added expectation would be that projects are listed in the IDP which is prepared alongside the draft Local Plan and must align with the Corporate Plan. It is assumed that rather than allocating the entire CIL pot in the first year, an annual sum would be set with the exact amount determined through the governance process that would be established.

11.42. Existing governance arrangements are in place for the spend of Section 106. Alongside the S106 Board, which deals with small sums of S106 allocation, capital projects are considered by the Regeneration and Capital Programme Delivery Board and the Regeneration Board. Projects which exceed delegated spend limits are then referred to Mayor and Cabinet for approval. This process operates effectively and would be a starting point for any new allocation process.

11.43. It is recommended that Mayor and Cabinet agree that officers prepare governance and a prioritisation process, based on the adaptation of existing arrangements, with a recommendation to:

- Explore an annual Strategic CIL budget for infrastructure project allocation
- Develop an annual process for the allocation of Strategic CIL as part of the budget-setting process

- Vary the existing governance process for s106 monies agreed by Mayor and Cabinet to accommodate CIL and make any necessary updates to reflect the current Constitution
- Develop a prioritisation process for Strategic CIL projects, to be reviewed after its first year of implementation

Active Travel Fund for Capital Programme

11.44. Before the pandemic, the cost of the measures that the Council delivered as part of the Transport Strategy were largely funded by Local Implementation Plan (LIP) funding from Transport for London (TfL). Since March 2020, this funding has been severely disrupted through a series of short-term funding settlements which have meant that there has been no security in long-term allocations and, in turn, has hindered strategic planning across the borough.

11.45. Creating a cleaner and greener borough with more active travel and reduced reliance on cars is one of the leading priorities in the Corporate Strategy. A secure funding stream is needed to achieve this and so it is proposed that an Integrated Active Travel Fund is created which identifies all available funding to Public Realm. The IATF will not consist of "new" money, but instead will enable existing funding to be utilised in a more targeted and priority focussed way. It will consolidate highways and transport elements of:

- LIP funding
- S106
- S278
- CIL
- NCIL
- Highways maintenance
- Speed compliance
- The Council's new Community Municipal Investment or 'Green Bond'
- Other appropriate external funding

11.46. The funding will be used to deliver schemes across four themes: walking, cycling, school safety, and road safety. This will enable the Council to deliver a strategically focussed approach to how and where highways and transport funding is spent and provide a greater level of confidence around funding for active travel.

Recommendation

11.47. It is recommended that M&C note the capital programme position and recommend that Council approve the 2023/24 to 2026/27 Capital Programme of £480.6m.

12. Consultation on the budget

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

Rent Setting and Housing Panel

12.2. As in previous years, engagement meetings on rents, service charges and garage rent proposals have taken place in line with the existing arrangements through tenant

representatives. This provided tenant and leasehold representatives of Lewisham Homes with an opportunity on 6th & 12th December 2022 to consider the position and to feedback any views to Mayor & Cabinet. Tenant representatives of Brockley attended a meeting on 5th December 2022 to consider the proposals and feed back comments to Mayor & Cabinet, as well as a drop-in session on 7th December 2022 to provide any additional comments.

12.3. Details of comments from the residents' meetings have been set out in Appendix X2 and X3.

Business Ratepayers

12.4. Representatives of business ratepayers were consulted online on the Council's outline budget between 5 January and 25 January 2023. This consultation was open to all of the over 10,000 businesses registered in Lewisham.

12.5. There were [3] respondees, all of whom answered a few simple questions to better understand the nature of their business operations, who provided feedback on the Council's corporate priorities, and who then presented feedback on what the Council does well and could do better.

12.6. Of the [3] responses for consideration, one business is a micro-enterpise, and two are small to medium enterprises. Two thirds of these respondees pay business rates, with one third of them receiving business rates relief.

12.7. When asked which of the Council's priorities they valued the most, neither Open Lewisham nor Quality Housing were listed. Health and wellbeing was the most valued, with a strong local economy, greener and cleaner and safer communities all equally prioritised next.

What Lewisham does well

12.8. Only two of the three respondees provided positive feedback on elements of the Council's services. This included the good level of business support offered to its businesses and that the north of the borough had good public transport links, safe streets and school streets. People are able to live locally and avoid long journeys to reach work and leisure facilities.

12.9. The Council recognises the difference between the north and south of the borough in terms of infrastructure provision and continues to work collaboratively with Transport for London and other partners to secure investment, to ensure that both capital and service delivery provides for all of our residents across all wards.

What Lewisham could do better

12.10. In terms of what the Council could do better, the responses generally were grouped into two themes, the street scene and environment, and support for businesses.

12.11. There is support for increasing street safety and public transport, and a strong desire for a reduction in graffiti.

12.12. The Executive Director for Housing, Regeneration and Public Realm notes these comments. The Council's Active Travel Fund as part of its planned capital programme seeks to increase the number of safe streets and school streets, and will work closely with Transport for London to improve public transport accessibility where possible. As part of the pressures funding for 2023/24 there is specific additional funding being made available to tackle fly tipping and ensure that the Council can continue to tackle and enforce against all types of antisocial or illegal activity on our streets.

12.13. In terms of business support, respondees suggested that business rates should be reduced generally and there should be more access to grants. One respondee specifically suggested that new businesses should be entitled to 100% relief in the first year and then a sliding scale for the next five years to enable the business to be

established. The benefit of this being that the business would be better able to benefit the wider local community and create and protect jobs.

12.14. The Executive Director for Corporate Resources notes these comments. Business Rates is governed by legislation, in particular the Local Government Finance Act 1992. Whilst we appreciate the comments in terms of the charges and applicable reliefs for new businesses, the Council are solely responsible for the billing and collection of Business Rates, not the setting of these. There are several available reliefs and discounts to certain businesses. These can be found on the Councils website; www.lewisham.gov.uk. The Council recommends contacting the business rates team to confirm business rates charges before any business commits to a lease. This will assist with budgeting and forecasting.

Summary

12.15. The consultation was available to all of the 10,000 plus businesses registered in Lewisham and [three] responses were received.

12.16. There were a number of comments and concerns raised regarding the level of business rates tax set by Government and the accessibility and level of relief measures available. In setting its General Fund budget the Council recognises the support needed to businesses and is ensuring that its Resident and Business Services division is able to offer support for businesses, whilst recognising that business rates and the relief and grants schemes are set centrally by Government.

12.17. There were also a number of comments provided on the General Fund services affecting businesses in the form of street cleansing, enforcement and safe streets and the need for the Council to continue to ensure that its services provide value for money. These considerations underpin the ambition of the Corporate Strategy to ensure that our businesses can enjoy a Greener and Cleaner Lewisham.

13. Financial implications

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

14. Legal implications

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

Capital Programme

14.2. 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).

14.3. 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.

14.4. 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 Ministry of Housing, Communities and Local Government, with interest. In London, the monies are then transferred to the GLA. However, the Council has entered into an agreement with the GLA where the GLA has agreed in principle that all monies received from central government arising from right to buy disposals in Lewisham will be ring fenced and made available to the Council as social housing grant.

Housing Revenue Account

14.5. 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.

14.6. 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.

14.7. 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.

14.8. 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.

14.9. 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.

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

Balanced Budget

14.11. In accordance with the Local Government Act 1992 the Council must set its Council Tax for 2021/2022 before 11 March 2021. By law it may not set the Council Tax before receipt of confirmation of the precept from the precepting authority, the GLA which is anticipated on 26 February. A report will be prepared for the Council meeting on 3 March 2021 on the basis of indications from the GLA but the report will be despatched before their final decision. The Executive Director for Corporate Resources will update the Council accordingly before it makes its decision.

14.12. Following the introduction of the Local Authorities (Standing Orders)(Amendment)

Regulations 2014 the Council's Constitution was amended to require that when the Council votes on key budget and Council Tax decisions, the vote must be recorded. This requirement will apply when the Council meets to set the Council Tax.

14.13. 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 cuts or other measures to bring the budget under control. If the Capital Programme is overspending, this may be brought back into line through cuts, slippage, or contributions from revenue. The proposals in this report are designed to produce a balanced budget in 2021/22.

14.14. 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.

An annual budget

14.15. By law, the setting of the Council's budget is an annual process. However, to enable meaningful planning, a number of cuts proposals for 2021/22 were anticipated in the course of the budget process. The first round of cuts were approved by Mayor and Cabinet on 9 December 2020. The second round is on the same agenda as this report and will be considered by Mayor and Cabinet before consideration of the recommendations in this report. They are listed in Appendix Y1 and Appendix Y2 respectively of this report. This report is predicated on taking all of the agreed and proposed budget cuts and those budget cuts being successfully implemented If not, any shortfall will have to be met through adjustments to the annual budget in this report with the use of reserves.

14.16. The body of the report refers to the various consultation exercises (for example with tenants and businesses) which the Council has carried out/is carrying out in accordance with statutory requirements relating to this budget process. Mayor and Cabinet must consider the outcome of that consultation with an open mind before reaching a decision about the final proposals to Council. It is noted that the outcome of consultation with business rate payers will only be available from the 2 February 2021 and any decisions about the Mayor and Cabinet's proposals on the budget are subject to consideration of that consultation response which will be reported to Mayor and Cabinet in the budget update report scheduled for the 10 February. Until the outcome of the consultation and any relevant matters are considered by M&C, the decisions sought in this report cannot be final.

Referendum

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

14.18. 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 in Appendix Y6.

Robustness of estimates and adequacy of reserves

14.19. Section 25 of the Local Government Act 2003 requires, when the authority is making its calculations under s31 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.

14.20. The Chief Financial Officer's section 25 statement will be appended to the Budget Report to Mayor & Cabinet on 9 February 2022 as Appendix Y5.

Treasury Strategy

14.21. Local 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.

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

14.23. Authority is delegated to the Executive Director for Corporate Resources 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

14.24. 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 they are precluded from, it is for the Mayor and Cabient to make decisions in accordance with the statutory policy framework and that are not wholly inconsistent with the budget. It is for the Mayor and Cabinet to have overall responsibility for preparing the draft budget for submission to the Council to consider. If the Council does not accept the Mayor and Cabinet's proposals, it may object to them and ask them to reconsider. The Mayor and Cabinet must then reconsider and submit proposals (amended or unamended) back to the Council which may only overturn them by a two-thirds majority.

14.25. 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).

14.26. 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 and Cabinet to take the lead in that process and proposals to be considered should come from them. The preparation of the proposals in this report has involved the Mayor and Cabinet, the Council's select committees and the Public Accounts Select Committee in particular, thereby complying with the statutory guidance.

Statutory duties and powers

14.27. 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.

Reasonableness and proper process

14.28. Decisions must be made reasonably taking into account all relevant considerations and ignoring irrelevancies. Members will see that in relation to the proposed budget cuts there is a summary at Appendix Y1 and Y2. If the Mayor and Cabinet decides that the budget for that service must be reduced, the Council's reorganisation procedure applies if staffing numbers would reduce. 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.

14.29. It is also imperative that decisions are taken following proper process. Depending on the particular service concerned, this may be set down in statute, though not all legal requirements are set down in legislation.

14.30. For example, depending on the service, there may need to be a need to consult with service users and/or others. The requirement to consult may arise by statute or there may be a legitimate expectation of consultation. A legitimate expectation will arise if a specific promise has been made to do something (for example as in the Lewisham Compact with the voluntary sector) or if it has become practice to consult on particular matters. Where there is a requirement to consult, any proposals in this report must remain proposals unless and until that consultation is complete and the responses have been brought back in a further report for consideration with an open mind before any decision is made.

Staff consultation

14.31. 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

14.32. 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

14.33. 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. *See "Legal implications" in the guidance for more information.*

15. Equalities implications

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

15.2. 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.

15.3. The duty continues to be a "have regard duty", and the weight to be attached to it is a matter for the Mayor and Cabinet, 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'.

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

15.5. 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

15.6. 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/

15.7. The EHRC has also issued Guidance entitled "Making Fair Financial Decisions". It appears at Appendix Y9 and attention is drawn to its contents.

15.8. 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.

15.9. Where 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.

15.10. 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 cuts have such implications, they must be dealt with and considered in relation to those particular proposals before any final decision is made.

16. Climate change and environmental implications

16.1. 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'.

16.2. Overall there are limited changes to the budget structure and service funded either from agreed reductions or pressures funded. The environment considerations for any cuts were specifically considered as part of those proposals agreed by M&C. The environment considerations for the pressures to be funded in 2022/23, for example air quality, home energy, and healthier neighbourhood initiatives are positive.

17. Crime and disorder implications

17.1. 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.

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

18. Health and wellbeing implications

18.1. There are no specific health and well being implications arising from this report.

19. Background papers

Short Title of Report	Date	Location	Contact
Medium Term Financial Strategy	6 July 2022 (M&C)	1st Floor Laurence House	David Austin
Budget Reductions Report 2023/24	7 December 2022 (M&C)	1st Floor Laurence House	David Austin
Council Tax Base	18 January 2023 (Council)	1st Floor Laurence House	David Austin

20. Glossary

Term	Definition
Collection Fund	A statement that shows the transactions of the billing authority in relation to non-domestic rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.
General Fund	This is the main revenue account which summarises the cost of all services (except those related to Council Housing and Locally Managed Schools) provided by the Council.
Housing Revenue Account	Reflects a statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure and how this is met by rents, subsidy and other income.
Reserves	Amounts set aside for purposes falling outside the definition of provisions made above are considered as reserves.
Revenue Support Grant	A general grant paid by Central Government to local authorities to help them finance the cost of their services, distributed on the basis of government relative needs formulas.

21. Report author and contact

David Austin – Director of Finance david.austin@lewisham.gov.uk

Katharine Nidd – Head of Strategic Finance, Planning and Commercial
katharine.nidd@lewisham.gov.uk

Financial implications on behalf of the Executive Director for Corporate Resources were provided by the report authors.

Legal implications on behalf of the Monitoring Officer were provided by Katherine Kazantzis.

22. Appendices

Capital Programme

W1 Capital Strategy

Housing Revenue Account

X1 Proposed Housing Revenue Account Savings 2023/24

X2 Leasehold and Tenants charges consultation 2023/24 Responses

X3 Leasehold and Tenants Charges 2023/24 Regenter (Brockley)

X4 Leasehold and Tenants Charges 2023/24 Lewisham Homes

X5 Garage Rent Increase Report 2023/24

X6 Other Associated Housing Charges for 2023/24

General Fund

Y1 Summary of previously agreed budget reduction proposals for 2023/24

Y2 Summary of budget reduction proposals for 2023/24

Y3 2023/24 Budget by Corporate Priority

Y4 Ready Reckoner for Council Tax 2023/24

Y5 Chief Financial Officer's Section 25 Statement – to follow

Y6 Council Tax and Statutory Calculations

Y7 Summary of risks and pressures to be funded

Y8 2023/24 Proposed Fees and Charges

Y9 Making Fair Financial Decisions

Treasury Management

Z1 Interest Rate Forecasts

Z2 Credit Worthiness Policy (Linked to Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management)

Z3 Approved countries for investments

Z4 Requirement of the CIPFA Management Code of Practice