



Mayor and Cabinet

Report title: 2025/26 Budget Report

Date: 12 February 2025

Key decision: No

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 2024/25 and to set the Budget for 2025/26. This report allows Mayor and Cabinet to recommend to Full Council the Council Tax to be agreed and housing rents to be set for 2025/26. It sets the Capital Programme for the next four years and the Council's Treasury Management Strategy for 2025/26.

The report provides information on the revenue budget reduction proposals necessary to help set the budget for 2025/26, plus the allocation of budget growth to meet inflation pressures, service overspending, the planned use of reserves to balance the budget for 2025/26 and the steps to prepare to address the budget requirement for 2026/27.

Mayor and Cabinet are asked to consider the recommendations listed in this report at Section 2.

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Timeline of engagement and decision-making

Public Accounts Select Committee considered the draft 2025/26 Budget Report on the 28 January 2025.

The Council Tax Base was approved by Council on the 22 January 2025.

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 2025/26. These include the following:

1.2 General Fund

- In respect of the General Fund, the assumed net revenue expenditure budget is £312.515m. This is made up of provisional Settlement Funding from Government (Revenue Support Grant and business rates), the inclusion of Section 31 Grant relating to business rates funding and, forecast Council Tax receipts including an increase in Council Tax of 4.99%, and the planned use of £21.745m of reserves with the detail set out in Section 6.
- The changes to the prior year General Fund position to meet the 2025/26 net revenue budget of £312.515m are proposed on the basis of the following assumptions:
 - £4.698m of revenue budget reductions have been included for 2025/26, of which £0.850m were previously agreed and £3.848m assumed to be agreed and implemented.
 - An assumed 4.99% increase in Band D Council Tax for Lewisham's services for 2025/26; including the 2.99% increase in the core Council Tax as announced in the provisional Local Government Finance Settlement and 2.00% increase for the Adult Social Care precept.
 - £42.830m of funding allocated for risks and pressures in 2025/26, primarily to cover the services reporting a £37.2m overspend in 2024/25.
 - £3.400m for the direct costs associated with the increase in employers National Insurance Contributions (NICs).
 - £4.005m for the indirect costs associated with the increase in employers National Insurance Contributions.
 - £5.358m of pay inflation for 2025/26.
 - £8.701m of non-pay inflation for 2025/26.
 - The planned use of £21.745m of reserves to enable the setting of a balanced base budget, with the need for £30.000m of budget reductions to be implemented in advance of 2026/27 to remove this reliance.

1.3 Fees and Charges

- This report also presents the 2025/26 proposed fees and charges and related annual increase for the majority of chargeable services, statutory and discretionary. In the main, these are in-line with the Council's policy to increase charges by Consumer Price Index (CPI) plus 1% for 2025/26, based on

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September 2024 inflation of 1.7%, or more if this is required to ensure full cost recovery.

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

- The 2025/26 overall Dedicated Schools Grant (DSG) allocation is £395.95m, a 9.7% increase, of which £51.96m is part of the Early Years Block and remains provisional. This includes funding for academy schools and an allocation of £8.7m relates to national policy changes on the Early Years entitlement offer being extended (full year effect of changes in 2024/25).
 - *Schools Block*: A net increase of £16.4m (6.8%), of which £13.5m relates to existing teachers' pay grants (not new or additional funding).
 - *Central Services Support Block*: a net decrease of £0.07m (2%). The historic baseline has been reduced by £0.26m (20%), however there is a formula led element increase of £0.19m which incorporates teachers' pay grants and changes to copy right licenses (not new funding).
 - *High Needs Block*: A net increase of £5.01m (6%). This funding supports those young people with Special Needs and, in addition, Schools Forum have agreed to supplement this budget by £1.0m in 2025/26. The Council have been advised that a supplementary ringfenced grant (value unknown) will be provided to fund the High Needs Block teachers' pay award relating to 2024/25 but to be received in 2025/26.
 - *Early Years Block*: A net increase of £13.53m (13.5%), this incorporates the streamlined grants relating to teachers pay and pension and the full year effect of the under 2 offer (which was introduced in September 2024). Incorporating the streamlined grants there is an increase in the hourly rates:
 - 3–4-year-olds from £7.24 to £7.52 (increase of 3.9%);
 - 2-year-olds £10.64 to £11.04 (increase of 3.7%);
 - 2-year-olds with working parent entitlement increase from £10.64 to £11.04 (increase of 3.7%); and
 - under 2 years old offer entitlement increase from £14.52 to £15.06 (increase of 3.8%).

The Early Years Block also includes small levels of targeted funding to support Early Years pupil premium, disability access funding - total increase of circa £0.2m.

- **Pupil Premium**: The Department for Education (DfE) has confirmed the continuation of Pupil premium grant into 2025/25 however the values have yet to be confirmed. The Pupil Premium received in 2024/25 is circa £14m.
- **Pupil numbers**: Pupil numbers have decreased by a net 325, composite of 311 in the primary phase and 14 in the secondary phase.

1.5 Housing Revenue Account

- The early monitoring for the Housing Revenue Account (HRA) indicated that the 2024/25 overspend would exceed the reserves balances held. The Council wrote to the Ministry of Housing, Communities and Local Government (MHCLG) in October 2024 to inform them of the position and to share the Council's recovery plans. The November financial forecast anticipates a net overspend of £3.8m which can (just) be funded from the updated opening reserves balances

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of £4.8m. This means that the HRA will be able to finish 2024/25 without requiring the use of all the once off measures originally expected to be needed. The 30-year HRA business model remains viable but there is the need to ensure that the repairs budget in 2025/26 can be increased and that the implications of the stock condition survey and any impact on the capital programme is carefully managed in the medium term. For these reasons the financial sustainability of the HRA will remain under careful review with regular reporting back to Mayor and Cabinet.

- A proposed rent increase at the maximum permissible of 2.7% (an average of £3.26 per week) in respect of dwelling rents, 2.7% (average £1.07 per week) in respect of hostels, and a range of other proposed changes to service charges on the same basis. The proposed annual expenditure for the HRA is £251.2m in 2025/26, including the capital and new build programme.
- The proposed HRA Capital Programme budget for 2025/26 to 2029/30 is £563.3m, of which £137.7m is for 2025/26. This is spend on both existing stock and for the building of new homes as set out in the Capital programme section.
- Continuing the action plan to manage the problems related to damp and disrepair. These include undertaking property MOT's and conducting urgent reviews and physical inspections of every property on the damp and disrepair logs, to fully identify and address damp & disrepair within the Councils stock.
- This may require the allocation of additional resources which may not be fully forecasted within the current HRA budget allocations. Discussions are on-going to plan to meet the cost of these repairs which may result in capital plans being reprioritised for existing stock. The sums involved are significant and these risks are being actively managed by the Housing, Development and Finance teams.

1.6 Other Income and Grants

- Section 6 of the report sets out the detail of changes to other sources of income, including grants, both within the core spending power and those outside of this. The summary below covers those within the core spending power.
- The following grants continue into 2025/26 and are broadly unchanged from 2024/25: Adult Social Care Market Sustainability and Improvement Fund (£5.984m) and the Improved Better Care Fund (iBCF), which has been merged with the Social Care Discharge Fund (now £18.433m total).
- The following grants have been introduced in 2025/26 and are being used to fund pressures in 2025/26: Children's Social Care Prevention Grant (£1.898m) and the Recovery Grant (£5.279m).
- The Social Care Grant (£36.537m) has been increased and is being used to fund pressures in 2025/26. The New Homes Bonus (£0.656m) has continued but at significantly reduced levels.
- The Services Grant has been discontinued.
- The Public Health Grant, Better Care Fund and Homelessness Prevention grants sit outside of the core spending power and allocations have not yet been confirmed. All are significant (>£10m each) to the impacts the Council makes.

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

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Council takes in its Treasury functions remains prudent, in-line with last year, and officers continue to explore alternative investment options and opportunities to undertake debt restructuring in order to reduce cashflow, balance sheet risk and best fund the capital plans set out.

- There are no material changes to the strategy.

1.8 Capital

- The proposed Capital Programme (General Fund and HRA) budget for 2025/26 to 2028/29 is £421.4m; £137.3m (33%) for the General Fund and £284.1m (67%) for the HRA. Of this programme, £221.6m is for 2025/26 with £104.3m allocated to the General Fund and £117.3m to the HRA.

1.9 Climate Budget 2025/26 – 2027/28

- The Council is publishing its second annual Climate Budget as appended in Appendix V1.

2. Recommendations

- 2.1 It is recommended that the Mayor and Cabinet considers the comments of the Public Accounts Select Committee of 28 January 2025. The Public Accounts Select Committee takes note of the difficult financial situation that local government finds itself in nationwide and members endorse the proposal to bring forward the medium-term financial strategy and savings proposals early in the new financial year.
- 2.2 It is recommended that, having considered the views of those consulted on the budget, and subject to consideration of the outcome of that consultation and subject to proper process, as required, Mayor and Cabinet:

General Fund Revenue Budget

- 2.3 notes and asks Council to note the 2024/25 forecast projected overall variance of £26.0m, after the use of corporate provisions and reserves, or 8.8% of the agreed budget of £293.838m as set out in Section 6 of this report and that this 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 £0.850m (previously agreed) and £3.848m (agreed in 2024/25), for 2025/26 as set out in Section 6 of the report and summarised in Appendix Y1 and Y2 respectively;
- 2.5 agrees and asks Council to agree the allocation of £65.023m of resources from; the corporate risks and pressures, Adult Social Care precept, social care grant, Adult Social Care market sustainability and improvement fund, New Homes Bonus, Recovery Grant, Children's Social Care Prevention Grant, government funding for increased employers National Insurance contributions and reserves in 2025/26 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 £312.515m for 2025/26 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 £1,644.75 for Lewisham's services and £2,135.13 overall. This represents an overall increase in Council Tax for 2025/26 of 4.77% and is subject to the Greater London Authority (GLA) precept for 2025/26 being increased by £18.98 (i.e. 4.03%) from £471.40 to £490.38, in line with the GLA's draft budget proposals;

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- 2.8 notes the final Settlement Funding Assessment (SFA) figure for 2025/26 has not yet been announced (including the NIC funding) and agrees to delegate authority to the Executive Director for Corporate Resources to include any change to the provisional SFA of £138,890,519 in the Budget report for Council with any difference to the position set out in this report 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 agrees to delegate authority to the Executive Director for Corporate Resources to include any changes once confirmed in the Budget 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 with more detail in Appendix Y4;
- 2.11 asks that the Executive Director for Corporate Resources issues cash limits to all Directorates once the 2025/26 Revenue Budget is agreed;
- 2.12 considers, and asks Council to consider, the Section 25 Statement from the Chief Finance Officer, the Executive Director for Corporate Resources. This is attached at Appendix Y5;
- 2.13 agrees and asks Council to agree the draft statutory calculations for 2025/26 as set out at Appendix Y6;
- 2.14 notes and asks Council to note the prospects for the revenue budget for 2025/26 and future years, including the planned use of £21.745m of reserves to enable the setting of a balanced budget, with the need for at least £30m of budget reductions to be implemented in 2026/27 to remove this reliance as set out in Sections 6 and 7;
- 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;
- 2.16 agrees to write-off 16 cases of Former Tenants' Arrears related to Temporary Accommodation stock totalling £326,710.42, as set out in Appendix Y10;
- 2.17 agrees to write-off 1 case of Business Rates Arrears totalling £142,383.75, as set out in Appendix Y10;
- 2.18 agrees to write off 1 case of Adult Social Care Sundry Debt Arrears totalling £59,486.63, as set out in Appendix Y10;

Other Grants (within the General Fund)

- 2.19 notes and asks Council to note the adjustments to and impact of various specific grants for 2025/26 on the General Fund as set out in Section 6 of this report;
- 2.20 agrees the award of the anticipated UK Shared Prosperity Fund (UKSPF) grant, anticipated to be in the region of £1m, and delegate agreeing the grant conditions to the Executive Director for Corporate Resources;

Fees and Charges

- 2.21 approves the approach to setting 2025/26 fees and charges for chargeable services in Section 6 of the report and attached at Appendix Y8;

Dedicated Schools Grant and Pupil Premium

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Schools Block

- 2.22 note and recommends that Council notes the provisional gross Dedicated Schools Grant (DSG) allocation for 2025/26 of £395.95m before the Department for Education's (DfE's) adjustments to fund Academy schools;
- 2.23 notes and recommends that Council notes the provisional DSG allocation for £257.08m be the Schools' Budget (Schools Block) for 2025/26 covering both maintained schools and academies, and that this includes streamlining of grants for teachers pay (2023/24 award), Core Schools Budget Grant and the Teachers' Pensions Grant totalling £13.5m;
- 2.24 notes an increase in pupil unit funding for primary of £471 and secondary of £677 (after allowing for the streamlining of the teacher related grant funding as noted in 2.23). However, there has been an overall reduction of 325 pupils, 311 in primary and 14 secondary school equating to a loss of approximately £2m;
- 2.25 notes that following the Schools Forum meeting on the 20 January 2025, submission has been made to the DfE recommending the application of the National Funding Formula (including unit values) allowing for a -0.15% (minus) Minimum Funding Guarantee (MFG);
- 2.26 agrees and recommends that Council agrees, as recommended by Schools Forum, the once-off transfer of circa £1m of Schools Block funding to the High Needs Block, a 0.5% transfer;

Central Schools Services Block (CSSB)

- 2.27 notes, and asks Council to note, the construct and allocation of £2.96m for the Central Schools Services Block allocation for 2025/26, a continued reduction of £0.260m (20%), plus formula led element increase of £0.19m, which is rolled in funding and not new funding;

High Needs Block (HNB)

- 2.28 notes, and asks Council to note, the provisional High Needs Block of £83.96m to support the Council's statutory duty with regards to Special Education Needs (SEN), a net increase of £5m relative to 2024/25 (6%). And that the High Needs Block will be finalised in March for deductions arising for institutions funded by the Education and Skills Funding Agency (ESFA);
- 2.29 notes that the High Needs Block is expected to overspend by £2.4m in 2024/25, increasing the cumulative overspend to circa £17.4m in total when prior year overspends are included based on the national accounting override issued by the DfE and as part of which Lewisham is local mitigation plan (since 2018) supplemented by a further mitigation plan as part of the Delivering Better Value initiative (Phase 3);

Early Years Block (EYB)

- 2.30 notes, and asks Council to note, the DSG allocation to the Early Years Block of £51.96m;
- 2.31 notes, and asks Council to note that the DfE has increased hourly funding for 3- and 4-year-olds from £7.24 to £7.52 (3.9%) and with respect to 2-year-old disadvantaged funding from £10.64 to £11.04 (3.8%);
- 2.32 notes, and asks Council to note, the increased hourly funding for under 2-year-olds from £14.52 (introduced and part funded in September 2024) to £15.06 (3.7%);

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- 2.33 notes, and asks Council to note, the increased hourly rate for 2-year-old working parent entitlement from £10.64 to £11.04 per hour (3.8%);
- 2.34 notes that Early Years Block also includes small levels of targeted funding to support Early Years (EY) pupil premium, disability access funding total increase of circa £0.2m;
- 2.35 notes that the maintained nursery supplementary funding allocation for 2025/26 is subject to change but is expected to increase by circa £63k, subject to movement in pupil numbers;
- 2.36 notes that funding related to Teachers Pay within EY has been streamlined into the EY National Funding Formula, and forms the main increases in the hourly rates;

Pupil Premium

- 2.37 notes, and asks Council to note, that the pupil premium will continue in 2025/26 (no details have been provided on the value of this as yet, this is expected to be confirmed in late summer 2025);
- 2.38 notes that the DfE has advised a new grant will be provided to support Schools for the changes to the employers National Insurance Contributions, however no details have been provided as yet;
- 2.39 notes that the Secretary of State has advised policy changes relating to funded Breakfast clubs, however no details have been provided as yet.

Housing Revenue Account

- 2.40 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 30 October 2024, as attached at Appendix X2;
- 2.41 notes, and asks Council to note, the consultation report on proposed service charge increases to tenants presented to the remaining tenants on 29 October 2024 as attached at Appendix X3. Leaseholders were asked for their views at the Leasehold Forum on 16 January 2025.
- 2.42 agrees, and asks Council to agree, to set an increase in dwelling rents of 2.7% (an average of £3.26 per week) – as per Government’s formula rent increases to be applied to rents for 2025/26 and as outlined in Section 9 of this report;
- 2.43 agrees, and asks Council to agree, to set an increase in the hostels accommodation charge by 2.7% (or £1.07 per week), in accordance with Government’s direction for formula rent increases to be applied to rents for 2025/26;
- 2.44 approves, and asks Council to approve, the following average weekly increases/decreases for dwellings for:
- 2.44.1 service charges to Private Finance Initiative (PFI) managed dwellings (Brockley) to ensure full cost recovery and 3.7% inflationary uplift for 2025/26:
- | | | |
|-------------------------|------|---------|
| • caretaking | 3.7% | (£0.18) |
| • grounds | 3.7% | (£0.12) |
| • communal lighting | 3.7% | (£0.08) |
| • bulk waste collection | 3.7% | (£0.05) |
| • window cleaning | 3.7% | (£0.00) |

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- tenants' levy 0.00% (£0.00)
- 2.44.2 service charges to Council managed dwellings to ensure full cost recovery and 2.7% inflationary uplift for 2025/26:
- caretaking -8.99% -(£0.70)
 - grounds 9.40% (£0.25)
 - window cleaning 2.70% (£0.00)
 - communal lighting 100% (£6.00)
 - block pest control 2.7% (£1.28)
 - waste collection 2.70% (£0.08)
 - heating & hot water 7.70% (£1.23)
 - tenants' levy 0.00% (£0.00)
 - bulk waste disposal 17.00% (£0.18)
 - sheltered housing 2.50% (£0.46)
- 2.45 approves, and asks Council to approve, the following average weekly percentage changes for hostels and shared temporary units for:
- service charges (hostels) – caretaking etc.; 2.70% or £1.67pw energy cost increases for heat, light & power; 10.0% or £0.80pw;
 - water charges increase; 2.70% or £0.02pw;
- 2.46 approves, and asks Council to approve, an increase in garage rents by 2.70% (£0.55 per week) for Brockley PFI and Council residents as outlined in Appendix X4;
- 2.47 notes, and asks Council to note, that the budgeted expenditure for the Housing Revenue Account (HRA) for 2025/26 is £251.2m, split £113.5m revenue and £137.7m capital, which includes the decent homes and new build programmes;
- 2.48 agrees the HRA Business Plan for 2025/26, as attached at Appendix X7;
- 2.49 notes the 2024/25 P8 HRA Capital Programme monitoring position and the Capital Programme potential future schemes and resources as set out in Section 11 of this report;
- 2.50 agrees to write-off five cases of Former Tenants' Arrears totalling £66,752.22, as set out in Appendix X5;
- 2.51 agrees to write of 16 cases of Aerial Debt arrears totalling £973,323.36, as set out in Appendix X5.

Treasury Management Strategy

- 2.52 approve and recommend that Council approves the Treasury Management Strategy 2025/26 including the prudential indicators and treasury indicators, as set out in Section 10 of this report;
- 2.53 approve and recommend that Council approves the Annual Investment Strategy and Creditworthiness Policy, set out in further detail at Appendix Z2, and that it formally delegates responsibility for managing transactions with those institutions which meet the criteria to the Executive Director of Corporate Resources;

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- 2.54 approve and recommend that Council approves the Investment Strategy as set out in Section 10 of this report, along with the operational boundary & authorised limit for the year as set out in tables D4 and D5;
- 2.55 approve and recommend that Council approves the Minimum Revenue Provision (MRP) policy as set out in Section 10 of this report;
- 2.56 approve and recommend that Council approves the overall credit and counterparty risk management criteria, as set out at Appendix Z2, the proposed countries for investment at Appendix Z5, and that it formally delegates responsibility for managing transactions with those institutions meeting the criteria to the Executive Director for Corporate Resources;
- 2.57 agrees and recommend that Council agree to delegate to the Executive Director of Corporate Resources the authority during 2025/26 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;

Capital Programme

- 2.58 notes the 2024/25 capital programme position and agrees, and recommends that Council agree, the reprofiled 2024/25 Capital Programme of £177.2m as set out in Section 11 of the report;
- 2.59 recommends that Council approve the 2025/26 to 2028/29 Capital Programme of £421.4m as set out in Section 11 of this report;
- 2.60 agrees and recommends that Council agrees the Capital Strategy set out in Appendix W1;
- 2.61 agrees and recommends that Council agree to delegate to the Executive Director for Corporate Resources authority to amend the scheme mix within the Capital programme to respond to the risks as set out as long as this is done within the total programme parameters approved and that regular updates on the capital programme, reflecting any changes, are regularly reported back to Mayor & Cabinet;

Climate Budget 2025/26 – 2027/28

- 2.62 agrees the Council's Climate Budget 2025/26 – 2027/28 as set out in Section 12 and Appendix V1.

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 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;
 - A Strong Local Economy;
 - Quality Housing;
 - Children and Young People;

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- Safer Communities;
- Open Lewisham; and
- Health and Wellbeing.

Values

- 3.3 Values are critical to the Council's role as an employer, regulator, securer of services and steward of public funds. The Council's values shape interactions and behaviours across the organisational hierarchy, between officers and members, between the council and partners and between the council and citizens. In taking forward the Council's Budget Strategy, we are guided by the Council's five core values:
- Ambitious;
 - Inclusive;
 - Collaborative;
 - Accountable; and
 - Trustworthy.
- 3.4 The setting of a balanced budget for 2025/26 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 2025/26 would align to the seven priorities set out above.
- 3.5 As noted in the 2024/25 budget, the Council's strong and resilient framework for prioritising action has served the organisation well in the face of reductions to local government spending, growth in demand for services with a growing population and increasing costs due to inflation. 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.
- 3.6 This joint endeavour helps work through complex challenges, such as the pressures faced by health and social care services and housing, 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.
- 3.7 Despite more recent favourable settlements, it remains clear that the Council cannot do all that it once did, nor meet all those expectations that might once have been met, due to the previous decade of underfunding of local government services. Whilst the Council's response to this is addressed in this report, including further budget reduction proposals for 2025/26, the Council has found it necessary to set the 2025/26 budget using reserves of £21.745m. This will mean that the Council will need to find a minimum of £30m of budget reductions in 2025/26 for implementation in advance of 2026/27 to remove this reliance on reserves and ensure its continued financial sustainability and resilience. Government has also confirmed that the long overdue reset of the local authority funding via the Local Authority Funding Reform, including

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review of Council Tax and Business Rates, is now expected to take effect from 2026/27. The announcement of new grants allocated on the basis of need and deprivation for 2025/26 is viewed as the first step ahead of a broader funding redistribution.

- 3.8 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, principally for overspending services, additional significant inflationary pressures 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.
- 3.9 Cost-of-living pressures continue to impact our residents, businesses, and the Council alike and the proposed 2025/26 budget seeks to continue to best support the borough as a whole.

4. Structure Of the Report

- 4.1 The 2025/26 Budget Report is structured as follows:

Section 1	Summary
Section 2	Recommendations
Section 3	Policy Context
Section 4	Structure of the Report
Section 5	Background
Section 6	General Fund Revenue Budget and Council Tax
Section 7	Future Years' Budget Strategy and Risks
Section 8	Dedicated Schools Grant (DSG) and Pupil Premium
Section 9	Housing Revenue Account (HRA)
Section 10	Treasury Management Strategy
Section 11	Capital Programme
Section 12	Climate Budget 2025/26 – 2027/28
Section 13	Consultation on the Budget
Section 14	Financial Implications
Section 15	Legal Implications
Section 16	Equalities Implications
Section 17	Climate Change and Environmental Implications
Section 18	Crime and Disorder Implications
Section 19	Health and Wellbeing Implications
Section 20	Background Papers
Section 21	Glossary
Section 22	Report Author and Contact
Section 23	Appendices

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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 2024 the UK's economy was still in recovery and the overall outlook was cautiously optimistic. Gross Domestic Product (GDP) began 2024/25 at 101.0% compared to 100.5% a year earlier and GDP growth for 2024 Q2 (April to June) was 0.5%. However, GDP growth for 2024 Q3 (July to September) reduced to 0.1% and has since fallen to between 0% and 0.1% in the most recent quarter, reported in January. The growth outlook still remains cautiously positive, as it is expected that the economy will experience GDP growth as at Q4 for both 2024 and 2025 of 1.7% based on the Bank of England forecast in November 2024 and supported by the International Monetary Fund (IMF) forecasts in January 2025.
- 5.3 The UK unemployment rate rose slightly in 2024 in comparison to 2023, seeing rates of 4.3% in both Q1 and Q3, compared to the highest rate for 2023 of 4.2% in Q2. Although relatively stable, the rise in unemployment rate, coupled with other economic challenges, does raise concerns in terms of the labour market and its link to productivity to drive economic growth. Inflation reduced to 1.7% in September 2024, meeting the long-term Bank of England target of 2.0%. It has however since increased to 2.5% in December 2024, although this is still an improvement on the average rate for the previous 12 months of 3.9%. The public sector often experiences a lag in inflation (through its retrospective agreement of inflation in contracts and wage negotiations), and although the inflation rates have recently reduced, the persistently high levels for an extended period seen the Bank of England maintain an interest rate of 4.75% going into 2025. Within the Economic and Fiscal Outlook released in October 2024, the Office for Budget Responsibility predicts that inflation in 2025 will average at 2.6%, slightly higher than the 2024 average of 2.5%, and fall to an average of 2.3% in 2026.
- 5.4 Addressing cost of living pressures experienced by residents is key to tackling the impacts of poverty and deprivation faced by Lewisham families and communities. The fall in "real" disposable incomes that the UK has experienced since the financial crash in 2008 but more acutely since late 2021, caused predominantly by the impact from previous high inflation outstripping wage and benefit increases. The recent falls in inflation will help but the situation of challenging personal finance for many persists.
- 5.5 UK public sector net debt was 98.5% in September 2024, compared to 97.8% in September 2023, and still at some of its highest levels since the early 1960s. Within the Autumn Budget 2024, the first under the new Labour Government, the Chancellor of the Exchequer announced two new fiscal rules to support economic and fiscal stability including the Investment Rule to reduce net financial debt (public sector net financial liabilities) as a proportion of GDP. This is designed to keep debt on a sustainable path, while allowing for increased investment in infrastructure and public services. Therefore, although local authorities do face a variety of funding challenges, the Government's plans are intended to enable increased investment in public services over the life of this parliament.
- 5.6 The challenges of the cost-of-living crisis, general inflationary cost lag and high levels of public debt are all issues which the UK Government and Bank of England still need to manage appropriately to reduce the risk of recession and rising unemployment. In addition, international conflict continues across a number of nations which increases the overall risk to the UK economy. These are effectively summarised in the Global Risks Report 2025 by the World Economic Forum.

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- 5.7 The new Labour Government came into power in July 2024. This marks the first time Labour has been in government since 2010. They conducted their first spending review as part of the Autumn Budget 2024, which was presented on the 30 October. This review included increases in public spending, financed by a combination of tax rises and higher borrowing. The Budget aims to rebuild public services, and boost capital investment in areas like transport and housing. Any permanent increases to funding for public services will need to be funded by the Government's long term growth agenda.

Local Government

- 5.8 The provisional Local Government Finance Settlement was announced on the 18 December 2024, with the final settlement expected in February 2025. This is another one year only settlement pending the review of relative needs and resources (also known as the Local Authority Funding Reform) in 2025 as part of the next three-year Comprehensive Spending Review (CSR) and Devolution plans also announced in December 2024.
- 5.9 The settlement has provided a potential increase of 5.8% in council core spending power in cash terms for Lewisham. Half the growth is dependent on the Council raising Council Tax by the maximum permissible 4.99% and its sales, fees and charges by CPI+1% where possible. The other half comes through a variety of continuing and new grants, with the direction of travel to bring more of these into the assessment of Core Spending Power (CSP) for the Council. Hopefully the spending review as part of the CSR will bring some simplification and more certainty to these funding streams going forward.
- 5.10 Existing funding streams will continue including the Adult Social Care Market Sustainability and Improvement Funding (MSIF) and the (reduced) New Homes Bonus. The Services Grant has been stopped and the Discharge Fund Grant rolled up into the MSIF. Government has also announced two significant new grants; the Recovery Grant and Children's Social Care Prevention Grant. The allocations of which include consideration of relative need and deprivation and which the Council is a recipient of. These have been announced to reflect Government's acknowledgement of the increasing cost and volume of key demand-led services experiencing budget pressures to keep providing services to those most vulnerable.
- 5.11 Even with this extra funding, given the over 25% real terms reduction in spend per capita, the Council, along with the sector as a whole (as reported by the Local Government Association and others), continues to note with concern that there remains a significant funding gap for the sector to meet all its statutory service requirements. In particular with the pressures on temporary accommodation and social care (adults and children's) spending.
- 5.12 Along with the settlement announcement, the Government confirmed the continuation and an increase of 2% to the Adult Social Care precept on Council Tax in 2025/26, created to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on Adult Social Care. Since 2016/17, when this was additional local tax burden flexibility was introduced, the Council has raised the Adult Social Care precept. Applying the maximum precept of 2% for 2025/26 will generate an extra £3.393m of revenue for Adult Social Care services.
- 5.13 The Government also announced that the limit by which Councils can increase their core Council Tax (inclusive of levies), without a referendum, remains at a maximum level of 2.99%. This is one percent higher than the BoE inflation target of 2% for this regressive tax.
- 5.14 In terms of the Medium-Term Financial Strategy (MTFS) 2025/26 has effectively been

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another roll forward year, with the introduction of both growth and new specific grants, some of which have been allocated on the basis of children's relative need and deprivation indices. The plans for the spending review in 2025 means that the fundamental review of the way local government is financed has been deferred to the 2026/27 financial year to enable consultation and implementation. The Local Authority Funding Reform 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 as the current method is based on indices from 2013/14. Alongside this the overdue reform of the Business Rates Retention arrangements, which aims to reform the elements of the business rates retention system in England is expected. Any changes to future Council Tax and Social Care arrangements now look likely to be subject to later changes.

- 5.15 Last year the Council was able to set its budget without planning to use reserves. However, despite permanent budget increases of £48.770m going into 2024/25, the forecast overspend position is £37.2m. Even with new budget increases of ££42.830m (excluding inflation) for 2025/26, when the adjusted for the one-off measure taken in 2024/25 and the forecast new pressures for 2025/26, is such that it has been necessary to plan to set the 2025/26 base budget with the use of £21.745m of reserves.
- 5.16 The Council has taken action in 2024/25 to identify both in year cost reduction measures and permanent budget reduction measures of £4.698m for 2025/26 which were agreed by Mayor and Cabinet in December 2024 and are being implemented. Even with these measures, and the additional targeted funding and tax raising headroom provided by Government, it has been necessary to utilise reserves of £21.745m to set the 2025/26 base budget. Commensurate savings of this amount will now urgently need to be identified and implemented during 2025/26 to ensure that this reliance on reserves can be unwound before setting the 2026/27 budget. This is in addition to consideration of future year's pressures covered below as part of the MTF A assessment.

Cost-of-Living Pressures

- 5.17 In the context of the economic pressures described above, exacerbated in London given the very high housing costs of the capital, cost-of-living pressures continue to have a significant detrimental effect on many households across the country, with Lewisham residents being particularly vulnerable due to their comparatively low income and high deprivation levels (Lewisham being ranked 7th in London and 63rd nationally on the Indices of Multiple Deprivation).
- 5.18 On the 23 November 2022, Council passed a motion to declare a cost-of-living emergency in the Borough. This called on Government to use its powers to support people through the worst financial crisis to hit the country in decades. Following this, a programme of action was developed by Lewisham Council to support residents through the crisis in which resources were harnessed including the Household Support Fund, Public Health funding and external funding from health partners.
- 5.19 Although not made a permanent budget, the Household Support Fund has continued throughout 2022/23, 2023/24 and 2024/25 with the Council receiving £5.337m each year.
- 5.20 In the Chancellor's Autumn Budget 2024, the extension of the Household Support Fund into 2025/26 was announced, although the specific amount of funding the Council will receive is not yet confirmed.
- 5.21 Using the Household Support Fund received in 2024/25, the Council has invested in

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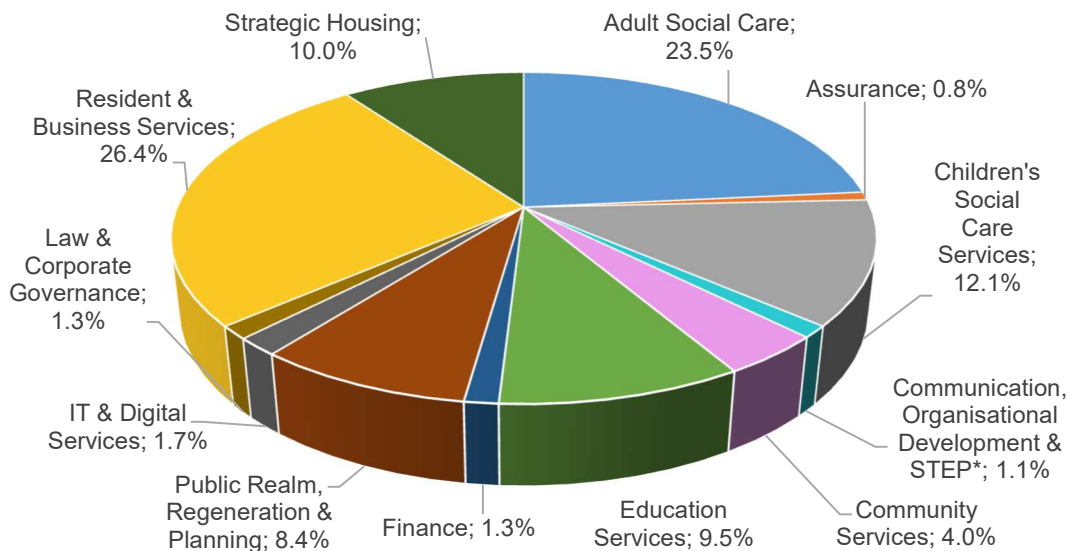
support during the school holidays for families with children eligible to receive free school meals. Further funding has been allocated to combat child hunger by extending free school meals to low-income families that don't qualify and by supporting schools to increase healthy food provisions for pupils facing food poverty.

- 5.22 Following its success during 2022/23, Lewisham Council worked in partnership with Lewisham Local to relaunch Warm Welcomes during 2023/24 which continued into 2024/25. Warm Welcomes is an initiative which makes local places accessible for residents to stay warm, have some refreshments and find out about services in their area in light of the current cost-of-living crisis. During 2024/25, £170,000 of the Household Support Fund was utilised for this purpose.
- 5.23 In collaboration with Citizens Advice Lewisham pop-up services across the Borough have been hosted on a weekly basis, to provide residents with cost-of-living support. The provision of advice outreach via Citizens Advice has also utilised funding from the Household Support Fund.
- 5.24 The Council will also continue to support resident financially through income maximisation and debt triage to reduce the negative impact of this possible reduction of funding in 2025/26 and potential permanent withdrawal in 2026/27 onwards.
- 5.25 In addition to Council led programmes, Lewisham is lucky to have an incredible network of community groups, charities, and other local organisations, which offer a wide range of support. The webpage for cost-of-living support can be found here: <https://lewisham.gov.uk/myserVICES/cost-of-living>.

Budget Context

- 5.26 The Council spends over £1.45bn annually on services for residents. The gross expenditure budgets for each General Fund service area (excluding the HRA) in the Council are as below:

Chart 1: A Chart to Show the Council's 2024/25 Gross Expenditure# by Budget



Certain elements of gross expenditure are excluded from this chart including Corporate Provisions and Schools, which is DSG funded. DSG funding has also been excluded from Education Services.

* STEP is Strategy, Transformation, Equalities and Performance.

Resident and Business Services gross budgets include Housing benefits being transferred to claimants.

- 5.27 In respect of the services element of this annual spend, the gross spend is built from the £293.8m General Fund budget in 2024/25 plus income from grants and fees and

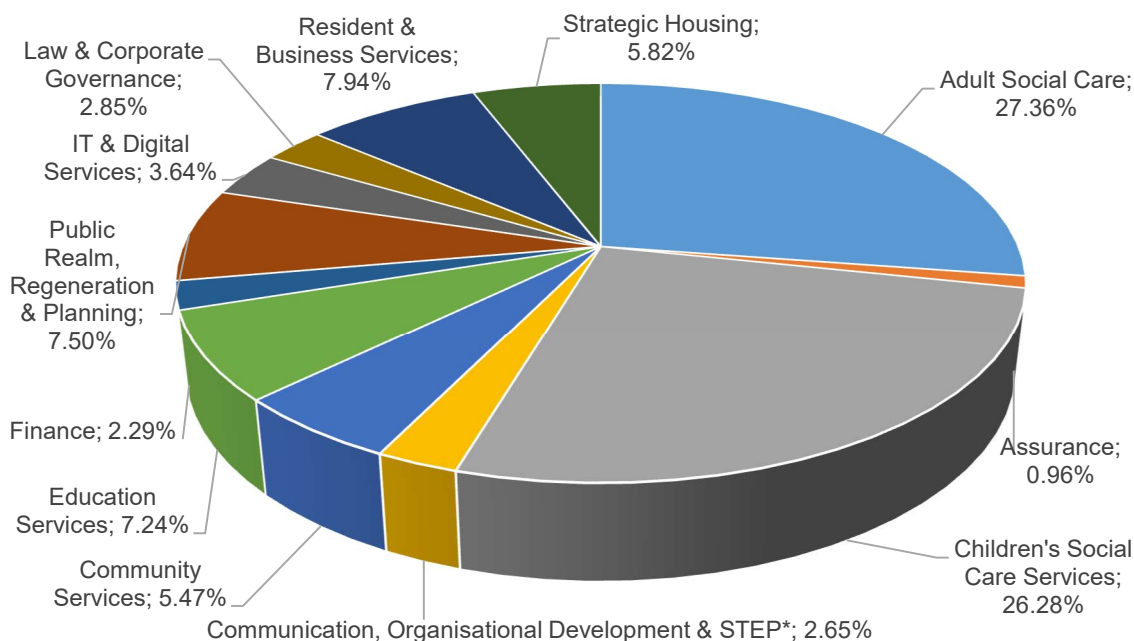
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charges. The funds are directed as follows:

Chart 2: A Chart to Show the Council's 2024/25 Net Service Expenditure by Budget



Excluding Schools and Corporate Items.

* STEP is Strategy, Transformation, Equalities and Performance.

5.28 The Council serves 132,903 households and served a population of 300,553 people at the time of the latest census (2021). The Greater London Authority (GLA) estimates that the population estimate in 2025 will be approximately 310,919, although we note that the ONS estimate is much lower at 298,000. Residents of Lewisham are diverse, with 35.6% of the population born outside of the UK. Between the 2011 and 2021 census, the population grew by nearly 9%, which was higher than both the increase for London, 7.7%, and the overall increase for England, 6.6%. Also, as at the date of the most recent census, Lewisham ranked 44th for total population out of 309 local authority areas in England, moving up one place in a decade, and was the 13th most densely populated of the 33 London boroughs. The population has since continued to grow based on the GLA's projections, and for 2025 Lewisham is estimated to be the 14th most densely populated of the boroughs. More information on the make-up of the borough can be found on the [Lewisham Observatory – Welcome to the Lewisham Observatory site](#).

5.29 The Council works hard to be available for residents when they need it. Corporate Customer Relations handled 114,240 calls or call-backs via phone in 2023/24. The Council Tax team also dealt with 33,036 calls or call-backs, and the Housing team dealt with 81,244. Furthermore, 13,698 complaints and enquiries were handled council wide. In addition, through the registry office, the Council processed 8,528 births, deaths, marriages, and civil partnerships in 2023/24.

5.30 In addition to supporting a diverse and growing population, the budget contributes to the Council's commitment to extend local democracy. The findings of the surveys undertaken by the Council to better understand challenges facing Small to Medium Enterprises (SMEs) with ethnically diverse owners, have been used to support the development of a new inclusive economic development strategy published in August 2024. The strategy outlines a clear vision for the unique, growing economy that Lewisham deserves and an action plan for how to get there. This includes aims for Lewisham's economy centred around enterprise, decarbonisation, young people, and prosperity. Objectives include increases to employment rate by 3.0% over five years,

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from 75.5% to 78.5%, the proportion of residents earning at least London Living Wage by 5.0% over five years, from 85% to 90%, and the number of SMEs as a proportion of Lewisham's business base by 10.0% over five years, from 5.8% to 15.8%. The full strategy can be accessed here: [Lewisham Council - Inclusive Economic Development Strategy](#).

- 5.31 Lewisham continues to welcome more of those seeking asylum in the UK, including continuation of the 25% 'sanctuary' discount for Council Tax for 2025/26, 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.
- 5.32 The budget supports a wide range of age groups across more than 600 individual services.
- 5.33 For young people, the schools' budget provides for 76 maintained schools from nursery level through to secondary. The Borough had the highest school attendance in inner London for primary and secondary in 2023/24, whilst all schools in the borough received a "Good" or "Outstanding" rating. Furthermore, the Council ran over 117 holiday programme days in the same year, with free activities and lunches for school children and young people aged 4 to 16.
- 5.34 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 residents. As at the end of 2023/24, Lewisham Council was the landlord of 11,853 general needs accommodation households, 489 sheltered accommodation households and 2,135 temporary accommodation households (including partnership placements). The Council made 983 social lets to households on the housing register in 2023/24. However, the number of individuals in temporary accommodation continues to rise, specifically in nightly paid services, partially due to the ongoing cost-of-living crisis. Across 2022/23 and 2023/24, 268 social rent or London Affordable Rent schemes were completed.
- 5.35 The Borough has over 11,500 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. During 2023/24, the Council supported 36 apprentices to undertake work and helped another 34 employees upskill.
- 5.36 The Adult Social Care service provides a range of support to vulnerable users that helps them remain active and independent, with 1,659 older and vulnerable residents being supported to return to everyday life following a hospital stay during 2023/24. The service undertook 7,086 Adult Social Care assessments and reviews and supported 3,593 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. A recent announcement from Government sets out a vision for the delivery of Adult Social Care, and two phases for an effective social care reform, the first of which will be reported in 2026. Government also intends to publish a new policy framework for the Better Care Fund in 2025/26. The provisional Local Government Finance Settlement includes further funding towards the implementation of these changes in 2025/26, although more will be required in future years as the full impact of any new legislation is understood and quantified.
- 5.37 The budget also maintains key universal services such as libraries, arts, and entertainment centres plus sports and recreation facilities. In 2023/24, the Council had 1,215,813 library visits and 1,351,437 leisure centre visits.
- 5.38 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 2023/24 the service

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collected 94,810 tonnes of household waste, of which 24,597 tonnes of recycling were recycled, composted, or sent for reuse. Including commercial waste bins, green waste bins and household recycling and waste bins, the Council made over 13 million collections.

- 5.39 The Council is responsible for maintaining roads and footpaths within the Borough. During 2023/24, the Council delivered four new school streets and 330 new secure cycle parking spaces, including a number of virtual bays for lime bikes. By the end of 2023/24, the Council had also delivered 211 Electric Vehicle charging points in total. Lewisham Council also manages the parking service, including permits and enforcement, and within 2023/24 39,477 parking permits were approved. These service areas will play a significant part in supporting the delivery of a zero-carbon borough.
- 5.40 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 of which 23 parks (and green spaces) hold the coveted 'Green Flag' rating. Lewisham was also rated the top performing London borough for its parks service in the Good Parks for London Report 2024.
- 5.41 During 2024/25, delivery has gathered pace on the £24m transformation of Lewisham Town Centre. In 2025, construction of a permanent market canopy will take place along with the transformation of Lewisham Library to include new business, co-working, hospitality, and cultural offers.
- 5.42 The Council's directly delivered employment service, 'Lewisham Works', continues to support unemployed residents, and has supported nearly 1,200 residents with employment and training support since its launch.
- 5.43 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 2025/26;
 - Council Tax level for 2025/26;
 - Other Grants for 2025/26;
 - Dedicated Schools Grant (DSG) for 2025/26;
 - Housing Revenue Account (HRA) and level of rents for 2025/26;
 - Treasury Management Strategy for 2025/26;
 - Capital Programme for 2025/26 to 2028/29; and
 - Climate Budget 2025/26.

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 2025/26, assuming a Council Tax increase of 4.99%, is £312.515m. This is based on £312.515m of available core funding supplemented by the use of £21.745m of reserves pending savings being identified, agreed and implemented. Further details of the budget reduction measures included for 2025/26 are provided at Appendices Y1 and Y2.
- 6.2 It is structured as follows:
- Update on the 2024/25 Revenue Budget;
 - The Budget Model, including:

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- Settlement Funding Assessment; Council Tax, Grants, and Budget Reduction Proposals; and
- Budget Pressures to fund.
- Overall Budget Position for 2025/26; and
- Use of Reserves and Risks.

Update on 2024/25 Revenue Budget

- 6.3 The Council's revenue budget for 2024/25 was agreed at Council on 28 February 2024. The General Fund budget requirement was set at £293.838m.
- 6.4 The financial position of the council is monitored monthly by officers with support from the Finance team. These monitoring reports are presented monthly to the Executive Management Team (EMT) and 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 November (Period 8) budget monitoring report is presented to Mayor and Cabinet as part of this budget report. The General Fund position is a net overspend of £26.0m on General Fund budgets after the commitment of £11.2m from Corporate Provisions and Reserves. This is a £3.7m adverse movement from the September (Period 6) position with the commitment of £10.2m from corporate provisions and reserves.

Directorates

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

Table A1: Forecast outturn for 2024/25 as at end of November 2024

Directorate:	Net Budget:	Net Forecast:	Period 8 Variance:
	(£m)	(£m)	(£m)
Children and Young People	93.1	111.4	18.3
Adult Social Care & Health	78.0	82.4	4.4
Place	37.4	42.0	4.6
Housing	16.6	28.7	12.1
Corporate Resources	41.8	39.4	(2.4)
Chief Executive	15.7	15.9	0.2
Directorate Total:	282.6	319.8	37.2
Corporate Items	11.2	0.0	(11.2)
General Fund Total:	293.8	319.8	26.0

- 6.8 The paragraphs below summarise the reported position at Period 8.
- Children and Young People - £18.3m Pressure
- 6.9 *Children's Social Care*: The projected overspend for Children's Social care in 2024/25 is £14.2m. Whilst the level of children looked after (CLA's) has remained consistent during 2024/25, the overspend is largely driven by increasing care needs amongst CLA combined with market pressures on these care costs, which like 2023/24, has driven up spend.
- 6.10 *Education Services*: The projected overspend for Education services in Period 8 is £1.9m, due to the level of demand for Education and Health Care Plans (EHCP) and

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journey costs delivering the home to school transport service.

- 6.11 *Central Schools Support Block*: The £2m pressure is due to a reduction in the Dedicated Schools Grant (DSG) central services support block grant funding over the past financial years, including £0.4m for the reduction in 2024/25, creating a general fund pressure for costs that can no longer be met from the grant.
- 6.12 *Families, Qualities and Commissioning*: The projected overspend for Families, Quality and Commissioning for 2024/25 is £0.2m due to challenges managing with the revised budget level as the service transitions towards more preventative services.

Adult Social Care and Health - £4.4m Pressure

- 6.13 *Adult Social Care and Commissioning*: There is a £4.4m forecast overspend at Period 8 on Adult Social Care. The forecast pressure is in part due to increased demand for direct payment packages for 65+ Physical support clients as well as increases in Mental Health and over 65+ Physical support Nursing packages. The second key cause of the pressure is the unusually high inflation requests from providers, largely due to the increase in London Living Wage, which is estimated to be £4.0m over and above the £2.0m set aside as part of budget setting.
- 6.14 The reported position is after utilising approximately £4m of once-off service funding.

Place - £4.6m Pressure

- 6.15 *Public Realm*: There is a £3.2m pressure on Public Realm, in part due to a contractual obligation for indexing and increasing the gate fee in the contract for disposing of waste from January 2024, resulting in a pressure against the budget of £1m. There is a further £1.2m pressure on staffing expenditure across the Division, with the service working on plans to address this. The changes within the Sustainable Streets programme are expected to lead to an income shortfall of up to £1.0m.
- 6.16 *Planning*: There is a £0.5m pressure on the Planning division due to a shortfall of income against the target. The building industry has been slow in the past few months but is predicted to pick up now that there is clarity within legislation on the approach to second staircases in high rise buildings and post the general election. The strategic planning service has incurred some once-off costs due to the Local Plan Examination in Public. Several agency posts have been converted to permanent roles and agency costs are constantly being reviewed. The new government has set a high target for the delivery of new homes across the country and due to the lag in new housing developments in Lewisham and other parts of London in the past few years this is predicted to improve income levels. The service has also been intensively involved in consulting on the Local Plan which it is now hoped can be adopted in 2025.
- 6.17 *Inclusive Regeneration*: £0.6m pressure due to a shortfall of commercial income against the target. There is undelivered income growth from the Creekside, Home Park, Edward Street and Turnham and Downham Enterprise developments, along with a reduction in income from building lettings. These are the revenue impacts of delays and changes to the Capital programme.
- 6.18 *Place Reserves & Provisions*: The £0.3m pressure is due to the unbudgeted contribution required to the bad debt provision which is required based on the level of debt owed to the directorate at Period 8.

Housing; non Housing Revenue Account (HRA) - £12.1m Pressure

- 6.19 *Strategic Housing*: There is a £12.1m pressure on general fund housing at Period 8. The financial pressure arises from rising demand for housing as the private rental market is contracting and becoming more expensive, the difficulty for residents and the Council to find affordable homes and the resulting Limitation Recharge (difference between how much Housing Benefit can be claimed by a client housed in a Local Authority administered temporary accommodation unit compared to the rent payable)

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costs. The forecast recharge for 2024/25 is £29.5m, driven by the increased numbers housed and increased rental charges. In November 2024, there are 1,468 people in temporary accommodation (TA) and 667 people in private sector leasing and privately managed accommodation. By comparison in March 2024 there was 1,067 people in TA. This increase, along with the full year impact of TA agreed during 2024/25, and the increased rental charges to match the Local Housing Authority rate for all Private Sector Leasing, Privately Managed Accommodation and the Hyde acquired stock are key contributors to the reported pressure.

- 6.20 The average cost of TA has increased, so when properties are handed back, the replacement properties available to rehouse the families who were displaced have significantly increased costs. For example, two years ago a two bed nightly paid property in the borough would have cost c£60 per night, now a similar property costs between £90-£100 per night.

Corporate Resources - £2.4m Underspend

- 6.21 *Resident and Business Services*: £1.2m underspend due a reduction in the level of provision required in the Housing Benefit bad debt provision as well as a reduction in supported accommodation costs compared to the budgeted level.
- 6.22 *IT and Digital Services*: £0.1m overspend due to additional forecast costs for the Microsoft Teams Partnership project.
- 6.23 *Assurance*: £0.2m underspend due largely to vacancies held across the service.
- 6.24 *Finance*: £0.1m underspend due to vacancy management across the service.
- 6.25 *Concessionary Fares*: £1m underspend in respect of the payments due to the Greater London Authority (GLA) for those people travelling on public transport who are eligible for free or discounted travel. These costs are expected to rise in 2025/26 with fare increases and as demand continues to recover to post pandemic levels.

Chief Executive - £0.2m Pressure

- 6.26 *Law and Governance*: £1m overspend on Legal Services due to challenges recruiting to vacant posts within the team, meaning some of the work is being delivered by external legal firms, causing a cost pressure on the budget. The volume of work is such that it cannot be managed without a level of externally commissioned legal service or agency staff, both of which are more expensive than permanent staff. This is partially negated by £0.3m of salary underspend across the rest of Law and Governance.
- 6.27 *People & Organisational Development, Communications and Engagement and Strategy, Transformation, Policy and Performance*: £0.5m underspend due to vacancies across the services, held to mitigate some of the Council's financial pressure.

Corporate Provisions and Reserves - £11.2m Underspend

- 6.28 Corporate Provisions are budgets held centrally for corporate purposes and 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 strain and voluntary severance.
- 6.29 It is planned that Corporate Provisions and Reserves will contribute £11.2m of funding to mitigate part of the service pressures above. This is broken down as: £5m once off overachievement on interest earned, £4.2m of budgeted once off funding from corporate provisions and reserves, £1m of Adult Social Care provision funding and £1m held to meet the contractual increase on the waste services contract.
- 6.30 Given that the forecast outturn position is a £26m overspend (after the planned use of

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provisions and reserves) the funding of this will fall to the remaining provisions budgets (if available) and then reserves, with the final position declared in the outturn report to Members in early 2025/26.

The Budget Model

6.31 This section of the report sets out the construction of the 2025/26 general fund revenue base budget. This section is structured as follows:

- Budget assumptions, including:
 - Settlement Funding Assessment (SFA);
 - 2025/26 Council Tax;
 - 2025/26 grants; and
 - 2025/26 budget reduction proposals.
- Budget pressures to be funded; and
- Use of Provisions and Reserves.

6.32 The Council has made substantial reductions to its expenditure over the last fourteen years. Subject to the outcome of the future multi-year Comprehensive Spending Review (CSR) and the outcome of the government's Local Authority Funding Reform, now expected to impact from 2026/27, the Council expects to continue to need to make further reductions for at least the next three to four years (see Section 7). This section of the report summarises a series of proposals that would enable the Council to set a balanced budget for 2025/26 as part of a sustainable financial strategy to 2027/28 but noting that this now requires the planned use of £21.745m of reserves in 2025/26 which carries increased risk as this has not been required in recent years.

Settlement Funding Assessment

- 6.33 The provisional Local Government Finance Settlement on the 18 December 2024 confirmed the level of funding available to the Council for 2025/26, consisting of the Council's share of the Revenue Support Grant (RSG) and its Baseline Funding Level (BFL); collectively the Settlement Funding Assessment (SFA).
- 6.34 Pending the Local Authority Funding Reform, 2025/26 has effectively been another roll forward year of 2024/25, with no amendments to the funding formula or approach. Nevertheless, growth and new specific grants have been introduced, some of which have been allocated on the basis of children's relative need and deprivation. The new Labour Government has announced that the fundamental review of the way local government is financed will feed into the 2026/27 Local Government Finance Settlement. As a result of this review, 2026/27 be a multi-year settlement, the first multi-year settlement for local government in ten years. The RSG has been uplifted by 1.88%. The approach to setting the BFL has also remained consistent with the small business rate multiplier again frozen for 2025/26 whilst the standard multiplier will increase with CPI. Local authorities are compensated for the income shortfall for the under indexation of the multiplier for the small business rate multiplier via the Section 31 grant.
- 6.35 In addition to this compensation, Local Authorities have continued to receive section 31 grant to compensate for the previous change to uplifting the multiplier by the typically lower CPI rather than the Retail Price Index (RPI). Whilst this change is not new, the recent high levels of inflation, coupled with the differential between RPI and CPI, has meant that the level of the s31 grant has grown substantially over the previous two years. Prior to 2024/25, the Council had not previously built this grant into base budget, holding it back as a contingency for in-year overspends. This approach was changed in 2024/25 to recognise both the substantial increase in this grant but more significantly

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the sustained pressures in social care and housing costs, meaning that all available sources of funding must be included in the base budget. This trend continues in 2024/25 and is expected to remain in 2025/26, and therefore the full £21.345m allocation of s31 grant will be utilised when setting the base budget. This continues to increase the Council's reliance on Government grants which remain at risk of substantial change through the anticipated Local Authority Funding Reform.

- 6.36 The combined percentage increase in the SFA for 2025/26 is 1.23%. The total increase is £1.694m for 2025/26 and brings the overall SFA level to £138.891m. This and the £21.345m of section 31 grant (increased from £15m used in 2024/25) will be used to fund the base budget for 2025/26.

2025/26 Council Tax

Collection Fund

- 6.37 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.
- 6.38 The statutory calculation was carried out for the 15 January (date prescribed by the relevant statutory instrument). This calculation showed there is an estimated deficit on the Collection Fund in respect of Council Tax, for the years to 2024/25 of £2.294m. This reflects the ongoing challenges to improve the collection of Council Tax owed, for which the Council has established a specific programme of improvement work.
- 6.39 This deficit is shared with the precepting authority, the GLA, in proportion to relative shares of budgeted Council Tax income in the current financial year. Taking account of the current and prior years surpluses and deficits, £1.764m is forecast to be the net deficit to be included in the calculation of Lewisham's budget as the additional Council Tax collected in year and funded from the Collection Fund Reserve against potential future year deficits. The remaining balance of £0.531m is allocated to the GLA in 2025/26.

Council Tax Reduction Scheme

- 6.40 Members should note that the Council agreed on the 22 January 2025 that no changes are to be made to the Council Tax Reduction Scheme (CTRS) for 2025/26. Members agreed that the fixed percentage reduction in liability for the working age claimants of the scheme should remain at 75% for 2025/26. This means that everyone eligible and of working-age has to continue to pay a minimum of 25% of their council tax liability.

Council Tax Levels

- 6.41 Since 2016/17, the government has allowed councils with social care responsibilities to apply a percentage increase on council tax specifically to meet the costs of delivering Adult Social Care (the Adult Social Care precept). This additional income must be ring-fenced to Adult Social Care services. To date, Lewisham has applied a 16% increase over the eight-year period. The government is once again allowing councils to apply a precept for 2025/26 of 2%. For 2025/26 this will generate £3.393m of additional income for Adult Social Care services.
- 6.42 This report proposes that Mayor and Cabinet approves and recommends that Council approve the 2% Adult Social Care precept for 2025/26 to obtain the maximum benefit permitted. Government has recently announced that if implemented, this charge no longer has to be identified on the face of the Council Tax bill and made clear in the accompanying guidance for rate payers.
- 6.43 The provisional Local Government Finance Settlement on the 18 December 2024 confirmed the intention for a core referendum principle of up to 3% in 2025/26, as announced in the Policy Statement on the 28 November 2024. This is in addition to the

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flexibility to raise the Adult Social Care Precept set out above.

- 6.44 The government's assumptions in the local government finance settlement 2025/26 include the raising of both Council Tax and the Adult Social Care precept in each and every year to meet the recognised funding pressures faced by the sector. This increase in core Council Tax of 2.99% (i.e. within the limit of the 3% referendum threshold) would provide additional funding of approximately £7.246m.
- 6.45 These percentage uplifts, in combination with an increase in the Band D equivalent properties and collection rate (from 95% to 96%), will generate total additional funding of £10.639m.
- 6.46 In considering budget reduction proposals, the level of Council Tax and the planned use of reserves, Members make political judgements, balancing these with their specific legal responsibilities to set a balanced budget for 2025/26 and their general responsibilities to steward the Council's finances over the medium term.
- 6.47 Should Council choose to set a different Council Tax increase, Members will need to be mindful that any increase below this recommendation will create additional budget pressures, resulting in greater use of reserves in the short term and require additional cuts for the 2026/27 budget to be identified. Any increase in the core element above this recommendation would require either prior approval from the Secretary of State or support in a local referendum for a higher increase.
- 6.48 In 2024/25, the Band D Council Tax in Lewisham is £2,037.98 on a base of 90,414.0 Band D equivalent properties. Of this, £471.40 relates to the activities of the GLA which the Council pays over to them on collection. Lewisham's element is £1,566.58.
- 6.49 The GLA is consulting on a precept of £490.38 (Band D equivalent) for 2025/26, an increase of £18.98 or 4.03%, and a final decision is expected on or after the 25 February 2025.
- 6.50 For 2025/26, the Band D Council Tax in Lewisham is recommended to be £2,135.13 on a base of 92,585.30 Band D equivalent properties (the base was approved by Council on the 22 January 2025). Of this, £490.38 relates to the activities of the GLA which the Council will pay over to them on collection. Lewisham's element will be £1,644.75, which includes a 2025/26 increase of £78.17 (4.99%).
- 6.51 Table A2 below shows, for illustrative purposes, the Council Tax payable by a Lewisham resident in a Band D property in 2025/26 under a range of possible Council Tax increases, and the financial implications of this for the Council. A Council Tax Ready Reckoner is also attached at Appendix Y4.
- 6.52 The starting point is for an assumed 4.99% increase in Lewisham's Council Tax for 2025/26, 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 2025/26 and the budget gap in future years requiring savings to meet this.

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Table A2: Band D Council Tax Levels for 2025/26

Amounts Payable by Residents - Band D:					
Uplift in Lewisham Council Tax:	Lewisham Element (inc. Precept):	GLA Element :	Total Council Tax:	Increase in Total Council Tax vs. 2024/25:	Lewisham Annual Income Forgone vs. 4.99% Uplift:
	(£)	(£)	(£)	(%)	(£m)
4.99% increase	1,644.75	490.38	2,135.13	4.77%	-
3.99% increase	1,629.09	490.38	2,119.47	4.00%	(1.45)
2.99% increase	1,613.42	490.38	2,103.80	3.23%	(2.90)
1.99% increase	1,597.75	490.38	2,088.13	2.46%	(4.35)
1.00% increase	1,582.25	490.38	2,072.63	1.70%	(5.79)
0.50% increase	1,574.41	490.38	2,064.79	1.32%	(6.51)
Council Tax Freeze	1,566.58	490.38	2,056.96	0.93%	(7.24)

Levies

- 6.53 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. The 2025/26 charge has not yet been announced. The details of these levies are provided in Appendix Y6.

2025/26 Grants

- 6.54 This section of the report considers the other funding streams which the Council currently receives and relies on for 2025/26 and 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 additional pressure on the General Fund.
- 6.55 Grants generally fall into three main categories. There are those grants that are within the core spending power provided by government. These can be either ongoing or once off. There are grants outside of core spending power, but which the Council has come to rely on for ongoing frontline service delivery. Finally, there are more ad hoc grants which may be revenue or capital, come from a variety of government departments and may require the Council to bid for these. In setting the Budget we primarily discuss and consider the forecast funding for the first two categories.
- 6.56 The key grants included in setting the 2025/26 general fund base budget are as follows:
- New Homes Bonus;
 - Better Care Fund;
 - improved Better Care Fund;
 - Public Health Grant;
 - Social Care Grant;
 - Market Sustainability and Improvement Fund;
 - Recovery Grant (new);
 - Children’s Social Care Prevention Grant (new);
 - Homelessness Prevention Grant; and

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- Employers National Insurance Contributions grant/funding.

New Homes Bonus

- 6.57 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) pays 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 in line with local community wishes'.
- 6.58 In the provisional Local Government Finance Settlement statement, the Secretary of State announced that for 2025/26 the NHB would continue for one more year but without legacy payments.
- 6.59 The provisional allocation for 2025/26 in Lewisham is £0.656 this is a significant decrease from the £1.993m received in 2024/25. Given the uncertain nature of this funding, or indeed the grant, the NHB is treated in the Budget as once off monies to be used to support agreed once off pressures, but not recurring spend.

Better Care Fund

- 6.60 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. It is outside of the core spending power but integral to the delivery of Adult Social Care.
- 6.61 For Lewisham the value of the BCF in 2025/26 has not yet been announced although it is expected that this may increase by approximately 5%, or circa £600k more than the 2024/25 funding of £28.944m. The local plan must be agreed with the Integrated Care Board (ICB) and will require the approval of NHS England.
- 6.62 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 will 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 2025/26.

Improved Better Care Fund

- 6.63 In 2017/18, the government also introduced the improved Better Care Fund (iBCF) to work alongside the BCF, this funding is within core spending power. The iBCF in 2024/25 was £14.942m and this is increasing to £18.433m in 2025/26. It is intended to fund Adult Social Care activity. Plans for its use in 2025/26 will also require the agreement of the local ICB. The grant is likely to be spent in substantially the same way as in 2024/25.
- 6.64 It is important to note that the increase in the iBCF grant is not new funding, instead this is the roll in of the 2024/25 Adult Social Care Discharge Fund of £3.491m. There is therefore no growth in this funding between 2024/25 and 2025/26.

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Public Health Grant

- 6.65 In 2024/25 the Council's allocation for Public Health Grant is £28.232m which includes an in year uplift of £0.674m. There has not yet been an announcement of the allocation for 2025/26.
- 6.66 The grant sits outside of core spending power and 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

- 6.67 The provisional Local Government finance settlement in December 2024 committed £880m more for Social Care grant nationally for 2025/26. This has increased Lewisham's grant from £30.790m in 2024/25 to £36.537m in 2025/26 (a 19% increase on top of a 32% increase last year). This grant is within core spending power and comes with the discretion to spend it on both adults and children social care, although Government has since indicated that they expect circa 70% of the grant be used for Adult Social Care. The Budget proposes that the increase be used in 2025/26 to fund pressures within both Children's and Adults Social Care, including salary and non-salary inflation pressures, maintaining the circa 70% allocation to Adult Social Care.

Market Sustainability and Improvement Fund (MSIF)

- 6.68 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 be 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 2023/24 this was a grant allocation of £3.203m. This funding was ring-fenced for Adult Social Care pressures arising from the implementation of the reforms to support the care market.
- 6.69 This funding is within core spending power and was distributed using the Adult Social Care relative needs formula, and for 2024/25 resulted in £5.984m of funding. For 2025/26 the grant allocation remains flat at £5.984m. The government expects this 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. There are reporting requirements against these objectives which the Council will comply with through the year.

Recovery Grant

- 6.70 The provisional Local Government Finance Settlement for 2025/26 has introduced a new grant within core spending power, the Recovery Grant, worth £600 million nationally. This has been distributed to places with greater need and demand for services and which are least able to fund their own services locally. Government have used deprivation as a proxy for assessing need and the Council's allocation of this new grant for 2025/26 is £5.279m. The previous administration's Services Grant has been removed, in part to fund both the increase in targeted social care funding and the recovery grants, both of which are needs based.
- 6.71 This grant will be used to fund the pressures and growth across the Council in 2025/26, including social care and temporary accommodation where targeted grant allocations are not sufficient.

Children's Social Care Prevention Grant

- 6.72 The new government is putting £250 million of funding into a new Children's Social Care Prevention Grant within core spending power. This will be used to invest in the national rollout of Family Help. This grant allocation has been based on a children's

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relative needs-based formula as opposed to the Social Care grant which is allocated based on the adults relative needs formula. The government plans to uplift this grant to £263 million at the Final Settlement. The provisional allocation for the Council is £1.898m for 2025/26 which will be used to fund children's social care pressures which have continued to rise throughout 2024/25.

- 6.73 It's important to note though that whilst this is a new grant within core spending power for 2025/26, the Council has been in receipt of the Families first for children pathfinder grant in 2024/25 of £3.300m. The £1.898m of prevention grant is part of the extension announced for 2025/26, meaning that the Council will not be receiving this in addition but as part of the overall funding envelope for this work.

Homelessness Prevention Grant

- 6.74 Whilst outside of the Core Spending Power, the Council relies heavily on the Homelessness Prevention Grant to support its general fund housing services, most notably temporary accommodation which has experienced continued and significant increases in spend over the previous three years.
- 6.75 On the same day as announcing the provisional Local Government Finance Settlement the government announced that £633.2 million will be provided to councils in England in the financial year 2025 to 2026 to support them to deliver services to tackle and prevent homelessness.⁵This includes an uplift of £192.9 million compared to 2024 to 2025, and for Lewisham is £10.573m against the £6.660m in 2024/25 (including the 2024/25 top up). However, it was also announced that a new ringfence will be introduced within the Homelessness Prevention Grant, to maintain prevention activities during this period. This will mean that 49% of local authorities' funding allocation must be spent on prevention, relief and staffing activity. The 49% within this ringfence may not be spent on temporary accommodation. Analysis nationally shows that of the current spend on homelessness in London, 60% is currently focused on temporary accommodation, with 23% on staffing and 16% on prevention and relief activities. The ringfence will disproportionately and negatively hit London.

Employers National Insurance Contributions (NIC) funding

- 6.76 In the provisional Local Government Finance Settlement, it was announced that government would provide an additional £515 million nationally for local authorities, in compensation of National Insurance Contributions as part of the 2025-26 local government finance settlement. The NICs grant will form part of Core Spending Power at the final settlement only. Whilst the quantum of this funding remains unknown at this stage, the basis for allocation will be the use of proportionate net current expenditure.
- 6.77 Until the final Local Government Finance Settlement is published, and actual costs arise, it will be unclear whether this funding meets the Council's direct employment costs in full from this change. Separately the report considers the inflationary impact these changes will have for indirect salary costs in the Council's suppliers which are not being compensated for. The budget is therefore being set on the assumption that this is net neutral and that any shortfall in funding will be met from reserves in 2026/27 and added to the savings target for 2026/27.

UK Shared Prosperity Fund

- 6.78 The UK Shared Prosperity Fund is a grant entirely outside of the core spending power, and is an ad hoc grant, which has only recently been announced. Given the anticipated scale of this grant Mayor and Cabinet approval is required to enable the Council to accept the funding.
- 6.79 In the Autumn Budget 2024, Government announced a further round of UKSPF for 2025/26 which will provide £906 million of funding for local investment across the UK. The GLA has been allocated £62.98m for 2025/26, which is divided into £20.09m in capital funding and £42.89m in revenue funding. Of this, based on the method used by

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the GLA to distribute the previous round of UKSPF, the Council will have an estimated £1m allocation, split between capital and revenue.

- 6.80 The Council has an estimated £1 million allocation based on the method used by the GLA to distribute the previous round of UKSPF. This considers a proportion retained by the GLA and this being a 1-year funding settlement.
- 6.81 The estimated funding will be allocated to the following activities in line with the GLA's overall investment priorities:
- Communities and Place: £340,000 (capital funding) and £160,000 (revenue funding);
 - Supporting Local Businesses: £202,000 (revenue funding); and
 - People and Skills: £300,000 (revenue funding).
- 6.82 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. The Government is expected to launch a new successor the UKSPF for 2026/27.

2025/26 Budget Reduction Proposals

- 6.83 In December 2022, various budget reductions measures were agreed by Mayor and Cabinet for 2025/26, totalling £0.850m. These proposals included both Executive and non-Executive decisions and a summary of these cuts is attached as Appendix Y1 to this report.
- 6.84 The Council published its Medium-Term Financial Strategy (MTFS) on the 10 July 2024, utilising assumptions available at that time to forecast what the likely funding shortfall would be for the period 2025/26 – 2028/29. This analysis produced a cumulative budget gap over the four-year period of £16.3m, with a budget gap of £3.4m in 2025/26 requiring additional savings.
- 6.85 That position was updated and revised over the Summer, notably to reflect increased service pressures in children and adults social care and temporary accommodation. This culminated in an MTFS update going to Public Accounts Select Committee in November 2024, and to Mayor and Cabinet in December 2024.
- 6.86 Given the need to address the budget shortfall set out in July's MTFS, and the increased costs seen in the overspend position for 2024/25, officers began the process immediately in July to identify General Fund budget reductions of £20m for implementation in 2025/26 and 2026/27, plus additional cost reduction measures of £30m to reduce the overspend in 2024/25 and the resultant 2025/26 pressures requiring funding.
- 6.87 This process identified budget reduction proposals totalling £3.848m for 2025/26, and a further £0.821m for 2026/27, against the £20m General Fund budget reduction target. This builds on the £0.850m of initiatives identified in December 2022 for delivery in 2025/26. In addition, the process identified £21.723m of General Fund recurrent cost reduction measures across three years, from 2024/25 – 2026/27, plus an additional £3.042m of General Fund once off cost reductions applicable to 2024/25.
- 6.88 Of the proposals put forward, £0.730m required Mayor and Cabinet approval and £3.118m are officer decisions for implementation. Following extensive scrutiny in November these proposals were brought to Mayor and cabinet and agreed on the 4 December 2024. The proposals requiring member decision and those requiring officer decision are set out in detail in Appendices Y2a and Y2b respectively.
- 6.89 These total net budget reduction measures of £4.698m (the £0.850m previously agreed and the £3.848m new) have been included in the 2025/26 budget calculation. They

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must be achieved in order to maintain a balanced budget and manage the established 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, or through the increased use of reserves beyond that which has been budgeted for in setting the 2025/26 budget.

- 6.90 Given the need to use £21.745m of reserves to set the budget for 2025/26, the Council will seek to ensure that savings are identified, agreed and implemented early in 2025/26 to reduce this risk extending into future years.

Budget Pressures to be Funded

2024/25

- 6.91 In 2024/25, the funds set aside in the budget model to meet inflation, specific identified budget pressures and potential budget risks was £46.072m. This was supplemented by £6.489m of additional Social Care grant uplift, the £2.781m of Market Sustainability Improvement Fund grant, £1.397m of Discharge Fund grant, and the Adult Social Care precept of £2.698m. Furthermore, the £1.993m of New Homes Bonus, the £0.664m of Service Grant, plus the late announcement of £2.850m of additional Social Care grant uplift was utilised for once off pressures. In total pressures and identified risks funding of £54.277m added in 2024/25.

2025/26

- 6.92 The budgets in 2023/24 and 2024/25 had cumulatively received £98.125m of funding growth, over 15% annually, allocated (both base and once off) to fund pressures, most notably in the areas of highest demand led expenditure being children and adults social care and temporary accommodation. The July 2024 MTFS was clear that as the 2024/25 budget had been set with the 2023/24 budget outturn funded in full, the only way that the Council could avoid a significant savings target would be to only fund salary and non-salary inflation in 2025/26, and that in year overspend would need to be managed without creating permanent pressures requiring increased budget.
- 6.93 The updated MTFS presented to Mayor and Cabinet in December 2024 acknowledged that these assumptions were not holding and that despite the £21.723m of overspend reduction measures and savings identified (as discussed above), new growth and pressures funding for 2025/26 would be required beyond the additional £19.983m the pLGFS provides in core spending power for the 2025/26 budget. The report also set out that given the time available these could only be funded from any increase in government funding announced in the provisional Local Government Finance Settlement, and the planned use of reserves. This would mean that the savings target for 2026/27 would be increased accordingly.
- 6.94 Following the announcement of the provisional Local Government Finance Settlement, and the finalisation of the budget reduction proposals, the level of funding available for pressures is £19.983m. This is principally funded through the inflation allocated in the SFA, the increase in S31 grant and the Council Tax base growth and increase.
- 6.95 To this it is recommended that the:
- £2.850m of additional Social Care grant from 2024/25 received late and used as once off in 2024/25;
 - £5.747m of additional Social Care grant for 2025/26 be allocated to address current social care pressures;
 - Adult Social Care precept funding of £3.393m for 2025/26 be ring fenced to support Adult Social Care pressures;
 - new Children's Social care Prevention grant of £1.898m be ringfenced to support Children's Social Care SC pressures;

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- new Recovery Grant of £5.279m is recommended to be used to support pressures generally, both for social care and non-social care pressures.
- 6.96 These actions will provide £19.167m of funding for Council services, most notably social care base budgets, with the risk remaining that in the event that these are reduced or withdrawn in future years then additional pressures will fall directly onto the Council's service budgets via a greater call on Council Tax or the SFA. It is also assumed that grant of circa £3.400m for employers NIC will be received and is included at this stage with the risk falling to reserves if the final allocation falls short.
- 6.97 To the funding of these pressures can be added the NHB of £0.656m. This can only fund once off pressures given the temporary nature of these grants.
- 6.98 The resultant total funding envelope for base budget pressures is therefore £42.549m and a further £0.656m for once off.
- 6.99 The pressures to be funded in 2025/26 fall into a number of broad categories:
- Salary inflation;
 - Employers NIC;
 - Non-salary inflation linked to general inflationary pressures across the Council, principally services and works contract spend;
 - Persistent service pressures in mainly demand led services where these have occurred in 2024/25 and not been able to be fully contained via either management action or commensurate savings; and
 - New service pressures anticipated to arise in 2025/26 where there is an evidence base to support these.
- 6.100 The total level of base budget funding required is £64.294m for budget growth in 2025/26 (£65.023m including once off), which exceeds the level of resources assumed to be provided within the Council's core spending power. This will result in the Council needing to utilise £21.745m (£28.818m including once offs) of reserves to set a balanced base budget.
- 6.101 In terms of accounting for these elements of growth in the Budget, it is proposed that these investments and pressures are allocated in line with the decisions of this Budget to the relevant Directorates when determining their cash limits for 2025/26. These will be set out in the Budget book to be published before the start of the financial year.
- 6.102 Using cash budgets (in particular grants such as the Social Care Grant and Adult Social Care Market Sustainability and Improvement Fund) presents a structural risk for future years. It will not be until government publishes the outcome of the local government funding reform consultation and sets out how this will be implemented in 2026/27 that the Council will be able to quantify this risk more accurately.
- 6.103 The budget pressures anticipated in 2025/26 have been reviewed and it is recommended that the following identified pressures are funded now, set against the Corporate Strategy priorities. Table A3 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.

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Table A3: Summary of 2025/26 budget pressures to be Funded

Description:	£'000:	£'000:
Available Resources:		
Adult Social Care precept	3,393	3,393
<u>Ongoing</u>		
Inflation, Risk & Pressures budget available in 2025/26	19,983	
2024/25 Social Care grant uplift (taken in arrears)	2,850	
2025/26 Social Care grant uplift (additional)	5,747	
Children's Social Care Prevention grant (new)	1,898	
Recovery Grant (new)	5,279	
NIC Grant (new and estimate only)	3,400	
Planned Use of Reserves	21,745	
		60,901
<u>Once-off</u>		
New Homes Bonus	656	
Planned Use of Reserves	73	
		729
Total Resources Available for Risks and Pressures in 2025/26:		65,023
Recommended Allocations:		
Corporate Strategy Priorities		
Quality Housing	(11,500)	
Children and Young People	(18,900)	
Health and Wellbeing	(8,200)	
Cleaner and Greener	(1,950)	
Safer Communities	(75)	
Open Lewisham	(125)	
A strong local economy	(1,159)	
Total Corporate Strategy Priorities:		(41,909)
Organisational Value for Money		
Corporate Services		(1,650)
Salary inflation for 2025/26		(5,358)
Non-salary inflation for 2025/26		(8,701)
Employers NIC - direct staff costs 2025/26*		(3,400)
Employers NIC - supply chain pressure 2025/26		(4,005)
Grand Total Funded Pressures:		(65,023)

* The final allocation of employers NIC grant will be announced in the final Local Government Finance Settlement. Any shortfall in funding will be met from reserves in 2025/26 and added to the savings target for 2026/27.

Pressures to be Funded

Quality Housing: Temporary Accommodation (TA) (-£11.000m)

6.104 The costs and demand for temporary accommodation have increased significantly since 2021/22, with significant growth allocated in both during 2023/24 and 2024/25 to retrospectively fund these pressures in permanent base budget. In April 2021 the Council had 764 people in nightly paid accommodation, by December 2024 this has grown to 1,468, an almost 100% growth in demand.

6.105 People are also staying longer in temporary accommodation as the service is unable to

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move them to permanent housing due to the lack of suitable alternative accommodation. There is also 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 not covered through the Department for Work and Pensions (DWP) Housing Benefit claim. This is a recognised national pressure and there is therefore competition across London which further exacerbates this issue. The service has taken positive and sustained action to seek to minimise and reduce this budgetary pressure, whilst ensuring that the Council continues to support those most vulnerable. There is a TA transformation programme, with a number of initiatives and service changes which are starting to mitigate these pressures, with £10.803m of overspend reduction measures committed for delivery in the course of 2024/25, 2025/26 and 2026/27.

- 6.106 Government has acknowledged that this is a nationwide and systemic issue and in December 2024 announced a 50% increase in the Homelessness Prevention Grant. However, as set out above, there is a 49% ringfencing of this grant for prevention activities, meaning that the increase in funding cannot be spent on the direct costs of TA. Therefore, despite both the cost reduction measures identified, and the increase in grant, it is necessary to acknowledge the scale of the issue and provide additional budget of £11.000m in 2025/26.

Quality Housing: Planning Income Shortfall (-£0.300m)

- 6.107 The recent economic downturn and increased cost of materials and labour has meant that housebuilding and development has slowed down nationally, and London has been similarly affected. There has been a resultant contraction in planning applications and income received by the Council. In addition, many of the planning fees are set nationally, meaning that the service cannot fully seek to control or mitigate this. It is therefore prudent to seek to reduce the planning service income targets by £0.300m in 2025/26 to recognise this.

Quality Housing: General Fund Housing and HRA re-balance (-£0.200m)

- 6.108 Following the return of HRA housing services back to the Council, there has been a review of the charges between the general fund and the HRA. This is important to ensure that the Council maintains the required ringfencing of the HRA and this has led to a pressure in the general fund requiring growth allocation.

Children and Young People (-£18.900m)

- 6.109 The funding provided to Childrens and Young People is intended to fund the overspends in both children's social care and general fund education services.
- 6.110 In children's social care the main cost pressure is in placements. The placements pressure in 2024/25 is £14.2m, this despite significant budget growth in both 2023/24 and 2024/25. The underlying driver for these increases is primarily the cost of placements rather than an increase in demand as the number of Looked After Children (LAC) is relatively stable (and in fact is lower in 2024/25 than prior years). This trend highlights the importance of the work being undertaken in the service to transform into a preventative model of care to act early and recue the complexity of support needed by those children who do need to come into care. This approach aligns with the government's acknowledgement of the national pressures associated with Children's Social Care and have announced the intention to fund prevention through both the new Children's Social Care Prevention grant of £1.898m and the Families First for Children pathfinder grant which the Council secured in 2024/25 and more recently again for 2025/26 (although noting that the grant for 2025/26 has been split into the element funded through the new grant in the core spending power). The directorate have been working towards more intervention and support strategies. This involves improved commissioning work with the PAN London Commissioning Alliance to secure the most

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competitive rates possible and work undertaken to create alternative capacity, such as the capital works on Amersham and Northover in house provision and the more recently approved delivery of further Council owned units approved in 2024. Noting that many of these are medium to long term solutions.

6.111 The service has committed to £5.420m of cost reduction measures across 2024/25 – 2026/27. However, despite these measures and in light of current and anticipated service spending levels, it is considered prudent to recognise the likely growth in service spending through 2025/26 so that the budget is stabilised and to provide capacity for the transition to a more preventative model.

6.112 In education services the primary persistent overspend is in the cost of home to school transport for Special Education Need (SEN) pupils. This is a national issue and Lewisham does not benchmark particularly unfavourably. It is therefore proposed that there is funding for both the 2024/25 overspend and an allowance to support the expected continuing increase in children eligible to receive this service in 2025/26.

Health and Wellbeing: Concessionary Fares (-0.750m)

6.113 The concessionary fares budget is held within Corporate Resources but is shown on a separate line reflecting that this is not expenditure that the service can influence. The expenditure is based on the number of people travelling on public transport who are eligible for free or discounted travel and is set annually by the GLA and payable to it. It is expected that the expenditure in 2025/26 will be £0.750m more than the budgeted level based on information provided to the Council in September 2024.

6.114 Whilst the Council is able to use any surpluses generated from its on-street parking, (see below) there is the need to set aside further budget growth in 2025/26 for the cost of concessionary fares levied.

6.115 Under the Road Traffic Regulation Act (1984), the Council is required to keep an account of its income and expenditure in respect of its on-street parking places, and in respect to its functions as an enforcement authority, within paragraphs 2 and 3 of Schedule 7 to the Traffic Management Act (2004). The use of any surplus from On Street Parking is governed by Section 55 of the Act, which specifies that the surplus may be used for:

- Making good to the General Fund for any deficits incurred in the On-Street Parking Account during the previous four years; or
- Meeting the cost of the provision and maintenance of off-street car parking in the borough, or in another Local Authority. However, if it is considered unnecessary or undesirable to provide further off-street parking in this area, the surplus may then be used to fund:
- Public passenger transport services;
- Highway or road improvement projects;
- Highway maintenance;
- Environmental improvements in its area; or
- The cost of anything that has the approval of the Mayor of London, and which facilitates the implementation of the Mayor's Transport Strategy. All the surplus generated for FY 2023/24 was used to fund concessionary fares, and the Council intends to continue to use future years' surpluses to fund concessionary fares, however there may still be the need for additional Council budget to be set aside in future years.

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Health and Wellbeing: Coroners Court (-£0.300m)

6.116 The Council is part of a tri-borough arrangement for its Coroners Court services, and the budget and spend for this is outside of the Council's control. There have been overspends in prior years which have been funded from either reserves or underspends elsewhere in the Place directorate. This is not sustainable and so it's proposed that £0.300m of budget growth is allocated for 2025/26.

Health and Wellbeing: Adult Social Care and Health (-£7.900m)

6.117 As set out in the paragraphs above, there a number of specific ring-fenced grants provided for specific elements of Adult Social Care, including the Adult Social Care Market Sustainability and Improvement Fund and the roll in of the Discharge grant into the iBCF which are to be allocated to Adult Social Care to meet the expected demand in services. The uplift in Social Care grant has also been utilised to support growth and pressures within the 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. In addition to this the Adult Social Care precept raised is to be applied to Adult Social Care services.

6.118 The key elements of pressure are the increase in demand for care, to be expected with a demography of an ageing population in the Borough, as well as the cost of such care, and the pressure associated with children and young people transitioning into the Adult Social Care system.

Cleaner and Greener: Waste Disposal (-£1.200m)

6.119 The Council is contractually obliged to pay an annual increase in the cost of its residual waste disposal. The Council is clear on its objectives to increase recycling and reduce residual waste tonnages wherever possible. However, the previous year's inflation levels have meant that despite higher levels of recycling in the borough there is additional funding required to meet the increase in the unit cost for disposal.

Cleaner and Greener: Food Waste Collections (-£0.750m)

6.120 The Environment Bill 2021 requires that all domestic properties receive separate weekly food waste collections from household waste (residual). Lewisham currently collects food waste weekly from kerbside properties and this approach will now need to be rolled out across the borough to estates and flats. Whilst there has been grant funding from the Department for Environment, Food and Rural Affairs (DEFRA) to support these changes, the level of grant is insufficient to meet these costs in full and growth of £0.750m is required to meet this legislative change.

Safer Communities (-£0.075m)

6.121 There are a range of persistent specific pressures associated with our safer community services, including for example a loss of income from the previous closure of a community centre. Whilst these are not material in value it is deemed appropriate to fund these as pressures to ensure that service delivery can continue as planned into 2025/26.

Open Lewisham: Broadway Theatre (-£0.125m)

6.122 The Broadway theatre is the cultural anchor for Catford and the only Council owned theatre in the borough. Since its re-opening in February 2023, it has been busier than ever supporting the borough's diverse cultural programme and the Catford economy. An implication of this increased trade is an increase in its business rates liability which cannot be managed within existing budgets. Whilst there is a review being undertaken by the valuation office it is deemed prudent to fund this budget in 2025/26. In the event that the rateable value is reduced this would be offered up as a saving in 2025/26 or 2026/27.

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Open Lewisham: Lewisham Street Market (-£0.129m)

6.123 The borough was successful in achieving £19m of Levelling Up capital funding for improvements to Lewisham town centre. Part of this programme of works is to provide a canopy over the Lewisham market, supporting extended trade and improved user experience. There will be a period of time where the market will need to close to support these works, and this will lead to a shortfall in income for the Council due to loss of trader permit income. There is therefore the need for once off funding in 2025/26 of £0.129m to support this.

A Strong Local Economy: Commercial and Operational Property Income (-£1.030m)

6.124 The economic challenges experienced in the UK has impacted on the Council's ability to generate its budgeted level of income from its commercial property estate and balance its cost pressures in maintaining its operational estate. It is proposed to provide £1.030m growth to these budgets in 2025/26 in light of these pressures which are expected to continue.

Organisational Value for Money (-£1.650m)

6.125 Despite there being a £1m underspend in 2024/25 for the payments due to the GLA for those people travelling on public transport who are eligible for free or discounted travel. The GLA have notified the Council that these costs are expected to rise by a further £0.750m above the 2024/25 budget to account for both fare increases and the expected increase in demand. The Council is unable to reduce these costs and so must make allowance for these charges in its 2025/26 budgets.

6.126 In addition to the corporate strategic objectives for front line services, the Council is a large and complex organisation. Over the previous decade 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 ensure that the resourcing for some corporate services remains sufficient. In particular, resident services and technology – which has underpinned the Council's ability to transform its ways of working and engagement with residents. The Council will need to fund additional software licensing costs of £0.100m above existing budgets.

6.127 The Council has a significant programme of work associated with improving its collection of income, focusing on ensuring that those that can pay do, and that those who are less able to pay are supported into accessing all available financial help and support. Whilst this work will increase the overall levels of income collected, as our overall levels of debt raised increases, our need to set aside a proportion of budget for bad debt similarly increases, particularly in respect of our commercial property portfolio where it has been set out above the pressures this faces. There is a need to increase this element of bad debt provisioning in 2025/26.

6.128 Finally, there is a £0.400m pressure in Legal Services due to agency and external expenditure to deliver primarily housing and Social Care legal work (challenges recruiting in this area) and the level of workload. This reflects the pressures reported in 2024/25 and require funding to sustain the level of service required to support the Council.

Inflation

6.129 The Government's inflation target for the United Kingdom is defined in terms of the 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.

6.130 Within the Economic and Fiscal Outlook released in October 2024, the Office for Budget Responsibility predicts that inflation in 2025 will average at 2.6%, slightly higher than the 2024 average of 2.5%, and fall to an average of 2.3% in 2026. There is also a

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lag between the rate of CPI and the level of inflation experienced by the Council through its contract inflation uplift obligations and salary negotiations and agreements.

6.131 This was reflected between the agreed Medium Term Finance Strategy in July 2024, where the Council was assuming to budget 3% for pay award and 3% for non-pay inflation, and the current assessment of inflation pressures in agreeing pressures, which now also takes into account the impact of the changes made in the Chancellor's Autumn budget in 2024 which will see the Council's contract costs rise.

6.132 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 2025/26 and/or 2026/27. This will be reviewed and reported to Members as part of the 2025/26 MTFS process in July and the regular financial monitoring reports.

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

Salary inflation 2025/26 (-£5.358m)

6.134 The 2025/26 assumed salary uplift has been based on a pay award of 3%. This reflects a judgement based on the final 2023/24 agreement which averaged to almost 6%, and the current and forecast levels of inflation anticipated for 2024/25.

Non-pay inflation and additional growth (-£3.250m and -£5.451m)

6.135 The MTFS assumed a 3% uplift for net non-pay inflation which equates to £3.250m. However, as part of the process of identifying service pressures it has become clear that inflation risk as measured by CPI is not the most appropriate measure of increase for most contracts which are predominantly staffing based. For these contracts the annual increase in the London Living Wage is the better measure of increase. The Council is a Living Wage Employer and requires this of its providers and therefore it is appropriate that we acknowledge this pressure in setting the budgets for 2025/26. There is therefore an ask to fund a further £5.451m of inflation across the services in 2025/26.

6.136 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.

Direct Employers NIC (-£3.400m)

6.137 As set out above, government have announced that they will fund local authorities for the direct impact of increased employers NIC contributions on the basis of net expenditure, with allocations only announced in the final settlement. The Council has forecast that this impact will be circa £3.400m and assumed that the funding will meet this in full. In the event that i) the costs are higher than forecast, and ii) that the level of grant is insufficient then this will be reported as an overspend in 2025/26, funded through reserves and then included in the savings target to ensure that this is funded in full in base budgets for 2026/27.

Indirect Employers NIC (-£4.005m)

6.138 Whilst government has committed to funding local authorities' direct employers NIC increased costs, there is no specific funding available for indirect costs within supply chains which providers may pass to the Council. The impact of this for 2025/26 has been estimated to be circa £4.005m. Whilst this will be reviewed on a contract-by-contract basis and every effort made to contain or reject these costs being passed to the Council it is proposed that this growth allocation be made in 2025/26.

Summary of Budget Pressures and Investment

6.139 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.

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- 6.140 There are a number of pressures to be funded, which can be quantified within a reasonable range. These more than fully commit the MTFS allocation, the additional resources received through the provisional Local Government Finance Settlement, and increased grants outside of the core spending power for 2025/26.
- 6.141 The total value of pressures funding is £65.023m (both base budget and once off), and this is funded by £43.205m of funding available. This leaves a residual gap of £21.818m to be funded from reserves, as discussed in detail below.
- 6.142 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. However, due to the need to use reserves to set the budget, the Council is unable to set aside any of the Budget to fund these risks should they emerge during 2025/26. As such, any further pressures will have to be met from corporate provisions and a further call on reserves pending action being taken to bring spending back in line with the available Council resources and Budget.

Use of Provisions and Reserves

- 6.143 Following finalisation of budget reduction measures and budget pressures for 2025/26, it is assumed that £21.818m of reserves will be used to balance the budget. 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.
- 6.144 The Council fully acknowledges that using reserves to set the budget brings increased risk to the financial sustainability of the Council. This risk will be mitigated through the immediate action to seek to identify savings to offset this. The standard process is to bring forward the Council's MTFS in July, to identify savings over the Summer, scrutinise, consult, and agree these in the autumn for planning and implementation over the winter. This approach enables savings to be delivered in full from the start of the following municipal year. However, the approach in 2025/26 will be accelerated and start in January with the draft Budget as the indicative MTFS to ensure that the reliance on reserves can be unwound within 2025/26 and in advance of setting the 2026/27 budget.
- 6.145 It is expected that in funding the overspend in 2024/25 and using £21.818m of reserves to set the 2025/26 budget, that these actions could utilise up to 50% of the earmarked reserves available to the Council. Any further call on reserves may mean that the Council will either need to utilise its unearmarked reserves (£20m in 2024/25) or may need to scale back its transformation and capital ambitions.
- 6.146 Further discussion of the use of reserves and planning for future budgets form part of the s151 officer's section 25 report at Appendix Y5 and the approach to future years budgeting discussed in Section 7 below.

Overall Budget Position for 2025/26

- 6.147 For 2025/26, the overall budget position for the Council is an assumed General Fund Budget Requirement of £312.515m, as set out in Table A4.

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Table A4: Overall Budget Position for 2025/26

Detail:	Expenditure/ (Income): (£m)	Expenditure/ (Income): (£m)
SFA for 2025/26	(138.891)	
Council Tax 2025/26 at 4.99% increase	(152.280)	
S31 Grant	(21.345)	
Assumed Budget Requirement for 2025/26:		(312.515)
Base Budget for 2024/25	293.838	
Plus: Salary Inflation 2025/26	5.358	
Plus: Non-Salary Inflation 2025/26	8.701	
Plus: Direct Employers NIC costs 2025/26	3.400	
Plus: Indirect Employers NIC costs 2025/26	4.005	
Plus: Pressures funded	39.437	
Plus: Adult Social Care Precept	3.393	
Less: 2024/25 Uplift in Social Care Grant	(2.850)	
Less: New Social Care Grant uplift 2025/26	(5.747)	
Less: Children's Social Care Prevention Grant (new)	(1.898)	
Less: Recovery Grant (new)	(5.279)	
Less: Assumed Employers NIC Grant	(3.400)	
Less: Savings previously agreed for 2025/26	(0.850)	
Less: Savings agreed in 2024/25 for 2025/26	(3.848)	
Less: Planned Use of Reserves	(21.745)	
Total:		312.515

Note: the uplift in Social Care grant and Children's Social Care Prevention Grant will be fully applied to growth and pressures within social care in accordance with the provisional Local Government Finance Settlement.

- 6.148 The statutory calculation for the 2025/26 budget requirement is attached to this report at Appendix Y6.
- 6.149 At this time, on the budget assumptions for the General Fund set out above, £21.818m of reserves (£21.745m in base budget) will be used to set the balanced base budget for 2025/26.

Fees and Charges 2025/26

- 6.150 Lewisham Council is involved in a wide range of services and the ability to charge for

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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.

- 6.151 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 2025/26 and the relevant service commentary are included at Appendix Y8.

7. Future Years Budget Strategy and Risks

- 7.1 This section of the report considers the draft Medium Term Financial Strategy for the Council, as updated following the provisional Local Government Finance Settlement, which will be updated once the budget is agreed and presented to Mayor and Cabinet in 2025/26. It considers the key financial risks associated with both the draft budget for 2025/26 and the longer-term risks associated with the four-year financial planning window.

Future Years Budget Strategy

- 7.2 Utilising the information currently available to inform our assumptions as to the likely income receivable and costs pressures to be funded, enables the Council to forecast what the likely funding shortfall would be for the period 2026/27 – 2029/30. This analysis produces a base case cumulative budget gap over the four-year period of circa £49m, which includes the permanent unwinding of the use of reserves but does not allow for any future demand pressures and service overspending.
- 7.3 For example, on the basis that general market inflation is still a key pressure to be managed along with a new key pressure due to the changes in the Employer National Insurance Contribution rate and secondary threshold, the MTFS does not provide pressures funding of the scale currently funded in 2024/25 and 2025/26 to support systemic pressures and fragile markets as seen in children's social care and temporary accommodation. If pressures such as these arise, or are not adequately managed and mitigated, the scale of reductions required will be equivalently larger.
- 7.4 The key assumptions underpinning this analysis is that salary and non-salary inflation rises at 2.5% in 2026/27 and 2% for the remaining three years. Council tax collection rates remain steady at 96% for 2026/27 and 2027/28 and then increase to 97% for the final two years – reflecting the work of the Debt programme underway.
- 7.5 Crucially, it is assumed that the settlement funding assessment (SFA), which is the single largest element of core spending power (outside of Council tax) increases only with 2% inflation. What the draft MTFS model does not attempt to forecast is any significant reform to local authority funding which we know that government has committed to introducing in 2026/27, and which is currently being consulted on. This is the single biggest risk to the modelling at this stage and which will require refinement before being presented to Mayor and Cabinet in early 2025/26.
- 7.6 However, the draft 'vanilla' MTFS model demonstrates that in order to unwind the reliance on reserves, and to fund minimum inflation pressures the Council will need to identify £49m of savings over the four-year period, and £30m to be identified and agreed in early 2025/26 for full implementation by the 1 April 2026.
- 7.7 The MTFS model does take account of the existing savings measures already identified which were tabled as a result of the 2024/25 process. This was a targeted approach to developing savings from strategic service changes over more than one year. This instigated 'deep dives' into areas of the highest overspends in 2023/24, namely Children's Social Care, Temporary Accommodation, Adult Social Care, and

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supported transport (adults and children), to enable discussions of possible upfront investment into items which identified as invest-to-save schemes linked to the transformation of service delivery and corporate effectiveness, as opposed to budget and service reductions. In addition to the 'deep dives', transformation projects were identified and agreed with the aim of improving the productivity of the Council in future years, therefore reducing its reliance on once off funding and keeping levels of spend within the forecast MTFS Budget resource allowances.

- 7.8 Transformation projects identified to keep future spend within the forecast MTFS allowances fall into the following categories:
- Corporate Projects (including Asset Management and No Wrong Front Door);
 - Directorate Transformation (within the Housing, Adult Social Care, Children's Social Care and Waste service areas);
 - Enablers (including Records Management and Digital Strategy); and
 - Other Priority Projects (including Debt Collection and the Public Telephone Switched Network transition, known as PTSN).
- 7.9 For 2025/26 these projects will need to clearly set out agreed savings targets where these have not yet been identified and will form part of the savings process.
- 7.10 Existing governance arrangements will be utilised where appropriate to ensure that there is rigorous oversight of the programmes that are brought forward to support these reduction measures. In particular, EMT sitting as a strategic change board.
- 7.11 EMT have already begun the process of designing the approach and timetable for the identification and delivery of the £30m of savings for 2026/27.
- 7.12 The initial process will focus on three key programmes of work:
- Consideration of service re-design to ensure that this aligns with proposals from Cabinet to progress in line with Government's new missions, and expected policies to deliver these;
 - Spending reductions associated with the learning from the service 'deep dice' exercises and transformation plans set out above; and
 - Those savings items prepared in 2024/25 by services in response to the challenge to reduce all budgets by 10%. It is important to note that 10% of the 2025/26 budget would equate to £33.4m being roughly the entire savings target.
- 7.13 The process will begin in January 2025 with draft proposals prepare and submitted to EMT by April 2025. These will be refined in discussion with Cabinet in May, enabling a full scrutiny process at the June 2025 scrutiny meetings. This will allow the savings proposals to be tabled to Mayor and Cabinet in July as part of the MTFS. This will either confirm the delivery of these or enable amendments to the overall target. Those savings agreed will be able to be implemented from September 2025 onwards, ensuring that the reliance on reserves van be reduced in advance of setting the 2026/27 budget.

Risks

- 7.14 Setting a balanced budget is a statutory requirement for a local authority, and the Council's inability to do this without the planned use of reserves introduces additional risk to the long-term financial sustainability of the Council. The Council has a good level of reserves, and when benchmarked performs well against both London and the UK as a whole. The governments data explorer tool shows that based on 2023/24 data the Council's non-ringfenced reserves as a percentage of its net revenue expenditure is 95.6%, compared to the median of similar local authorities at 50.4% and the rest of England at 39.9%.

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- 7.15 However, the Council expects to use circa £20m of reserves to support the 2024/25 overspend and £21.818m to set the 2025/26 base budget, meaning that these will decrease by a minimum of £40m without allowing for further risks or pressures nor any planned spend against these reserves which whilst not ringfenced are held for specific purposes.
- 7.16 It is therefore imperative that the MTFs savings targets are both identified early and delivered in full.
- 7.17 The second key risk is that of the future funding regime for local authorities. The provisional Local Government Settlement again provided only a single year settlement; effectively as a roll forward of 2024/25, although with the introduction of both growth and new specific grants, some of which were introduced to address underfunding in certain service areas and allocated on the basis of need and deprivation. The Autumn Statement 2024 set out that the growth within the public sector provided in the current spending round would be funded via radical changes to Employer National Insurance rate (from 13.8% to 15.0%) and secondary threshold (reduced from £9,100 to £5,000 per annum), new fiscal rules to improve economic stability and increased day-to-day departmental spending.
- 7.18 Within the Autumn Statement 2024, it was announced that Business rates will be reformed from 2026/27 to include lower multipliers for high-street retail, hospitality, and leisure businesses, funded by increases to properties valued at over £0.5m. The uncertainty of the impact of this reform at this stage introduces risk. Furthermore, the Local Authority Funding Reform aims to update how local authorities in England are funded to ensure a fairer and more efficient allocation of resources and is expected to take effect via the Local Government Finance Settlement from 2026/27 which introduces further risk to the Council's funding envelope. The Social Care funding reform is also still expected, although noting the first of two phases will not be reported until 2026 with the second by 2028. The MTFs is currently neutral in terms of the outcomes of this reform which is a major risk as any reduction in funding to the Council will have to be met from additional savings.
- 7.19 The Non-Domestic Ratings Act passed in October 2023, and became effective from 1 April 2024. It provides for separator multipliers to be applied to the small businesses compared to the standard rates and that these can be independently changed and increased. Government has confirmed that they will be freezing the small business multiplier for another year and uplifting the standard rate multiplier by September 2024 CPI, so that local authorities will be protected via continued section 31 funding. However, the detail to fully assess the impact of this is not yet available and the longer-term impact of the decoupling may introduce increased risk in future years. It also means any return to the London collaboration around a business rate pool remains for the future. For 2025/26, retail, hospitality and leisure businesses will receive a 40% business rates relief. With no confirmation of whether this will continue into future years, the longer-term impact of this is also uncertain.
- 7.20 The scale of social care funding is increasing, and Local Government grows ever more reliant on both local taxes and the various social care grants. Confirmed social care grants including the Social Care Grant, Market Sustainability & Improvement Fund, the Children's Social Care Prevention Grant, and the LA Better Care Grant (the combined iBCF and Discharge Fund) have a combined value of c£62.9m for 2025/26 and will be used to support services, with funding via the Better Care Fund (BCF) and Public Health (PH) grant yet to be confirmed. While outside of core budget, these growing additional grants will total circa £120m and equivalent to 38% of the core budget of £312.515m (assuming BCF increases as anticipated and PH grant remains consistent). Significant changes to these will increase the risk to the Council which may have to make sudden and drastic changes to service delivery within social care or proportionately reduce other services. The mitigation to this risk would usually be to

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hold higher levels of reserves to give time to be able to respond but reserves are now planned to reduce as they are being used to support current levels of overspend and allocated to support the base budget.

- 7.21 There also remains the significant risk that the general fund may be required to support both the ring fenced HRA and school's budget. The HRA financial position is finely balanced, with the 2024/25 financial position being such that the Council has opened discussions with the Ministry of Housing, Communities and Local Government to inform them of both the current levels of spend (and reserves) and to share the 30-year business plan. This demonstrates that the HRA can remain financially sustainable but will need all of the mitigations and transformation identified within the Housing Transformation programme to deliver as intended.
- 7.22 The cumulative DSG deficit is expected to be £17m by the end of 2024/25. Whilst the Delivering Better Value programme supported by the Department for Education (DfE) has contributed to the Council being able to maintain this annual increase at circa £2m per annum, the statutory override (which ringfences the current circa £15m unfunded Special Education Needs (SEN) deficit to schools reserves) is only in place until 31 March 2026. Unless extended by government the general fund reserves would be required to meet this.
- 7.23 Apart from reserves and funding stream risks there are a number of other risks and issues which, although difficult to quantify with absolute certainty, could prove significant should they materialise.
- 7.24 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:
- Legislative or policy changes;
 - Service Investment;
 - National / London Living Wage;
 - Redundancy;
 - Unachieved budget reductions;
 - Wider public service delivery failure; and
 - Further inflation.

Legislative or Policy Changes

- 7.25 The introduction of a new government in July 2024 means that it is expected that there will be new legislation enacted to support the new policy framework and priorities. The extent of these, or the impact on local authorities is not yet known and therefore provides risk.
- 7.26 On the 16 December 2024 government published the English Devolution White Paper, which will run alongside the current consultation on the reforms to local authority funding for implementation in 2026/27.
- 7.27 Government has made clear that it plans to move power out of Westminster and create Strategic Authorities, this includes Mayoral Strategic Authorities, which for London will be the Great London Authority. For those which meet specified eligibility criteria may be designated as Established Mayoral Strategic Authorities which will unlock further devolution, most notably an Integrated Settlement.
- 7.28 Whilst the detail of this is still to be worked through and government has said that these changes will be delivered alongside each Comprehensive Spending Review, and the local authorities funding reform, it will most likely bring changes for the Council.

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Service Investment

- 7.29 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

- 7.30 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, the LLW has tended to increase by a greater margin than general inflation and this has been evidenced by the need to set aside an additional £5.451m of growth for inflation above the budgeted level.
- 7.31 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 but will need refinement.

Redundancy

- 7.32 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

- 7.33 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.
- 7.34 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.

Wider Public Service Delivery Failure

- 7.35 There is risk from immediate cost of living pressures growing with the risk of future economic growth stalling with associated rising unemployment which sits alongside the risk of service pressures in other areas of the public sector driving need onto local authorities as the public provider of last resort. For example, the risks of failing infrastructure for energy, water and transport, rising health waiting lists and delays to treatment, withdrawal of financial support through the benefits system, and rising crime and anti-social behaviour increasing community tensions. These risks combine with a growing and longer living population in the Borough with greater needs and more vulnerabilities, all of which put demand on Council services at greater cost. Estimating these potential impacts is challenging.

Inflation

- 7.36 Prior to the introduction of the LLW as a requirement for all contracted services, and the recent period of historic high inflation, the Council's approach of budgeting for a net increase in non-salary budgets of CPI broadly held.
- 7.37 However, this simplistic approach to forecasting for inflation is no longer a robust proxy

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for actual costs. Furthermore, the Council only budgets for inflation uplift on a net basis, and if fees and charges are not raised by inflation (and this is possible where these are set by Government) or if the level of demand for the services means that less income is generated overall, this will also increase the inflationary pressure on budgets.

- 7.38 The Council will ensure that it monitors these and any other risks materialising via the monthly financial monitoring to EMT, and the quarterly reporting to Mayor and Cabinet. These will inform the 2025/26 Medium Term Financial Strategy and will ensure that the reliance on reserves and other once off grants in 2025/26 is reduced and service pressures contained within the forecast budgetary allowances in order to ensure the financial robustness of the Council.

8. Dedicated Schools Grant and Pupil Premium

Update on 2024/25 Dedicated Schools Grant

- 8.1 The 2024/25 Dedicated Schools Grant (DSG) grant allocation was advised by the Department for Education (DfE) in December 2023 and reported to Schools Forum at the January 2024 meeting. These figures have been revised following adjustments to the High Needs Block (academy recoupment and placements made in other LA/from other LA's) and early years block (revised down following January census validation).

Table B1: DSG Projected Outturn 2024/25

DSG Projected Outturn:	Schools Block:	Central School Services Block:	High Needs Block:	Early Years Block:	Total DSG Allocation:
	(£m)	(£m)	(£m)	(£m)	(£m)
Gross Budget	240.7	3.0	79.0	38.9	361.6
Academy Recoupment	(89.1)	0.0	(0.7)	0.0	(89.8)
DSG Budget:	151.6	3.0	78.3	38.9	271.8
Expenditure	151.6	3.0	80.7	38.9	274.2
Total Spend:	151.6	3.0	80.7	38.9	274.2
Variance:	0.0	0.0	2.4	0.0	2.4

- 8.2 *Schools Block:* Expenditure will be in line with the allocation as the disbursement of funding has already been agreed with the DfE in January 2024. The overall net budget position has been revised to reflected that some schools have now fully converted to academies, as yet from a funding perspective the DSG has not been revised for the three schools recently converted, however the impact will be cost neutral.
- 8.3 *Central School Services Block:* The funding received from the Central Services Schools Block, which has an annual reduction of 20%. The Service is reviewing spend within this area with the aim of reducing the cost pressure on the General Fund as shown in Section 6.
- 8.4 *High Needs Block:* The High Needs Block has a £2.4m pressure against the available funding. Lewisham has been progressing a mitigation plan and is now working with the DfE as part of the Delivering Better Value (DBV) initiative. It is anticipated that the overspend will continue to reduce/stabilise, which could potentially have a positive impact on some General Fund pressures including home to school transport and education psychologists.
- 8.5 *Early Years Block:* The DfE has now confirmed the final position for 2023/24 allocation. There was a £1.5m drift between the January pupil validation and the final 2023/24 position, of which the DfE will clawback £1.3m. It was agreed with Schools Forum at the December meeting that £0.4m can be used to meet the pressure on this specific grant and the balance of £0.3m can be used to support the High Needs Block.

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- 8.6 In overall terms the DSG cumulative deficit is expected to be circa £17.4m at the end of 2024/25 reflecting the pressure on the High Needs Block.

DSG and Pupil Premium for 2025/26

- 8.7 This section of the report considers the DSG and the Pupil Premium Grant for 2025/26.
- 8.8 The DSG is the main source of funding for Schools and Early Year Providers. The grant is constituted of four parts, the Schools Block, Central Schools Services Block, High Needs Block, and the Early Years Block. Funding is based on National Funding Formulae which determines each of the blocks and collectively determines the overall DSG. The gross allocation of DSG for 2025/26 is £395.95m, compared with £361.07m in 2024/25, representing an increase of £34.88m.

Table B2: DSG 2024/25 vs. 2025/26

	Schools Block:	Central Schools Services Block:	High Needs Block:	Early Years Block:	Total DSG Funding:
	(£m)	(£m)	(£m)	(£m)	(£m)
2025/26	257.08	2.96	83.96	51.96	395.95
2024/25	240.66	3.03	78.95	38.43	361.07
Net Movement on Summarised Position:	16.41	(0.07)	5.01	13.53	34.88

- 8.9 The 2025/26 overall DSG allocation is £395.95m suggesting an increase of circa 8.6% compared to 2024/25. This is the gross position for Lewisham; therefore, it includes funding for academy schools.
- 8.10 It should be noted that the grants relating to Teachers Pay and Pensions have in the main been streamlined into the DSG and are therefore not new funding; £13.5m is streamlined grants relating to pay and pensions.
- 8.11 *Schools Block:* It is estimated that, of the £16.4m increase in funding, c£13.5m relates to pay, therefore the non-pay increase is c£2.9m (1.1%). There is an overall reduction in the Primary and Secondary Phase of 325 pupils which equates to c£2m, which offsets some of the increase.
- 8.12 *Central Schools Support Block:* The Central Schools Support Block continues to reduce by 20% or £0.3m, which is partially negated by an increase in the formula led element of the grant which is ringfenced for the LA statutory role. The increase in the formula led element also includes streamlining for pay awards for centrally based teachers and uplift to support some changes to fund additional copyright licences (not new funding).
- 8.13 *High Needs Block:* A net increase of £5.0m (6%), which is funding to support young people with Special Needs. In addition, Schools Forum have agreed to supplement this budget by £1.0m in 2025/26. The Council continues to work with the DfE on the national cumulative deficit being carried by Councils for running these services. The DSG over-ride (which effectively ringfences the overall deficit) has been extended to March 2027. Unlike the other DSG blocks, DfE has suggested that the Teachers Pay Grants for the Special Schools will remain ringfenced and allocated as a separate grant, further information is expected in late spring 2025.
- 8.14 *Early Years Block:* The provisional allocation advised is advised at circa £52m. This allocation includes the full year effect of the under 2s funding and streamlining of the teachers' pay grant. It should be noted that, as the early years offer is still in the process of being embedded in 2024/25, local authorities were allowed to centrally hold back 5%, but this has now reduced to 4%.

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Pupil Premium Grant for 2025/26

- 8.15 It is understood that the pupil premium will continue, however the funding levels have not yet been confirmed and it is anticipated that these will not be known until Summer 2025. The pupil premium is based on factor known as Free School Meals Ever 6. For context, the 2024/25 pupil premium allocation for Lewisham was £15.5m.

Pupil Numbers

- 8.16 Schools Funding is based on numbers from the previous year, and as such the 2025/26 provisional Local Government Finance Settlement is based on October 2024 which shows a decrease of 325 for 2025/26; 311 across the primary phase and 14 in the secondary phase. On a school-by-school basis there is a vast variation with some experiencing large increases, some large decreases and some remaining consistent. In 2023/24 there was a net reduction of 227, with a reduction of 251 pupils in 2024/25. This will be the 7th consecutive year of falling pupil numbers which has varying implications for individual schools.
- 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 feeding into them. Also, more secondary school aged children are choosing to stay in Lewisham secondary schools, however as the Primary Numbers work through the year groups the pressure will start to impact on secondary schools (there is a net reduction of 14 in October 2024 census, as noted).

Potential Risks

- 8.18 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 to 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%. This ratio will be hard to contain with more schools forecasting deficits, and the pool of surplus reducing due to schools academising.
 - 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 a varying degree of impact for Schools.
 - Budget plans from Schools suggest that some are operating with a structural deficit relying on their reserves to provide balanced budgets. Schools Finance are working with these schools to mitigate this risk, however there is capacity issues as more and more schools need support.
 - The rising costs of utilities and other pressures, e.g., increase in contracts such as school meals has not been recognised in full in the funding allocations, and schools may struggle to meet these costs over the coming year.
 - Cost-of-living crisis for individuals may potentially mean that more children need additional support.
 - Early Years National Policy - The DfE is keen to expand the Early Years offer, however there are various challenges. These challenges include, for example, birth rates, take up (more parents now working from home) and the hourly rate provided to Lewisham, which remains significantly lower than that allocated to neighbouring boroughs.

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- The 2025/26 pay offer - the funding made available for 2025/26 is expected to meet the 2025/26 pay award for teachers and support staff. The current suggested offer from the pay review body suggests 2.7%, with the pay review body suggesting this would be affordable with the funding settlement allowing for some “efficiencies”. Schools are likely to struggle with this, especially those with falling numbers.
- The impact of the NI increase and changes in threshold:
 - It is noted that DfE has suggested funding to support this pressure, however any funding is likely to support as “contribution” only and not the full cost;
 - Schools with falling numbers or higher than DfE average costs will see more pressure;
 - Wider stakeholders, e.g. Early Years providers, are likely to exit the market. Providers supporting High Needs services are already asking for larger increases in costs; and
 - Certain contracts may be affected in particular such as School Meals and Transport services.
- Childrens Bill – although awaiting more information, the Children’s Bill in principle refers to more intervention on home schooling and exclusions etc. The report has also made reference to “universal breakfast provision”. The Autumn Statement 2024 referred to breakfast club more as a bidding process.
- Officers welcome the £5m increase in Special Education Needs (SEN) funding representing 6%, however, that is one of the lowest increases in London. Many others have received higher than this.
- The Statutory Override has been deferred to April 2026.

9. Housing Revenue Account

- 9.1 The budgeted expenditure for the Housing Revenue Account (HRA) in 2025/26 is £251.2m, including the capital and full new build programme.
- 9.2 It is structured as follows:
- Update on the HRA financial position for 2024/25;
 - Update on the HRA Business Plan; and
 - Future Years’ Forecast.

Update on the HRA Financial Position for 2024/25

- 9.3 The HRA is budgeted to spend over £121m in 2024/25. The latest forecast on the HRA for 2024/25, is that net expenditure cannot be contained within budget by the year end. Revenue Repairs and Maintenance is forecast to overspend by £9.5m as at P8 and Major Works recovery is expected to be lower than budget by approximately £2.0m. Overall, the HRA is forecasting a net overspend of £3.8m as at P8 after taking management action. This will be mitigated by the use of once-off contingencies, reserves and revenue working balances.
- 9.4 The 2024/25 opening reserves for the HRA were £2.9m at the start of the year, which is significantly below the recommended level of circa 10% of revenue income ~£9.5m. In addition, the £9.5m overspend on repairs and maintenance was such that and the forecast outturn of a £6.5m overspend was greater than the level of reserves held. This triggered enhanced reporting of the position and the establishment of Repairs project

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within the Housing Transformation Programme. A number of once off mitigations were identified in addition to the identification and implementation of permanent spend reduction measures. In October the Council wrote to Ministry of Housing, Communities and Local Government (MHCLG) informing them of the current position, and the Council's recovery plan.

- 9.5 The P8 position has improved to a net overspend of £3.8m, and the finalisation of the 2023/24 audit of the accounts has resulted in an increase in opening reserves to £4.8m. This now means that the HRA will be able to finish 2024/25 without a deficit. The 30-year HRA business model remains viable but there is the need to ensure that the repairs budget in 2025/26 can be increased and that the implications of the stock condition survey and any impact on the capital programme is carefully managed as the financial sustainability of the HRA will remain under careful review.

Update on the HRA Business Plan

- 9.6 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.
- 9.7 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 four 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.
- 9.8 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.
- 9.9 However, due to the cost-of-living crisis and 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.
- 9.10 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% in 2023/24, without additional funding to housing providers. The implementation of the cap on increases cost c£3.2m for Lewisham, which impacts on our ability to invest in our stock and meet our obligations.
- 9.11 For financial year 2024/25, Government did not reduce or cap the forecast rent increases which were based on CPI + 1%.
- 9.12 For 2025/26, Government has confirmed that they are not seeking to cap or reduce rental increases based on the formula rent calculation of CPI + 1.0%. The CPI data for September 2024 was 1.7% and therefore rent will increase by 2.7% based on Government's formula rent calculation. This results in an average increase of £3.26pw over a 52-week period. This will increase the full year average dwelling rent for the Lewisham Council's HRA stock (as at April 2024) from £120.63pw to £123.89pw.
- 9.13 The HRA financial model has therefore been updated with current Government formula rent calculations at a maximum of 2.7% for 2025/26. Government has confirmed that rent increase for 2026/27 will be based on CPI + 1.0%. In addition, Government is currently consulting on the future of social housing rent policy which proposes a 5 to 10

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year policy of rent increases based on the current formula of CPI + 1%.

- 9.14 Lewisham responded to the consultation stating that it was imperative that Government recognise the financial pressures on Councils and provide them with additional funding. Significant financial pressures are already bearing down on local authority HRAs. Primarily these pressures have been driven by the previous administration's 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. This could include a small programme of disposals of long-term voids and garage sites with the capital receipt being invested into the HRA capital programme.
- 9.15 While it is essential that rents increases are kept as reasonable as possible, it is also imperative that stability in rent increases for a period of 5 to 10 years would help in financial planning and stabilise HRA's in the longer term. In addition, any cap or reductions imposed 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.
- 9.16 Long term rental forecasts within the current financial model are based on the assumption of rent increases being based on CPI + 0.5% until Government confirm its intentions on future rent increases.
- 9.17 Our top priority is to make our blocks safe; we want to get all of our 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 level of funding from Government has historically been less than the service demands, meaning that Councils are increasingly having to choose which of these crucial works to prioritise.
- 9.18 There is a further complication in that due to recent legislative changes, leaseholders cannot be recharged for some of the fire remediation works, therefore leading to further income losses.
- 9.19 Sustainability and carbon reduction ambitions, as well as improving thermal comfort for our tenants is another pressure on the HRA.
- 9.20 For financial planning purposes, the HRA is assuming average pay inflation, for the longer term of 2.0% 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 3.0% for 2025/26. Non-pay inflation including on repairs and maintenance (R&M), materials and contract costs is forecast at 2.7% for 2025/26.
- 9.21 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 through savings or increased efficiencies, and reprioritisation of investment requirements across stock condition and/or development plans.
- 9.22 A review of current investment needs and priorities continues to be refreshed, based on updated surveys and inflation estimates. The current stock condition survey should be completed by the end of this year and will provide an update on assumptions on future liabilities, such as maintaining decent homes, fire programme, sustainability, planned works and improvements, cuts, and other requirements. These assumptions will be used to inform the ongoing resource need and identify potential gaps in funding and opportunities for additional income and grants. This could include a programme of disposals of long-term voids with the capital receipt being invested into the HRA capital programme.

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- 9.23 Work is continuously 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 and profile of spend.
- 9.24 The plan also contains costs associated with the new build programme currently being implemented by the authority. It should be noted that the Government is currently consulting on changes to Right to Buy (RTB) legislation which is likely to reduce the discount available. This is expected to have the effect of reducing future sales and reducing the 1-4-1 receipts received by the authority for investment in New Supply. This will have an impact on the Council's ability to deliver the development programme as currently shown if additional grant is not secured to replace the reduced 1-4-1 receipts.
- 9.25 The 2025-2030 draft major works capital investment programme has been significantly influenced by the stock condition survey and the challenges and emphasis of legislation on Building safety, decent homes and compliance including Housing Health and Safety Rating system (HHSRS) assessments. The 2025/26 programme will contain a significant percentage of schemes which are carrying forward for completion from 2024/25. The emphasis for the period 2025-2030 will be to improve the weather tightness and comfort of Lewisham's homes. The prioritisation of window and roofing works will support the significant revenue challenges of the HRA and reduce over time the demands on the responsive repairs service. The service is also seeking to resolve HHSRS category one hazards which will support an improvement in the proportion of council homes achieving the decent homes standard. Building safety works and energy efficiency works will also feature strongly in the 2025-2030 period. The stock condition survey identified a sharp increase in the number of components such as kitchens and bathrooms which will require replacement between 2030-2035, plus annual reviews of the capital programme will refine the programmes as the short-term programme is delivered.
- 9.26 To comply with guidance from the Regulator of Social Housing the service will need to update its stock condition survey every five years. The service intends to carry this out through an annual rolling programme ideally using an inhouse team to support efficiencies.
- 9.27 It should be noted that the major works capital programme has a requirement to appoint a principal designer for all building works. The Council, in some cases, will act as principal designer, however, in more cases the council will be appointing a contractor which may increase programme costs.
- 9.28 Table C1 provides an illustration of the expected HRA budget for the next five years, which includes the current 2.7% rent increase estimates for 2025/26. 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).

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Table C1: Update on the HRA Business Plan

HRA Income & Expenditure Estimates - Five Year Forecast:	2025/26:	2026/27:	2027/28:	2028/29:	2029/30:
	(£m)	(£m)	(£m)	(£m)	(£m)
Income:					
Rental income	(90.3)	(93.3)	(98.8)	(102.5)	(106.1)
Tenants service charge income	(8.2)	(8.3)	(8.4)	(8.5)	(8.6)
Leasehold service charge income	(6.8)	(6.9)	(7.1)	(7.2)	(7.4)
Hostel charges and grant income	(1.6)	(1.6)	(1.6)	(1.7)	(1.7)
Major Works recoveries	(6.4)	(6.5)	(6.7)	(6.8)	(6.9)
Other income	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Interest earned on balances	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Total Income	(116.1)	(119.5)	(125.5)	(129.6)	(133.6)
Expenditure:					
Management costs	44.1	45.0	47.3	49.6	50.7
Repairs & maintenance	25.5	25.5	24.2	26.4	26.8
PFI Costs	6.8	6.9	1.6	0.0	0.0
Interest & other finance costs	9.7	12.9	15.7	17.5	18.9
Depreciation	27.4	27.9	28.4	28.9	29.5
Revenue Contribution to Capital	0.0	0.0	5.8	6.8	7.3
Total Expenditure	113.5	118.2	123.0	129.2	133.2
Surplus/(deficit):	2.6	1.3	2.5	0.4	0.4
HRA Reserves:					
Opening HRA reserves	4.7	7.3	8.6	11.1	11.5
Contribution to/(Drawdown) from reserves	2.6	1.3	2.5	0.4	0.4
Closing HRA Reserves	7.3	8.6	11.1	11.5	11.9
Forecast Capital Programme & Funding:					
HRA Capital programme (including decent Homes)	77.9	50.8	49.4	53.4	54.5
Housing Management System - HRA	0.4	0.3	0.0	0.0	0.0
HRA Allowances for Buybacks & Brockley PFI	2.1	2.4	2.3	5.6	5.7
Aids & Adaptations	0.5	0.5	0.5	0.5	0.5
New Build construction & on-going costs	56.8	87.4	61.8	26.1	19.8
Total Capital Expenditure	137.7	141.4	114.0	85.6	80.5
Capital Programme Funded By:					
MRR Opening Balance	0.0	0.0	0.0	0.0	0.0
Revenue Contribution to Capital	0.0	0.0	(5.8)	(6.8)	(7.3)
Depreciation	(27.4)	(27.9)	(28.4)	(28.9)	(29.5)
GLA Grants	(37.9)	(16.8)	(7.9)	(0.9)	(6.6)
RTB Receipts	(10.5)	(15.6)	(11.1)	(7.1)	(6.1)
Sale Receipts	(1.0)	(0.6)	(21.4)	(2.9)	(7.3)
Other Receipts	(1.4)	0.0	0.0	0.0	0.0
Borrowing	(59.5)	(80.5)	(39.4)	(39.0)	(23.7)
Total Capital Funding	(137.7)	(141.4)	(114.0)	(85.6)	(80.5)
Capital Shortfall	0.0	0.0	0.0	0.0	0.0
HRA Actual Debt Level (Forecast):	244.8	325.3	364.7	403.7	427.4

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

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- 9.29 As can be seen from the above table, the expected total expenditure, before financing, for the HRA in 2025/26 is £251.2m, comprising £113.5m operational costs and £137.7m capital and full new build costs.
- 9.30 The HRA capital forecasts in the Table C1 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.

Future Years Forecast

- 9.31 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.
- 9.32 There is an ongoing process to identify opportunities for efficiencies to deliver services for improved value for money, and this will be further developed and implemented in 2025/26. 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 management costs in 2025/26 to reflect stock losses through Right to Buy Sales. In addition, income generation through full cost recovery on service charges, disposals of long-term voids, additional grants and SLA efficiencies will all be explored.
- 9.33 Separate reports which set out in detail the proposals relating to service charges for Brockley and Council housing residents are attached at Appendix X2a & X2b, and Appendix X3, respectively.

Rental Income and Allowances

- 9.34 Following completion of the legislative requirements for four 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.
- 9.35 In line with the formula rent calculation policy, rents for 2025/26 will increase by 2.7% based on CPI of 1.7% (as at September 2024) + 1%, and CPI + 1% for 2026/27.
- 9.36 A 2.7% increase in average rents for HRA dwelling stock 2025/26 equates to an average increase of £3.26pw over a 52-week period. This will increase the full year average dwelling rent for the London Borough of Lewisham from £120.63pw to £123.89pw. The proposed increase will result in additional income of £1.8m for the HRA against 2024/25 income levels.
- 9.37 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.
- 9.38 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.
- 9.39 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

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which 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 2.0% would affect the annual average forecasts stated above. The financial model for the HRA is assuming average pay inflation for the longer term of 2.0% per annum, based on Government's CPI Inflation target. Non-pay inflation is also based on the Government's CPI inflation target of 2.0% per annum. As mentioned previously, in the short term, pay inflation is estimated at 3.0% for 2025/26. Non-pay inflation such as R&M, materials and contract costs are forecast at 2.7% for 2025/26.

- 9.40 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 Council tenants. Full details of residents' feedback, additional comments received, minutes of meetings and the response to the additional comments received are contained in Appendix X1, X1b and X1c.
- 9.41 The main comments received from Council residents concerning the proposals for rents and garages was that there are issues of affordability given the current cost-of-living pressures and increases in unemployment. The main comments regarding service charges were questioning value for money as charges are increasing but service delivery is not improving.
- 9.42 Details of the options for the rent and service charge changes for 2025/26 were presented to the Housing Select Committee on 21st November 2024. The committee noted the contents of the report.
- 9.43 Having regard to the outcomes of the consultations held in October 2024 as set out above (and with more detail in Appendices X2, X3, and X4), Mayor and Cabinet is asked to make a recommendation to full Council that a 2.7% rent increase be agreed as per Government's formula rent calculation for 2025/26. The new average rent for 2025/26 is likely to be in the region of £123.89pw, an increase of approximately £3.26pw from 2024/25 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 2025/26 are set out in detail in Appendix X4 and Appendix X6.

Former Tenant Arrears Write Offs

- 9.45 The HRA self-financing of 2012 means that the Council now has considerably greater control over the long-term planning of its HRA, and this longer-term focus has allowed excellent progress to be made in delivering investment into new Council homes for the first time in 30 years.
- 9.46 As part of the annual review of the HRA and the setting of associated budgets, this long-term focus also requires officers to review both the assumptions that underpin long term plans and the operational performance of delivering that plan. In that regard, it is important for officers to consider, at this time, the likelihood of recovering all of the income to which the Council is due.
- 9.47 The service has improved the way its income collection processes work and has addressed the majority of historic arrears cases. The percentage of rent collected in 2023/24 was over 99% and at the latest update, approximately 95% had been collected in the current financial year. This high-income collection rate strengthens the performance of the HRA and enables greater levels of investment for both existing residents and into the building of new Council homes Lewisham so desperately needs.
- 9.48 However, there remains a limited number of historic bad debt cases in which officers have been unable to collect, despite exhausting all possible options. In total there are

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21 such cases, which constitute outstanding arrears of £393,462.64 altogether, including both HRA stock and Temporary Accommodation stock (General Fund). A summary of these cases is set out at Appendix X5a and Appendix Y10a, respectively. It is proposed that these are now written off.

Summary

- 9.49 The gross budgeted expenditure for the HRA in 2025/26 is £251.2m, £113.5m revenue and £137.7m capital. Mayor and Cabinet is asked to recommend that Council approve a rent increase of 2.7% having considered tenant's feedback following consultation held in October 2024. The current average rent is £120.63pw in 2024/25. This will increase to £123.89pw in 2025/26.

10. Treasury Management Strategy 2025/26

- 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 Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: *'The management of the local authority's borrowing, investments and cash flows, including 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 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) Treasury Management Code of Practice updated on 20 December 2021.
- 10.7 During 2024/25, the Council has not exceeded its Prudential or Treasury indicators. Council investments are managed within the guideline parameters.

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Treasury Management Strategy for 2025/26

10.8 The strategy for 2025/26 covers two main areas:

10.8.1 Capital issues:

- The capital expenditure plans and the associated prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans are prudent, affordable and sustainable; and
- The Minimum Revenue Provision (MRP) policy.

10.8.2 Treasury management issues:

- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness policy; and
- The policy on use of external service providers.

10.8.3 These elements cover the requirements of the Local Government Act 2003, Investment Guidance, MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

Capital Strategy

10.9 The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to produce an annual 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.

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

10.11 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;

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- 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 Investment Plans 2025/26 – 2027/28 (including Prudential Indicators)

10.12 The Council's capital expenditure plans are the 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 are prudent, affordable, and sustainable.

10.13 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 Expenditure and Financing

10.14 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.

10.15 Table D1 and D2 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 D1: Capital Expenditure Forecast

Capital Expenditure Forecast:	2024/25 Forecast:	2025/26 Estimate:	2026/27 Estimate:	2027/28 Estimate:
	(£m)	(£m)	(£m)	(£m)
Corporate Resources	0.1	0.4	0	0
Children & Young People	9.6	9.5	2.3	0.5
Place	34.8	30.1	10.9	0.4
General Fund Housing	44.0	64.1	4.5	1.5
Total General Fund	88.5	104.1	17.7	2.4
Building for Lewisham Programme - HRA	13.1	36.4	43.5	11
HRA Capital Programme (Inc. Decent Homes)	73.9	76.6	50.8	50.8
Housing Management System	0.5	0.4	0.3	0
Aids & Adaptions	0.5	0.5	0.5	0.5
HRA Allowances for Buybacks & Brockley PFI	0.7	6.0	3.1	3.2
Total HRA	88.7	119.9	98.2	65.5
Total Capital Programme:	177.2	224.0	115.9	67.9

Table D2: Capital Financing Forecast

Capital Financing Forecast:	2024/25 Forecast:	2025/26 Estimate:	2026/27 Estimate:	2027/28 Estimate:
	(£m)	(£m)	(£m)	(£m)
General Fund:				
Capital Receipts	0	0.9	0.1	0
Capital Reserves	9.1	5.9	3	0.9
S106 & CIL	7.2	8.2	7.2	0.5
Corporate Reserves	1.5	0.6	0	0

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Capital Financing Forecast:	2024/25 Forecast: (£m)	2025/26 Estimate: (£m)	2026/27 Estimate: (£m)	2027/28 Estimate: (£m)
Grants	44.9	54.2	4.4	0
Revenue Contribution	0.3	0	0	0
Right to By Receipts	0.3	0.2	0.5	0
Prudential Borrowing	22.7	34.1	2.5	1.0
Total General Fund	86.0	104.1	17.7	2.4
HRA:				
Major Repairs Reserve	26.6	26.9	27.8	28.2
Revenue Contribution	1.1	2.2	2.9	5.8
Right to By Receipts	1.6	8.8	7.2	1.9
Grants	1.8	18.7	6	5
S106	1.4	0.4	0	0
Capital Receipts	0	0	5.2	4.2
Prudential Borrowing	56.2	62.9	49.1	20.4
Total HRA	88.7	119.9	98.2	65.5
Total Capital Financing:	174.7	224.0	115.9	67.9

10.16 The above financing need excludes other long-term liabilities, such as PFI (Private Financing Initiative) and leasing arrangements that already include borrowing instruments.

The Council's Borrowing Need or CFR (Capital Financing Requirement)

10.17 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.

10.18 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.

10.19 The CFR includes any other long-term liabilities (e.g., PFI schemes, leases). Whilst these increase the CFR, and therefore the Authority'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.

10.20 Forward projections for borrowing as at 31 March 2025 are summarised below in Table D3, which shows the actual external debt from treasury management operations and other long-term liabilities against the underlying capital borrowing need (the 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.

Table D3: External Debt Projections

	2023/24 Actual: (£m)	2024/25 Forecast: (£m)	2025/26 Forecast: (£m)	2026/27 Forecast: (£m)	2027/28 Forecast: (£m)
External Debt at 1 April	212.5	185.4	258.6	347.4	390.3
Expected change in External Debt	(27.1)	73.2	88.7	42.9	11.6
PFI and other Long-Term Liabilities	182.4	195.7	182.3	167.1	156.7

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	2023/24 Actual: (£m)	2024/25 Forecast: (£m)	2025/26 Forecast: (£m)	2026/27 Forecast: (£m)	2027/28 Forecast: (£m)
Gross Debt at 31 March	367.8	454.3	529.7	557.4	558.6
CFR - HRA	142.0	198.2	261.1	310.2	330.6
CFR – General Fund PFI and other Long-Term Liabilities	436.1	466.7	481.2	461.8	445.6
Total Capital Financing Requirement at 31 March	578.2	664.9	742.3	772.0	776.2
Borrowing – over / (under)	(210.4)	(210.6)	(212.6)	(214.6)	(217.6)

Borrowing Strategy

- 10.21 The capital expenditure plans set out above provide details of the service capital projects of the Council. 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 this service activity and the Council's Capital Strategy.
- 10.22 The Council's external debt as at 31 March 2025 (gross borrowing plus long term liabilities) is expected to be c£429m. The Council's borrowing strategy is consistent with last year's strategy.
- 10.23 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the CFR), has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as an alternative funding measure. This strategy is considered prudent while investment returns are lower than the cost of borrowing and counterparty risk remains an issue to be considered.
- 10.24 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.
- 10.25 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 the 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.

Policy on Borrowing in Advance of Need

- 10.26 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 Capital Financing Requirement 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

- 10.27 Rescheduling of current borrowing in our debt portfolio is more likely to occur now that interest rates have risen to the same level as some of our current loans.
- 10.28 The reasons for any rescheduling to take place will include:

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- 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).

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

10.30 The Council has LOBO loans to the value of £94.5m nominal value as at 31 March 2025 of which £10m will be in their call period in 2025/26 for fixed rate LOBO loans. 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.

10.31 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.

10.32 Sources of Borrowing:

10.32.1 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. 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. National Wealth Fund formerly the UK Infrastructure Bank,
8. Insurance Companies,
9. Investors in capital market bonds and retail bonds issued by the Council,
10. Individuals lending via a peer-to-peer platform where appropriate Individuals lending via a peer-to-peer platform where any necessary counterparty checks are conducted by the platform. e.g. Community Municipal Investments.
11. Investors in capital market bonds and retail bonds issued by the Council,

10.32.2 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: Limits to Borrowing Activity

10.33 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

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indicators. Both are described in further detail in the following paragraphs.

The Operational Boundary

10.34 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 D4 below.

10.35 IFRS 16 will come into effect in financial year 2025/26 and operating leases will be recognised on the balance sheet as a liability. The lease finance is a form of debt, so a provision has been included in other long-term liabilities.

Table D4: Operational Boundary

	2024/25: (£m)	2025/26: (£m)	2026/27: (£m)	2027/28: (£m)
Maximum External Debt as at 31 March	304.6	400.4	446.3	457.9
PFI and other Long-Term Liabilities	195.7	182.3	167.1	156.7
Operational Boundary for Year:	500.3	582.7	613.4	614.6

The Authorised Limit for External Debt

10.36 This is a key prudential indicator which represents a control on the maximum level of borrowing. This represents the legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. 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.

10.37 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. The authorised limits are as set out in the Table D5 below.

Table D5: Authorised Limits for External Debt

	2024/25: (£m)	2025/26: (£m)	2026/27: (£m)	2027/28: (£m)
Authorised External Debt*	335.1	440.4	490.9	503.7
PFI and other Long-Term Liabilities	195.7	182.3	167.1	156.7
Authorised Limit for Year	530.8	622.7	658.0	660.4

* The authorised limit is obtained by adding 10% to the Operational Boundary.

Ratio of Financing Costs to Net Revenue Stream

10.38 This indicator identifies the trend in the cost of capital, (borrowing and PFI and other long-term obligation costs), against the net revenue stream.

Table D6: Ratio of Financing Costs to Net Revenue Stream

	2024/25 Actual:	2025/26 Estimate:	2026/27 Estimate:	2027/28 Estimate:
Ratio of Financing Costs to Net Revenue Stream (including PFI interest and MRP costs)	15.8%	16.1%	16.9%	15.1%

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10.39 It is to be noted, that (excluding the PFI contracts) the debt servicing costs associated with the existing levels of long-term borrowing is equivalent to 11% of the equivalent Band D Council Tax bill raised, being £183.12 of the annual cost of £1,644.75 proposed for 2025/26. This will increase as the Council borrows more as planned to support its capital delivery plans.

10.40 A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.

10.41 The Council does not invest in commercial or service investments primarily for a return, therefore there is nothing to report for this indicator.

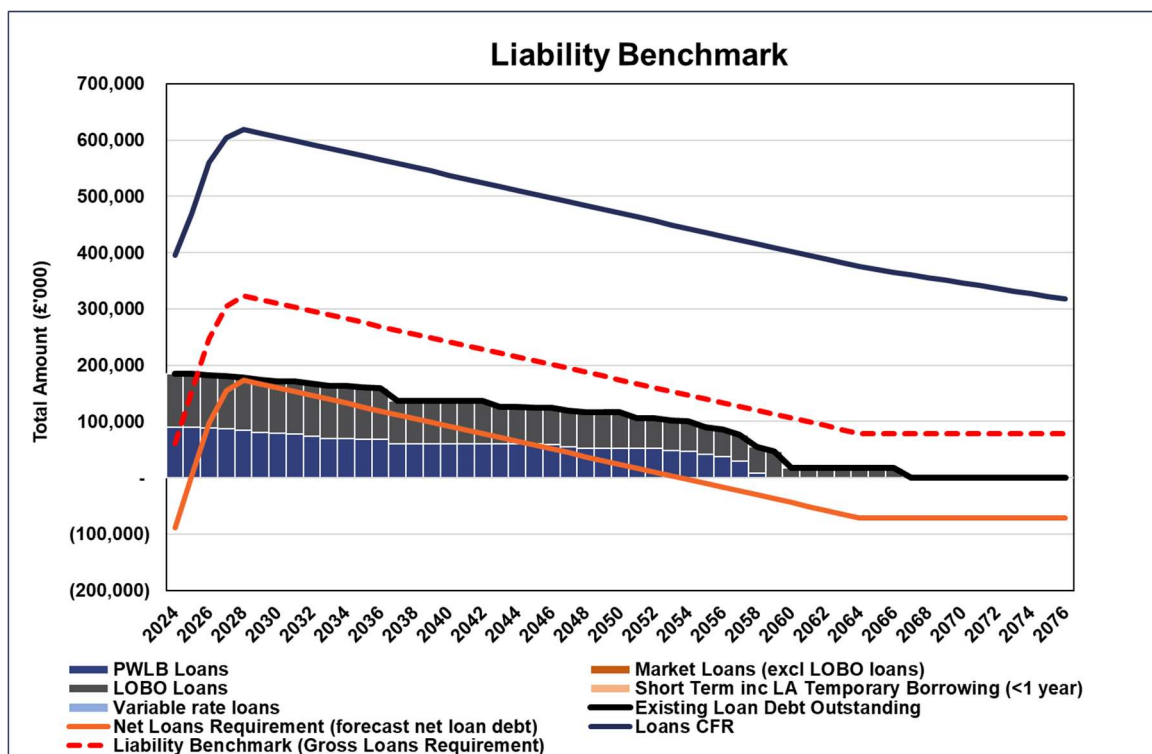
Liability Benchmark

10.42 The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

10.43 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 (CFR less other long-term liabilities) 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 (the liquidity allowance is cash that is kept as working capital for day-to-day cash flow variations and has been set at £150m).

Graph D1: Liability Benchmark



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- 10.44 Please note that only approved capital projects and approved prudential borrowing are included in Graph D1. Therefore, Graph D1 shows the Loans CFR (represented by the top blue line on the graph itself labelled 'Loans CFR'), which is CFR less other long-term liabilities, rises in the first three years for the approved prudential borrowing but does not account for future prudential borrowing capital projects.
- 10.45 The Liability Benchmark (represented by the red dotted line labelled 'Liability Benchmark' in Graph D1) shows the borrowing need based on a net book approach, with the difference between the current borrowing portfolio (represented by the black line labelled 'Existing Loan Debt Outstanding') and benchmarks the additional external borrowing required based on current forecasts.
- 10.46 The existing loans (represented by the grey and blue blocks on Graph D1) are repaid over time as the loans mature.

Minimum Revenue Provision (MRP) Policy Statement

- 10.47 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Finance Requirement - 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 Capital Finance and Accounting Regulations 2003.
- 10.48 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. MRP is not charged on capital expenditure financed by borrowing until the year following the expenditure or the in the financial year following the one which the assets become available for use.
- 10.49 Historically the Council has applied a consistent MRP policy which comprises of previous borrowing being repaid at the rate of 4% (equivalent to 25 years) of the outstanding balance.
- 10.50 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).
- 10.51 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, MUFG Corporate Markets (formerly Link Group).
- 10.52 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.
- 10.53 Under the MRP guidance, any charges made in excess of the statutory MRP can be

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made, known as voluntary revenue provision (VRP). Current VRP as at December 2024 is £nil.

- 10.54 There is no requirement on the Housing Revenue Account (HRA) to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.
- 10.55 Capital expenditure incurred during the year will not be subject to an MRP charge until the year after the asset becomes operational.
- 10.56 MRP in respect of assets acquired under Leases or PFI will be charged at an amount equal to the principal element of the annual repayment.
- 10.57 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.
- 10.58 Capital Loans are covered in paras 71-78 of the new MRP Guidance and supported by the statutory instrument 2004/478 (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2024). This recognises that an Authority could elect not to make MRP on service-related capital loans to 3rd parties. However, if an Expected Credit Loss (ECL) is recognised on that loan, MRP must be made for the ECL recognised in that financial year.

Leases/PFI

- 10.59 The adoption of International Financial Reporting Standard 16 (IFRS16) has introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is low value.
- 10.60 When such lease contracts and the related assets and liabilities are brought onto the balance sheet, a local authority will increase its long-term liabilities and as a result this will increase the debt liability.
- 10.61 Regarding MRP in respect of assets acquired either under leases where a right-of-use asset is on the balance sheet or where on-balance sheet PFI contracts are in place, the prudent charge to revenue can be measured as being equal to the element of the rent/charge that goes to write down the balance sheet liability.
- 10.62 Where a lease (or part of a lease) or PFI contract is brought onto the balance sheet, having previously been accounted for off-balance sheet, the MRP requirement is regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.

Capital Loans

- 10.63 Regulation 27(4) allows a local authority to exclude capital loans that are financed by debt from the requirement to make MRP, provided the loan is not a commercial loan. A commercial loan is defined in regulation 27(5) as a loan from the authority to another entity for a purpose which, if the authority were to undertake itself, would be primarily for financial return; or, where the loan is itself, capital expenditure undertaken primarily for financial return. Local authorities must make MRP with respect to any debt used to finance a commercial capital loan.
- 10.64 A local authority may choose not to charge MRP in respect of the financing by debt of a loan issued by an authority to any person or body, where —
- (a) the loan is treated as capital expenditure in accordance with regulation 25(1)(b),
 - (b) the loan is not a commercial loan, and
 - (c) the local authority has not recognised, in accordance with proper practices(c), any

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expected or actual credit loss in respect of that loan.

10.65 Example approach:

10.66 The Council has not issued capital loans that are categorised as commercial and therefore does not to apply MRP. However, in accordance to the current regulations if a provision for Expected Credit Loss is made then the council must pay the same amount of MRP.

Capital Receipts

10.67 For capital expenditure on loans to third parties where the principal element of the loan has been repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where a loan is required to make principal repayments in a given year, but they fail to do so, MRP will be charged in line with the Council's MRP policy above.

Share Capital

10.68 Where an Authority incurs expenditure that is capitalised on or after April 2008, which is financed by borrowing for the acquisition of share capital, Regulation 25(1)(d) Acquisition of share capital sets out the maximum period for an authority to provide MRP of 20 years. The Council's policy is consistent with this.

Investment Strategy & Creditworthiness Policy

Policy – Management of Risk

10.69 The Ministry of Housing, Communities and Local Government (MHCLG) 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 Management Team); non-financial investments, essentially the purchase of income yielding assets, are summarised at the end of this report and covered in Investment Management Practices (IMPs) and within the separate Capital Strategy.

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

10.71 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 with regard to the Council's risk appetite.

10.72 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs to meet the day to day needs of the Council and to meet its obligations. The Council invests its surplus cash in Money Market Funds. It makes investment for periods up to 12 months with high credit rated financial institutions.

10.73 The Council uses MUFG Corporate Markets (formerly Link Group), Treasury Services Limited 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

10.74 It also recognises that there is value in employing external providers of treasury management services 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.

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10.75 The Guidance and CIPFA Treasury Management Code places 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 Z2.
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 Z2 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 or have less than a year left to run to maturity, if originally, they were classified as being non-specified investments solely due to the maturity period exceeding 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 Z2.
6. The Council Council has placed a limit on the amount of its investments which are invested for **longer than 365 days** see Table D8.
7. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see Appendix Z5).
8. All investments will be denominated in **sterling**.
9. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31/03/23. Subsequently, a further extension to the over-ride to

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31/03/25 was 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.

10.76 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.

10.77 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

10.78 The Council's Treasury Management Team applies the creditworthiness service provided by the 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.

10.79 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 *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- 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 equivalent and collateralised deposits where the collateral is UK Government debt.*

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*** Except for those building societies rated BBB- or higher as set out in the policy and Low Volatility Net Asset Values (LVNAVs) in Money Market Funds.*

Country Limits

10.80 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

- 10.81 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 MUFGE Corporate Markets (formerly Link Group)'s lending list only (but which may be rated 'No colour') for a maximum of three months and limited to £10m per institution.
- 10.82 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.
- 10.83 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.

Treasury Investment

- 10.84 Investment returns are likely to reduce during 2025/26 as interest rates continue to fall. Inflation has fallen to around 2% and is expected to continue at that level over next 12 months but with some fluctuations during the year. In June 2024 the Bank of England reduced the Bank Rate for the first time in a couple of years. We have already seen the investment market rates fall in expectation that the Bank of England will bring down rates in the future. The war in Ukraine and the conflict in the Middle East leads to uncertainty as they could cause economic damage to the UK and economies around the world with increased oil and gas prices which will lead to increased inflationary pressures in 2025/26.
- 10.85 The Council uses the services of its treasury management advisors the MUFGE Corporate Markets (formerly Link Group).
- 10.86 The MUFGE Corporate Market's view on interest rates is that there will be a gradual fall in the Bank Rate during 2024/25 and into 2025/26. The UK economic is expected to grow very slowly over the next few years. Given this uncertainty, suggested fixed investment returns are expected to fall and money market funds for short term cash investment will provide a lower return.
- 10.87 In light of uncertainty in the market the Council will continue to invest in fixed term deposits of 3-to-12-month duration. The Council will continue to look for investments up to 12 months so that it can fix into a good rate of return as the interest rates are expected to continue to fall in 2025/26.
- 10.88 The Council's investments will be reviewed on a regular basis 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 earlier in this section of the report. The Council can use the cash from its investments or take out new borrowing to fund the capital programme.

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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.

10.89 Money Market Fund (MMF) yields are expected to continue to fall in line with the decreases in the Bank of England base rate during 2025/26. The cash held in the MMF for cash flow purposes can still earn a good return, but it is expected to provide a smaller return for the council in 2025/26.

10.90 A more extensive table of interest rate forecasts for December 2024 onwards, including Public Works Loan Board (PWLB) borrowing rate forecasts, is set out in Appendix Z1.

Non-Treasury Investments

10.91 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.

10.92 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. It is also included in the Investment Management Practises. 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. The Code of Practice does not allow this type of investment.*

** The Council will not be making investments primarily for a financial return.*

10.93 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 Section 11.

Subsidiary Companies and Joint Ventures

10.94 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

10.95 Lewisham Homes was 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.

10.96 On 1 October 2023 Lewisham Homes was taken back into the Council and the management of approximately 19,000 homes is now carried out by the Council. The Council has to date agreed two separate loan facilities with Lewisham Homes Ltd, the first on commercial terms financed from internal borrowing and the second on cost-neutral terms financed through the PWLB. Both loans will continue to be serviced by Lewisham Homes Ltd and will be repaid on set maturity dates.

10.97 As at 31 March 2024, the Council has advanced all £40m of the commercial loan facility, and all £40m of the agreed facility was financed from PWLB debt.

Catford Regeneration Partnership Limited (CRPL)

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10.98 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.

10.99 The Council has existing loan agreements in place with the CRPL and it has agreed to charge interest only for the next five years with options for CRPL to make repayments depending on their cashflow. The interest will be capitalised to the loan during this period. As at 31 March 2025, the Council expects the outstanding loan principal to be approximately £17.6m.

10.100 At the 31 March 2025 the value of the loan principal may be higher than the value of the CRPL properties held as security against the loan. If this is the case the council will make a provision against any potential losses, and this is called an Expected Credit Loss. This will be a charge to the general fund and the amount will be assessed at the year-end. The Council's regular CRPL shareholder update reports to Mayor and Cabinet provide more detail on this.

Besson Street Joint Venture

10.101 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.

10.102 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.

Performance as at 30 September 2024

10.103 The Council is a member of a treasury benchmarking group (organised by MUFG Corporate Markets (formerly Link Group) 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 2024 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.

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Table D7: Full List of Outstanding Investments Held as at 31 October 2024

Counterparty	Duration (Days)	Value £m	Interest Rate	Interest £
Fixed Rate Investments – Banks and Building Societies				
National Westminster Bank PLC (RFB)	185	20.0	5.15%	£522,055
DBS Bank Ltd.	185	5.0	5.19%	£131,527
Bank of Montreal	364	10.0	5.50%	£548,493
Close Brothers Ltd	364	10.0	5.62%	£560,460
Landesbank Hessen-Thuringen Girozentrale	364	10.0	5.49%	£547,496
Australia and New Zealand Banking Group Ltd.	277	15.0	5.33%	£606,744
Bank of Montreal	365	15.0	5.14%	£771,000
Canadian Imperial Bank of Commerce	365	15.0	5.14%	£768,888
OP Corporate Bank plc	364	25.0	5.05%	£1,259,041
Toronto-Dominion Bank	273	5.0	4.81%	£179,881
Canadian Imperial Bank of Commerce	364	10.0	4.50%	£448,767
DBS Bank Ltd.	182	15.0	4.68%	£350,038
Certificates of Deposit				
Toronto-Dominion Bank	276	15.0	5.23%	£588,845
Landesbank Baden-Wuerttemberg	123	10.0	4.84%	£161,775
Variable Rate Investments – Money Markets				
BlackRock	N/A	5.7	4.95%	N/A
Federated Hermes	N/A	30.0	4.95%	N/A
Insight	N/A	1.6	4.94%	N/A
Aberdeen	N/A	30.0	4.97%	N/A
TOTAL INVESTMENTS		247.3		

10.104 The current investment counterparty criteria are set out in the Credit Worthiness Policy and included at Appendix Z2 of this report.

Long Term Investments

10.105 This table 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.

10.106 As at 31 March 2025, the Council is not expected to hold any investments for longer than 365 days.

Table D8: Long Term Investments

Maximum Principal Sums Invested for Longer than 365 days			
	2025/26 £m	2026/27 £m	2027/28 £m
Limit on principal sums invested for longer than 365 days	50.0	50.0	50.0

Training

10.107 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

10.108 The Code state that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and

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retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

- 10.109 The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.
- 10.110 As a minimum, authorities should carry out the following to monitor and review knowledge and skills:
- Record attendance at training and ensure action is taken where poor attendance is identified;
 - Prepare tailored learning plans for treasury management officers and board/council members;
 - Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.
- 10.111 The training needs of treasury management officers are reviewed regularly. Officers attend regular Treasury Management training and events such as the Senior Officer Treasury Group and the London Treasury Officers Forum.
- 10.112 Officers also keep up to date with the financial press, Bank of England monetary committee, investment dealers, MUFG Corporate Markets (formerly Link Group)'s updates and many other current affairs information, worldwide and UK that is not only financial but also social, political and economic. Officers and finance trainees attended Link's 'Introduction to Treasury Management' on 16 & 17 October.
- 10.113 Some of the training events attended by officers in 2024 are listed below:
- 21 March 2024 – Link Strategic Treasury Issues Webinar,
 - 16 & 17 October 2024 - Link Introduction to Treasury Management,
 - 24 October 2024 - Link Treasury Management Strategy Statement Webinar,
 - 14 November 2024 - Link Strategic Treasury Issues Webinar.
 - The following training has been undertaken by members of Public Accounts Select Committee: 28 November 2024 - Link Group 'Introduction to Treasury Management' and further training will be arranged as required.

11. Capital Programme

- 11.1 This section highlights the 2024/25 Capital Programme position as at November 2024 and also presents the proposed Capital Programme for 2025/26 to 2028/29.

Update on 2024/25 Capital Programme

- 11.2 Progress in delivering the 2024/25 Capital Programme has been reported to Mayor and Cabinet and the Public Accounts Select Committee throughout the year. The latest position reported to Mayor and Cabinet was as part of the P6 Budget Monitoring Report which went to Mayor & Cabinet on 4 December 2024.
- 11.3 In October a re-profiling exercise was undertaken to allow project managers to align the budget profiles to the latest cash flow projections. There have also been several projects either added to the programme, removed from the programme or that have their budget allocation increased or reduced. The outcome of this exercise was a net reduction to the programme of £7.4m and a slippage of £37.6m from 2024/25 into

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future years.

- 11.4 The revised Capital Programme budget allocation for the year 2024/25 is now £177.2m, of which £88.5m relates to General Fund schemes and £88.7m to Housing Revenue Account (HRA) schemes. The revised 2024/25 Capital Programme is summarised in Table E1 and the financing for the revised 2024/25 Capital Programme is summarised in Table E2.

Table E1: Current Position of the 2024/25 Capital Programme

Directorate:	Category:	2024/25 Budget: (£m)	Spend to 31 Dec 2024: (£m)
General Fund:			
Resources	ICT - Tech Refresh	0.1	0.0
CYP	Education Services - School Places Programme	1.7	0.5
CYP	Education Services - School Minor Works Programme	5.1	2.8
CYP	Children's Social Care	1.4	1.3
CYP	Families, Quality and Commissioning - Youth Service	1.2	0.6
CYP	Myatt Garden RAAC	0.2	0.1
Place	Safer Communities	0.1	0.1
Place	Parks, Sports and Leisure	2.7	2.3
Place	Highways & Bridges – TfL	3.2	1.3
Place	Highways & Bridges – LBL	6.7	2.7
Place	Asset Management Programme	1.7	1.5
Place	Corporate Estates Maintenance Programme	3.8	2.3
Place	Strategic Regeneration - Lewisham Gateway	3.4	3.4
Place	Strategic Regeneration - Catford Programme	8.3	3.9
Place	Planning	0.3	0.1
Place	Environmental Health	0.1	0.0
Place	LUF Programme - Cultural Hub	0.6	0.4
Place	LUF Programme - Public Realm	3.0	1.2
Place	Simpler Recycling	0.9	0.1
Housing	General Fund Housing	42.0	29.3
Housing	Housing Services	2.0	0.9
Total General Fund:		88.5	55.1
HRA:			
Building for Lewisham Programme - HRA	Building for Lewisham Programme - HRA	13.1	4.1
HRA Capital Programme (Inc. Decent Homes)	HRA Capital Programme (Inc. Decent Homes)	73.9	34.0
Housing Management System - HRA	Housing Management System - HRA	0.5	0.5
Aids &	Aids & Adaptations	0.5	0.3

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Directorate:	Category:	2024/25 Budget: (£m)	Spend to 31 Dec 2024: (£m)
Adaptations			
HRA Allowances for Buybacks & Brockley PFI	HRA Allowances for Buybacks & Brockley PFI	0.7	0.0
Total HRA:		88.7	38.9
Total Capital Programme:		177.2	93.9

Table E2: 2024/25 Capital Programme Financing

	2024/25: (£m)
General Fund:	
Capital Receipts	0.0
Capital Reserves	9.1
CIL	1.4
Corporate Reserves	1.5
Grants	46.3
Prudential Borrowing	22.7
Revenue Contribution	0.2
RTB Receipts	0.3
S106	6.9
Total General Fund:	88.5
HRA	
Major Repairs Reserve	26.6
Revenue Contribution	1.1
RTB Receipts	1.6
Grants	1.8
S106	1.4
Capital Receipts	0.0
Prudential Borrowing	56.2
Total HRA:	88.7
Total Capital Programme:	177.2

- 11.5 The current in-year expenditure across all projects is £93.9m or 53% of budget. If spend is consistent across the year, we would expect spend at Period 9 to be 75%. However, we expect the spend to be lower than forecast for most of the year for numerous reasons such as lag times on setting up purchase orders and receiving invoices from suppliers. There are also certain projects with large current years budgets, where the spend is forecast to be spent in the latter half of the year.
- 11.6 The in year forecast for Capital Programme spend is £177.2m or 100% of budget. This is because the budget was aligned to the latest cash flow forecasts as part of the re-profiling exercise.

Proposed Capital Programme 2025/26 to 2028/29

- 11.7 The proposed Capital Programme budget for the General Fund and HRA for the four years from 2025/26 to 2028/29 is £421.4m. This is split into £137.3m for the General Fund and £284.1m for the HRA. Of this programme £221.6m is allocated into 2025/26; £104.3m within the General Fund and £117.3m within the HRA. This is detailed in Table E3.

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Table E3: Proposed Capital Programme 2025/26 to 2028/29

	2025/26:	2026/27:	2027/28:	2028/29:	Total:
	(£m)	(£m)	(£m)	(£m)	(£m)
General Fund:					
Corporate Resources					
ICT - Tech Refresh	0.4	0.0	0.0	0.0	0.4
Total Resources	0.4	0.0	0.0	0.0	0.4
CYP					
Education Services - School Places Programme	7.1	2.3	0.5	0.0	9.9
Education Services - School Minor Works Programme	2.1	0.0	0.0	0.0	2.1
Children's Social Care	0.1	0.0	0.0	0.0	0.1
Families, Quality and Commissioning - Youth Service	0.1	0.0	0.0	0.0	0.1
Myatt Garden RAAC	0.0	0.0	0.0	0.0	0.0
Total CYP	9.5	2.3	0.5	0.0	12.2
Place					
Safer Communities	0.0	0.0	0.0	0.0	0.0
Parks, Sports and Leisure	0.6	2.6	0.0	0.0	3.2
Highways & Bridges – TfL	0.7	0.0	0.0	0.0	0.7
Highways & Bridges – LBL	1.7	3.1	2.2	0.0	7.0
Asset Management Programme	2.1	3.1	0.4	0.0	5.7
Corporate Estates Maintenance Programme	2.7	0.7	0.0	0.0	3.4
Strategic Regeneration - Lewisham Gateway	0.0	0.0	0.0	0.0	0.0
Strategic Regeneration - Catford Programme	4.5	2.4	0.0	0.7	7.6
Planning	0.0	0.0	0.0	0.0	0.0
Environmental Health	0.1	0.0	0.0	0.0	0.1
LUF Programme - Cultural Hub	6.9	0.1	0.0	0.0	7.1
LUF Programme - Public Realm	11.2	1.0	0.0	0.0	12.1
Total Place	30.4	13.1	2.6	0.7	46.8
Housing					
General Fund Housing	62.1	3.6	1.0	7.3	74.0
Housing Services	2.0	0.9	0.5	0.5	3.9
Total Housing	64.1	4.5	1.5	7.8	77.9
Total General Fund:	104.3	19.8	4.6	8.5	137.3
HRA:					
Building for Lewisham Programme – HRA	36.4	43.5	11.0	0.0	90.9
HRA Capital Programme (Inc. Decent Homes)	77.9	50.8	49.4	0.0	178.1
Housing Management System	0.4	0.3	0.0	0.0	0.7

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	2025/26:	2026/27:	2027/28:	2028/29:	Total:
	(£m)	(£m)	(£m)	(£m)	(£m)
– HRA					
Aids & Adaptations	0.5	0.5	0.5	0.5	2.0
HRA Allowances for Buybacks & Brockley PFI	2.1	2.4	2.3	5.6	12.4
Total HRA:	117.3	97.5	63.2	6.1	284.1
Total Capital Programme	221.6	117.3	67.8	14.6	421.4

Capital Programme Highlights

- 11.8 This sub section sets out further details on some of the major capital projects/programmes in the Capital Programme by directorate.

Corporate Resources

ICT – Tech Refresh: The Resources Directorate’s capital programme currently has a small allocation of approximately £0.4m earmarked to fund the completion of the Tech refresh project. The capital programme does not include any allocation for further ICT or Tech refreshes within the current MTFS period.

Children and Young People (CYP)

The CYP capital programme comprises a range of projects across two main programme areas – the Pupil Places Programme and the Schools Minor Capital Works Programme. Both programmes are largely funded through grants.

School Minor Works Programme: The School Minor Works Programme is an annual programme of urgent capital infrastructure projects carried out across the borough’s school estate. Works in 2024/25 took place at eleven different school sites and included roof replacements; drainage works; heating and hot water system upgrades, and toilet refurbishment. A new programme of works for 2025/26 is in delivery and includes the use of any historic carry forward of unspent allocation plus the 2025/26 allocation.

Pupil Places Programme: The focus of this programme is now on provision of Special Education Needs (SEN) and Disabilities places across the borough. Since 2022 through to 2024 works have been carried out to incorporate SEND ‘Resource Bases’ into five existing mainstream schools, and the permanent Watergate expansion project is currently at the Planning and due to start onsite early in 2025. An estimated £9.9m of spend is forecast for the MTFS period, the majority of which will cover the Watergate School expansion works.

Place

The Place element of the capital programme includes a number of projects / programmes across the core areas of Highways, corporate assets, and strategic regeneration. A summary narrative of some of the core projects within the Place directorate is provided below.

Highways: The Highways programme delivers works covering carriageway resurfacing, bridges and footway works. A new programme of work is currently in delivery which includes the annual allocation from TfL, as well as other works which are funded through earmarked reserves.

LED Street Lighting Upgrade: A programme of works to replace all the street lighting columns to LED lanterns in the borough. The result of this would be 15,414 assets changed to LED. This will be funded primarily through the monies held in the Council’s street lighting PFI sinking fund, with a top up of council reserves.

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Asset Management Programme (AMP) (Reactive / Unplanned Works):

Funding from the Asset Management Programme (AMP) has continued to support reactive and much needed capital works across the operational corporate estate of 85 buildings including buildings in the Catford complex. Reactive works are undertaken by the Facilities Management team covering three key areas: fabric, mechanical and engineering (M&E) and residual or H&S related.

Corporate Estate Management Programme (CEMP) (Planned Works): A new programme of planned lifecycle capital works across the operation estate began in 2021/22 following a condition survey of the estate. The programme, Corporate Estate Maintenance Programme (CEMP), is designed to ensure that the council's assets are invested in and are fit for purpose. Benefits include less interruptions to critical operations due to building or equipment failure, longer asset life, improved efficiency and energy performance, increased safety and compliance, and reduced repair costs. The current programme is delivering improvements to assets; covering a vast array of repairs and improvements, all of which seek to ensure the buildings are safe, watertight, and fit for purpose for the services being delivered from them. The programme currently includes an allocation of £3.3m funding through to the end of the current MTFS to enable continued planned maintenance across the Council's corporate estate.

Strategic Regeneration - Catford Town Centre: In July 2021 Mayor and Cabinet endorsed the Catford Town Centre Framework, which sets out the council's regeneration aspirations for the town centre. This includes a number of early deliverables which form 'phase 1' and plans to redevelop Council assets, including Laurence House, the Old Town Hall and Civic Suite, Milford Towers and the shopping centre.

The realignment of the A205 and improvements to the A21 also form part of phase 1. The council has secured £10m Housing Infrastructure Fund grant to support the road scheme and is expecting to make a contribution of up to £3.7m from Community Infrastructure Levy. This contribution will be match funded by TfL. The remaining funding of c. £44m is anticipated to come from Department for Transport's Major Road Network fund, for which TfL are currently progressing a business case application.

Levelling Up Fund – Lewisham Town Centre: In early 2023 the Government approved a capital funding bid for £19m of Levelling Up Fund with match funding of £5m from the Council. The scheme which consists of three interrelated projects is aimed at revitalisation of Lewisham Street Market and the related public realm as well as the creation of a Culture and Business Hub in Lewisham Library as part of a refurbishment programme. All three projects are at various stages of development with completion due in 2026/27.

Housing (General Fund)

Housing Services - Disabled Facilities Grant (DFG): The DFG is a capital grant contributing to the cost of home adaptations, to enable eligible disabled people to continue living safely and independently. The project currently has a budget of approximately £1.9m over the MTFS period.

General Fund Housing: The General Fund housing scheme delivers temporary accommodation for the Building for Lewisham Programme and facilitates regeneration schemes through land assembly. So far 54 temporary new homes have been created under the scheme and a new scheme was approved by Cabinet in March 2023, to purchase 300 properties for temporary accommodation to deal with pressures in the service.

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Housing Acquisitions Programme: The Housing Acquisitions Programme has now delivered 100 units, and as set out in the report to Mayor and Cabinet in September 2024, the required review of this programme after every 50 units has taken place, both after the first 50 units and again for the second 50 units. This review has been approved by the Executive Director for Place, in consultation with the Executive Directors for Corporate Resources and Housing and the Cabinet Member for Inclusive Regeneration and Planning.

HRA

BFL: The Building for Lewisham Programme was agreed by Mayor and Cabinet in January 2020. Since that time the programme has slipped and been adversely affected by the economic contraction post Covid, notably high build cost inflation, contractor insolvency and increased interest rates. For schemes in planning and pipeline phases, there has been a review to put some schemes on hold due to viability issues. So far 279 new homes have been delivered and a further 88 are on site. Schemes in the planning and pipeline phases amount to a further 735 new homes.

HRA Capital Programme (Inc. Decent Homes): This budget is for works to ensure council owned stock is brought up to and maintained to a decent level, covering both internal and external works. This includes works for damp & disrepair, building safety, refurbishment, and others.

Further detail on the HRA Capital Programme can be found in Section 9 of this report, along with Appendices W1.

- 11.9 The HRA figures in Table E3 differ from the figures presented in Section 9 and in Appendix X7 (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 development schemes and unapproved pipeline development schemes.
- 11.10 The assumptions used within the BfL programme are reviewed and updated annually. Any change to the assumptions may drive the need to revise programme parameters and if this in turn affects the budget, then this will formally come back to M&C for approval.
- 11.11 Although the value of the overall Capital Programme will remain largely the same, it is subject to change for various reasons:
- New schemes may be agreed and added to the programme throughout the remainder of 2024/25 and into future years, reflecting the work of ongoing capital re prioritisation.
 - The General Fund Capital Programme will need to adapt to reflect the priorities of the corporate strategy and the pressures of the Council's building stock condition.
 - 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.

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- 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 2025/26 budget will be amended to include any 2024/25 outturn slippage.

11.12 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.

11.13 The Financing of the 2025/26 to 2025/29 Capital Programme is set out in Table E4 below.

Table E4: Proposed Capital Programme Financing 2025/26 to 2028/29

	2025/26:	2026/27:	2027/28:	2028/29:	Total:
	(£m)	(£m)	(£m)	(£m)	(£m)
General Fund:					
Capital Receipts	0.9	0.1	0.0	0.0	1.0
Capital Reserves	5.9	3.0	1.6	0.5	11.0
CIL	4.6	2.0	0.0	0.7	7.3
Corporate Reserves	0.8	2.2	1.5	0.0	4.5
Grants	54.2	4.3	0.0	0.0	58.5
Prudential Borrowing	34.1	2.5	1.0	7.3	44.9
Revenue Contribution	0.0	0.0	0.0	0.0	0.0
RTB Receipts	0.2	0.5	0.0	0.0	0.7
S106	3.6	5.2	0.5	0.0	9.4
Total General Fund:	104.3	19.8	4.6	8.5	137.3
HRA:					
Major Repairs Reserve	27.2	27.7	28.2	0.0	83.1
Revenue Contribution	2.2	2.9	5.8	0.0	10.9
RTB Receipts	8.8	7.2	1.9	0.0	17.9
Grants	18.7	6.0	5.0	0.0	29.7
S106	0.4	0.0	0.0	0.0	0.4
Capital Receipts	0.0	5.2	4.2	0.0	9.5
Prudential Borrowing	60.0	48.4	18.2	6.1	132.6
Total HRA:	117.3	97.5	63.2	6.1	284.1
Total Capital Programme:	221.6	117.3	67.8	14.6	421.4

11.14 Explanations of the different funding streams are detailed below:

- 11.14.1 Capital Receipts – These are receipts from the sale of Council assets, which are pooled and then used to fund new Capital Projects.
- 11.14.2 Capital & Corporate Reserves – This is money put aside by the council either for a specific capital project (for example for Refreshing the IT), or as a general reserve for capital projects.
- 11.14.3 Community Infrastructure Levy (CIL) - This is a levy that local authorities can choose to charge on new development in their area, which local authorities must spend on infrastructure needed to support the development of their area.
- 11.14.4 Grants – These are sums of money given to the council, usually from central government bodies, which are predominantly for a specific purpose detailed in the grant agreement.

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- 11.14.5 Prudential Borrowing – This is money borrowed externally which is used to finance capital expenditure. The borrowing is then repaid over the useful life of the asset via the Minimum Revenue Provision (MRP). This financing option is usually the last resort for when there are no other financing options available.
- 11.14.6 Revenue Contribution – Similar to Capital & Corporate Reserves, this is money set aside from revenue fund capital expenditure. However, this is set aside from the in-year revenue budget.
- 11.14.7 Right to Buy (RTB) Receipts – These are receipts from housing sales that are part of the RTB scheme. These can be used by local authorities to fund the development of affordable housing, both new build and refurbishment of existing stock, on a one-to-one basis.
- 11.14.8 Section 106 (S106) – Similar to CIL, these funds are receipts from charges made to developers. These are used to mitigate the impacts that developments will have on the local community and infrastructure.
- 11.14.9 Major Repairs Reserve – This is a self-financing reserve within the HRA, that accounts for the depreciation charge of the Council’s housing stock and applies this to finance further HRA capital expenditure.
- 11.15 There is a total Prudential Borrowing of £177.5m for the proposed Capital Programme, which equates to 42% of its total financing. This is broken down into £44.9m for General Fund projects (which equates to 33% of General Fund capital financing) & £132.6m for HRA projects (which equates to 47% of HRA capital financing). Accurate borrowing forecasts are important for the Council, and they link heavily with the TMS. As the financing of the capital programme is 42% borrowing, there is significant revenue risk in terms of the ongoing costs to re-pay interest and set aside MRP contributions.
- 11.16 The financing profile of the Capital Programme is flexible and may change as the Council is constantly looking for external funding opportunities such as additional grants and contributions, in order to reduce the requirement to finance Capital Projects using reserves & borrowing.
- 11.17 Two budgets can be set from Strategic CIL (SCIL) each year. The in-year demand budget was set at £375,000 and the annual SCIL budget is £3,478,500.74. In the 2024/25 financial year, the following allocations have been made:
- 11.17.1 Full allocation with completed prioritisation:
- Catford Constitutional Club (CCC) - £1,364,002.46. This allocation was approved at Mayor and Cabinet in July 2024.
- 11.17.2 In principle agreement given and prioritisation is still to be undertaken:
- Besson Street: £1,654,498.28. This allocation was approved at Mayor and Cabinet in July 2024.
 - Riverdale Sculpture Park: £460,000. The principle of this SCIL allocation (which is needed as a fallback position if the Environment Agency monies are not secured) was agreed at Mayor and Cabinet in September 2024.
- Key Risks to the Capital Programme**
- 11.18 There are many risks to the Capital Programme, some of the key ones and how they are being mitigated are listed below:

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- Contractors going into administration and being unable to complete work on projects. This risk has become heightened due to some of the factors listed below. This risk has recently materialised in a number of schemes, most notably the Home Park & Edward Street housing schemes which have now been aborted for this reason, causing losses to the Council which have been funded from reserves. This risk is mitigated through effective and robust procurement processes.
- Delays to projects caused by supply chain disruptions, labour shortages and other factors, which may cause costs to increase due to inflation or additional costs such as storage, as well as a potential increase in interest costs for projects that require external borrowing to fund them. Contingencies can be built into the project cost plans to allow for these delays and potential additional costs.
- Council may need to make additional savings meaning certain schemes may need to be paused/aborted. This risk may become more prevalent as the Council is currently forecasting an overspend, and therefore will look to make savings to combat this.
- Competing priorities for limited resources requires statutory requirements (for example, Health & Safety works or changes resulting from new building regulations) to be met first, potentially limiting the number or scale of schemes within the programme.
- A project may not deliver the expected benefits. This can be mitigated by being prudent with any assumptions made when initiating the project, as well as building in a defects period to projects to rectify scenarios where the benefits are not being delivered due to problems with work done by the contractors.
- A project may not meet the criteria laid out in its funding requirements (for example grant funding with date conditions attached expiring due to delays to the project), leading to a potential re-payment of this funding. If this materialises then there is a possibility some or all of the funding would need to be repaid. This can be mitigated by close monitoring of the conditions of funding and, in cases where there are changes to projects, communication with the funding issuer.

11.19 Where risks arise and cannot be mitigated in full, the resultant costs will either need to be funded from a commensurate reduction in other schemes, use of reserves or additional borrowing.

11.20 As has been set out in Sections 5, 9 and 10 above, the Council's general fund budget for 2025/26 is being set with the planned use of £21.745m of reserves, on top of any reserves needed to fund the 2024/25 overspend. Whilst the savings target of £30m for 2026/27 will reduce this reliance on reserves, it limits the ability to fund unplanned capital expenditure from reserves and may mean that some of the planned capital expenditure would need to be revised over the period up to 2028/29. Similarly, the revenue position within the HRA in 2024/25 has remained very tight, meaning that the planned revenue contribution to reserves may have to be postponed which will either increase the HRA borrowing or restrict the capital expenditure. Whilst additional borrowing could be sought, the cost of borrowing would fall to revenue budgets which may not be able to fund this without increased risk.

11.21 The capital strategy discussed below and in Appendix W1 sets out the ambition and future requirements for capital delivery in the borough, however, these are not funded beyond what is included in the period 2025/26 – 2028/29 above. Therefore, significant future regeneration schemes such as the full costs for the regeneration of the Catford

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town centre and the entire Achilles estate regeneration are not yet budgeted for.

Capital Strategy

11.22 The Council's Capital strategy and priorities drive the Proposed Capital Programme set out in this section of the report. The Capital Strategy & suggested Capital Programme beyond the current MTFS period are detailed in Appendix W1.

Recommendations

11.23 It is recommended that Mayor and Cabinet notes the 2024/25 capital programme position and agrees, and recommends that Council agree, the reprofiled 2024/25 Capital Programme of £177.2m;

11.24 recommends that Council approve the 2025/26 to 2028/29 Capital Programme of £421.4m;

11.25 agrees and recommends that Council agrees the Capital Strategy set out in Appendix W1.

12. Climate Budget 2025/26 – 2027/28

12.1 The Council produced its first Climate Budget for 2024/25 and brought this forward in July 2024 as part of its MTFS. This supports the Council's ambition for the borough to be net zero carbon by 2030 and the Climate Action Plan as published this year.

12.2 A climate budget is a governance process intended to support the implementation of short-term actions and the long-term ambition to reduce the borough's carbon emissions to net zero. The intention is that the climate budget is integrated within the Council's financial reporting and budget setting processes.

12.3 Council is now setting its 2025/26 – 2027/28 Climate Budget and this is included in Appendix V1. The Climate Budget sets out the Council's carbon emissions for the period 2018/19 – 2022/23, noting that the Council's emissions have reduced by just over 25% in the five-year period covered by the data.

12.4 The budget also assesses the total estimated cost of full decarbonisation of both its corporate and housing assets as being circa £694m, with £21m as the estimated three-year budget for the period 2025/26 – 2027/28. Any decarbonisation projects will be delivered via the Council's established Capital Programme as set out in Section 11.

12.5 Mayor and Cabinet are recommended to approve the Climate Budget 2025/26 – 2027/28 as set out in Appendix V1.

13. Consultation on the Budget

13.1 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 the necessary statutory consultation exercises. The specific consultation exercises were:

Rent Setting and Housing Panel

13.2 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. A meeting on 29 October 2024 presented tenant representatives with an opportunity to consider the position and to feedback any views to Mayor & Cabinet. Tenant representatives of Brockley attended a meeting on 30 October 2024 to consider the proposals and feedback comments to Mayor & Cabinet. Leaseholders were asked for their views at the Leasehold Forum on 16 January 2025.

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13.3 Details of comments from the residents' meetings, and officers' responses to these, have been set out in Appendices X1 and X2.

Business Ratepayer Consultation

13.4 As required under Section 65 of the 1992 Local Government Act, the Council is required to consult business ratepayers on the Council's indicative net revenue budget for 2025/26. This consultation took place between 25 November 2024 and 3 January 2025. This was open to all businesses registered in Lewisham, of which there are over 10,000.

13.5 The Council sought to gather high level information as to the nature of the organisation, and then sought their views on a range of topics. There were 32 respondents who provided feedback on the Council's corporate priorities, specifically what the Council does well and what they believed the Council could do better.

13.6 Of the 32 respondents, 26 confirmed they are paying business rates and of that 26, 20 are receiving some form of business rates relief. Specific details related to the types of organisations that responded can be seen in Table F1.

Table F1: Types of Businesses Operated by Respondents to this Consultation

Type of Business Operated:	Number of Respondents:
Large Enterprise	2
SME*	15
Micro-enterprise**	13
Charity/Community/Voluntary Sector Organisation	2
Total Respondents:	32

* Small to Medium Sized Enterprises.

** Including sole traders and partnerships.

13.7 When asked which of the Council's seven priorities they valued most highly, most of the respondents answered and the top three priorities were unchanged from the previous year's Business Ratepayer Consultation. 'A Strong Local Economy' was voted as the most valued, followed closely by 'Safer Communities'. These two most valued priorities received a great deal more votes than 'Health & Wellbeing', which ranked third. Table F2 below shows how the respondents voted in more detail.

Table F2: Rankings of the Corporate Priorities by Business Ratepayer Consultation Respondents

Corporate Priority:	Number of Respondent Votes:			Overall Ranking:
	Most Valued Priority:	Second Most Valued Priority:	Third Most Valued Priority:	
Cleaner and Greener	0	3	6	6th
A Strong Local Economy	12	8	4	1st
Quality Housing	2	1	5	5th
Children and Young People	2	5	3	4th
Safer Communities	10	8	4	2nd
Open Lewisham	0	1	3	7th
Health and Wellbeing	5	5	5	3rd
Total Votes:	31	31	30	

13.8 See Appendix Y3 to show how each of the corporate priorities are being supported within the Council's budget.

What Lewisham Does Well

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13.9 The consultation asked business ratepayers what they believe the Council does well. Of the respondents, 23 provided feedback to this question.

A Strong Local Economy

13.10 Several respondents gave positive feedback regarding the support for businesses provided by the Council. One particular respondent highlighted the support given to charities in the borough, and another gave positive feedback regarding the encouragement given to small independent businesses, commenting that this attitude creates '*a sense of belonging and community*'.

13.11 Another respondent referred to the Council's award processes and wrote that the business support and recognition received via these processes '*keeps [London Borough of] Lewisham at the forefront of innovation [in terms] of economic activity*'. This respondent also commended the creation of local jobs, wealth, and business growth.

13.12 Finally, a respondent applauded the Council for its '*ambitious aims to deliver quality services*'.

Children and Young People

13.13 Respondents referred to the positive work done by the Children and Young People Service at the Council, specifically writing that '*the Early Years Team at Lewisham [Council] work very hard at being inclusive and supportive of Early Years Providers*'.

Cleaner and Greener

13.14 Several respondents gave positive feedback regarding the Council's waste services. One particular respondent wrote that the '*commercial waste department is excellent*'.

13.15 Another respondent gave positive feedback related to the improvements the Council has made to the borough's footpaths.

Open Lewisham

13.16 Positive feedback was given in relation to the promotion of diversity the Council creates via its support for small independent businesses. Another respondent wrote that the Council is '*willing to engage*'.

13.17 That Council welcomes a better understanding of what is important to its businesses and is pleased to note that its services are well regarded, and that its priorities align with those of its business base.

What Lewisham Could do Better

13.18 The consultation asked business ratepayers what they think the Council could improve on. Of the respondents, 24 provided feedback to this question.

A Strong Local Economy

13.19 A number of respondents raised concerns related to the borough's high streets. Specifically, one respondent asked for the Council to '*look at the local high streets and find ways to regenerate them*'. The same respondent raised concerns related to empty commercial and retail premises writing that empty premises make '*high streets unattractive to locals*'.

13.20 The Director of Inclusive Regeneration notes these comments and advised of ongoing Council action including the Council's capital programme which, over the last 18 months, has utilised the UK Shared Prosperity Fund (UKSPF) to deliver support to local businesses to re-open underused and empty properties.

13.21 Ministry of Housing, Communities and Local Government (MHCLG) and the Department for Business and Trade have also provided local authorities with new powers to auction off leases for long-term empty properties. Properties will need to be

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empty for more than 365 days in a 24-month period before local authorities can auction off these leases.

- 13.22 The Council has also been part of several business support programmes available free to London Borough of Lewisham businesses, including the Business Resilience and Growth Programme delivered by Goldsmiths University which supported over 100 business owners across the borough.
- 13.23 Another respondent raised concerns around the lack of communication between the Council and local businesses, writing that visits from the Council would give a *'better indication of how well or how badly a business is operating'*.
- 13.24 The Director of Inclusive Regeneration notes these comments also. The Business Partnerships and Engagement Team offer in-person business support and have engaged with over 250 businesses, over the last two years. Any local business can contact the Council via business@lewisham.gov.uk for further engagement.
- 13.25 Feedback given by respondents raised concerns that *'too many commercial/retail premises'* are being used *'as residential'*. Another respondent gave feedback that it would be *'helpful to have more shops/services'* including cafes in residential areas.
- 13.26 The Director of Planning notes these comments. On existing premises, Government legislation has changed which means many of these types of existing local premises, such as those mentioned by the respondent, are able to change use without the need for planning permission. Therefore, the borough has seen a decline in these types of facilities as they become residential. The Council has recognised the issues being created and has consulted on seeking a restriction on this legislation, which is due to be presented to Mayor and Cabinet on 29 January 2025.
- 13.27 Several respondents wrote about parking within their responses, with a prominent concern being related to parking charges. One respondent would like to see *'more free parking for business users'*, whilst another does not approve of *'paid parking on the streets'*.
- 13.28 The Director of Public Realm notes these comments and advises that whilst it recognises that free parking may appear desirable, evidence shows that free parking discourages turnover and does not promote visits to businesses, therefore hinders the prioritisation of a strong local economy. The borough's parking zones are designed to optimise the needs of residents in the safest manner possible.
- 13.29 One respondent raised concerns related to *'insufficient parking for customers in Blackheath'*.
- 13.30 The Director of Public Realm also notes this comment and advises that the Blackheath area has recently been reviewed and consulted upon and any changes will be based on the results.

Children and Young People

- 13.31 A number of respondents believe the Council can do better to support children and young people. Firstly, a respondent would like to see further investment in Special Education Needs (SEN) support. They would like the Council to *'make access to SEN support for families easier'* and *'the process of applying for EHCP Assessments (Education, Health and Care Plan Assessments) easier and more timely'*.
- 13.32 The Director of Education Services notes these comments. Schools receive SEN support funding as part of the Government National Funding Formula to identify and meet the needs of children with SEN. The level of funding is not set by the Council. The Council does, however, invest in a range of initiatives to help schools develop a graduated response to meeting needs at SEN support level (such as the SEND Advisory Service). The process for EHCP applications is defined by the national SEND Code of Practice, with a 20-week EHCP Needs Assessment process. Lewisham SEND

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Partnership has worked hard to improve statutory timeframes in recent years and a refreshed SEND Strategy is due in March 2025. It will outline the next steps in the SEND Improvement Programme.

13.33 Other respondents made reference to the Council's Early Years Service, with one respondent writing that the service could be improved by *'engaging with families and offering better funding rates'*, referencing the success of other UK Government initiatives, such as Sure Start.

13.34 The Director of Education Services notes these comments. Funding rates are set as part of the Government National Funding Formula. Lewisham's Early Years Service works to support Early Years providers across the sector to support quality and sufficiency of early years places in the Borough. Lewisham Council is developing a network of Family Hubs to deliver help to families, incorporating the learning from the Sure Start approach.

Cleaner and Greener

13.35 Respondents raised concerns related to graffiti, with one specific respondent identifying a particular road which passes through the borough as an area of concern; the A2.

13.36 The Director of Public Realm notes these comments and would like to reassure business ratepayers that the Council will continue to remove graffiti when reported. However, the Director of Public Realm would also like to advise that the A2 is a road managed by TfL so any concerns regarding this specific road should be directed to them.

13.37 The presence of fly-tipping, along with other street-cleaning issues, can also be reported via the Love Clean Streets website or app. Further information on this can be found on the Council's website: <https://lewisham.gov.uk/myservices/recycling-and-rubbish/cleaner-lewisham>

13.38 One particular respondent highlighted that the Council's waste collection policies should be improved. This respondent also felt the Council's waste inspections were unnecessary.

13.39 The Director of Public Realm notes these comments, however, inspections are based on national policy.

13.40 Finally, one respondent raised concerns linked to pollution and air quality.

13.41 These comments were also noted by the Director of Public Realm. The Council aims to improve air quality across the borough by encouraging the use of vehicles which are less polluting, supporting public transport and improving the experience of walking and cycling around the borough.

13.42 Our Sustainable Streets programme aims to create better streets for residents and reduce both traffic and pollution. More information on this programme can be found on the Council's website: <https://lewisham.gov.uk/myservices/roads-and-transport/sustainable-streets-programme>

Quality Housing

13.43 One particular respondent believes the Council needs to do better to *'stop private landlords raising rents and not doing anything to improve the standards of their properties'*.

13.44 The Director of Housing Strategy notes these comments. Matters of unfair rent rises are dealt with by the First-tier Tribunal (Property Chamber), and any disputes about parties not performing in line with contractual obligations, including facility standards, can be taken to the civil courts. In terms of residential properties, the Council has powers under the Housing Act 2004 to identify and protect against potential risks and hazards to health and safety from any deficiencies identified in residents' homes. The

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Council will work with private landlords to improve property standards.

13.45 Another respondent raised concerns around the unavailability of quality housing for elderly borough residents.

13.46 The Director of Inclusive Regeneration notes these comments and would like to bring attention to the Building for Lewisham (BfL) programme which, as of Q2 2024/25, is predicting 894 homes being completed between 2022 and 2026 (including schemes with Start on Site dates in the 2018-2022 and 2022-2026 manifesto periods). This number includes the provision of wheelchair and adapted homes suitable for elderly borough residents.

Business Rates

13.47 Finally, respondents suggested that business rates should be reduced generally and there should be more access to grants.

13.48 The Executive Director for Corporate Resources notes these comments. Business Rates Policy 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 is 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 Council's 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

13.49 The consultation was available to all of the businesses registered in Lewisham and 32 responses were received.

13.50 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 local businesses need and is ensuring that its Resident and Business Services division is able to provide that, whilst recognising that business rates, business rates relief and grants schemes are set centrally by Government.

13.51 There were also a number of comments provided on the General Fund services affecting businesses such as education services, parking, street cleansing, housing, and high street maintenance. The Council uses feedback provided to continue improving its services for residents and businesses, in line with the aims of the Corporate Strategy.

14. Financial implications

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

15. Legal implications

Budget Setting

15.1 Budget setting is a matter for Council, having considered recommendations by Mayor and Cabinet. The Council's budget-setting process is set out in its Constitution.

15.2 The Council is obliged by section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs. It must set and maintain a balanced budget each year. The Local Government Act 2003 introduced a prudential system of financial control whereby the Council is free to borrow or invest so long as its capital spending plans are affordable, prudent, and sustainable. The Council

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must determine and keep under review how much it 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 must consider affordability, prudence, and sustainability, value for money, stewardship of assets, service objectives, and practicality. Members are also reminded of their fiduciary duty to the Council Taxpayer, effectively to act as trustee of the Council's resources and to ensure proper custodianship of Council funds. Furthermore, section 3 of the Local Government Act 1999 places the Council under a duty to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness. Members must have regard to this duty in making decisions in relation to this report.

- 15.3 Where a service is provided pursuant to a statutory duty, the Council cannot fail to discharge it properly. Where there is discretion as to how to discharge duties, that discretion should be exercised reasonably.
- 15.4 The Council has carried out budget consultation as set out in this report. Members must consider consultation responses with an open mind before making any decision. The Council should also consider how its decisions will contribute towards meeting its equalities duties, against other relevant circumstances such as economic and practical considerations. Directorates should undertake detailed impact assessments of major proposals to ensure that any proposals for savings are reasonable and meet Equality Act duties.

Housing Revenue Account

- 15.5 Under sections 74 and 75 of the Local Government and Housing Act 1989, the Council is obliged to maintain a separate HRA and prevent a debit balance on that account. Rents must therefore be set to avoid such a debit. The Council may not subsidise the Housing Revenue Account (HRA) from its General Fund.
- 15.6 The Council has the power under Section 24 of the Housing Act 1985 to determine rent levels and must review rents from time to time and make such changes as circumstances require but must charge reasonable rents for tenants in its own housing stock. In exercising this function the Council must have regard to any relevant standards set for them under section 193 of the Housing and Regeneration Act 2008 including Government guidance (Guidance on Rents for Social Housing, DCLG, May 2014) and the Rent Standard as set by the regulator of social housing.
- 15.7 Under Section 76 of the Local Government and Housing Act 1989, the Council is required to prepare proposals in January and February each year relating to the income of the authority from rents and other charges, expenditure in respect of repairs, maintenance, supervision and management of the HRA property and other prescribed matters. The proposals should be based on the best assumptions and estimates available and should be designed to secure that the HRA for the coming year does not show a debit balance.
- 15.8 Prior to any increase the Council must comply with statutory and contractual consultation and notice requirements.
- 15.9 In respect of setting service charges, The Landlord and Tenant Act 1985 sets out the basic rules for service charges, defining what is considered a service charge, setting out requirements for reasonableness and for prior consultation of leaseholders.
- 15.10 Leasehold service charges are required to be transparent and reflect the actual cost of the services incurred and where they are incurred on the provision of services or the carrying out of works, only if the services or works are of a reasonable standard in accordance with the Landlord and Tenant Act 1985.

Council Tax

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- 15.11 The Council is required by section 33 of the Local Government Finance Act 1992 to calculate for each financial year the basic amount of its Council Tax. The basic amount of Council Tax must be calculated from the Council Tax base. This base is created by applying a prescribed formula under the Local Authorities (Calculation of Council Tax Base) Regulations 2012. The Council is required to submit its Council Tax base to the Greater London Authority (GLA) between 1 December and 31 January in the financial year preceding the financial year for which the calculation of Council Tax base is made. If it fails to do so, then the GLA is required to determine the calculation for itself, in the manner prescribed in the above Regulations. The amount of Council Tax must be sufficient to meet the Council's legal and financial commitments, ensure the proper discharge of its statutory duties and lead to a balanced budget.
- 15.12 Members should have regard to s106 of the Local Government Finance Act 1992 which states that members who are in arrears on their Council Tax for two or more months may not vote on matters concerning the level of Council Tax or the administration of it.

Fees and Charges

- 15.13 Certain fees for services provided by the Council are prescribed in statute. There are a further range of services where the is permitted Council to decide whether to charge and how much. In addition, section 93 of the Local Government Act 2003 (the Act) and its associated guidance allows the Council to charge for discretionary services. The Council must have regard to the guidance when charging for discretionary services under the Act.
- 15.14 The Council also has power under section 1 of the Localism Act 2011 to do anything that individuals generally may do, subject to restrictions and limitations imposed by other statutes. The general power of competence extends to charging for a discretionary service where there is no other power to charge for the service, including the power in section 93 of the Act.
- 15.15 For each discretionary service which a charge is made, there is duty to secure that, taking one year with another, the income from charges for that service does not exceed the costs of provision. Any over or under recovery that results in a surplus or deficit of income in relation to costs in one period should be addressed by the Council when setting its charges for future periods so that over time income equates to costs.
- 15.16 In reviewing fees and charges, the Council must have due regard to the Public Sector Equality Duty as set out in section 149 of the Equality Act 2010. Equality screening tools have been used appropriately in this regard.

Debt Write-Off

- 15.17 The write-off of debts at the quantum set out in this report is a matter reserved under the Council's constitution to Mayor and Cabinet.

Strategy Approval

- 15.18 The recommendations in respect of the Treasury Management Strategy, the Annual Investment Strategy and the Investment Strategy are in accordance with the Council's statutory duties under the Local Government Act 2003 and statutory guidance and comply with the CIPFA Code of Practice on Treasury Management. The strategies each require full Council approval.

16. Equalities implications

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

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- 16.2 In summary, the Council must, in the exercise of its functions, have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act;
 - advance equality of opportunity between people who share a protected characteristic and those who do not; and
 - foster good relations between people who share a protected characteristic and those who do not.
- 16.3 The duty continues to be a “have regard duty”, and the weight to be attached to it is a matter for the Mayor 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’.
- 16.4 The Equality and Human Rights Commission issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled “Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice”. The Council must have regard to the statutory code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with services and public functions. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found at <https://www.equalityhumanrights.com/guidance/public-sector>
- 16.5 The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:
1. The essential guide to the public sector equality duty.
 2. Meeting the equality duty in policy and decision-making.
 3. Engagement and the equality duty.
 4. Equality objectives and the equality duty.
 5. Equality information and the equality duty.
- 16.6 The essential guide provides an overview of the equality duty requirements including the general equality duty, the specific duties, and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice. Further information and resources are available at <https://www.equalityhumanrights.com/guidance/public-sector-equality-duty-psed>
- 16.7 The EHRC has also issued Guidance entitled “Making Fair Financial Decisions”. It appears at Appendix Y11, and attention is drawn to its contents.
- 16.8 Assessing impact on equality is not an end to itself and it should be tailored to, and be proportionate to, the decision being made. Whether it is proportionate for the Council to conduct an Equalities Analysis Assessment of the impact on equality of a financial decision or not depends on its relevance to the Authority’s particular function and its likely impact on people from protected groups, including staff.
- 16.9 Where 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

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policies, and services will be required to undertake an Equalities Analysis Assessment (EAA) as part of their restructuring process.

16.10 It is also important to note that the Council is subject to the Human Rights Act, and should therefore, also consider the potential impact their particular decisions could have on human rights. Where particular cuts have such implications, they must be dealt with and considered in relation to those particular proposals before any final decision is made.

16.11 In considering the formation of the 2025/26 Budget it is important to consider how this has changed from the 2024/25, both the impact of each individual budget reduction and budget growth proposal, as well as the cumulative impact of these changes on those with protected characteristics. For each reduction and growth proposal an initial equalities analysis assessment has been undertaken, and a fuller equalities impact assessment where required. The detail of all budget reduction proposals can be found in Appendices Y2a and Y2b, and the summary equalities assessments in Appendices Y9a and Y9b.

17. Climate Change and Environmental Implications

17.1 Section 40 of the Natural Environment and Rural Communities Act 2006 states that: 'every public authority must, in exercising its functions, have regard, so far as is consistent with the proper exercise of those functions, to the purpose of conserving biodiversity'.

17.2 Overall, there are limited changes to the budget structure and services funded either from agreed reductions or pressures funded. The environment considerations for any reductions were specifically considered as part of those proposal. The environment considerations for the pressures to be funded in 2025/26 are generally considered to be positive.

18. Crime and Disorder Implications

18.1 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.

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

19. Health and Wellbeing Implications

19.1 There are no specific health and wellbeing implications arising from this report.

20. Background Papers

Short Title of Report:	Date:	Location:	Contact:
Medium Term Financial Strategy	10 July 2024 (M&C)	1 st Floor Laurence House	David Austin
Financial Monitoring and MTFS Update	28 November 2024 (PASC), 4 December (M&C)	1 st Floor Laurence House	David Austin
Council Tax Base	4 December 2024 (M&C)	1 st Floor Laurence House	David Austin

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21. Glossary

Term:	Explanation:
Base Budget	The amount of money allocated for ongoing operations and services before any additional funding or cuts are considered. This is made up of Government funding known as the Settlement Funding Assessment (see definition) and Council Tax income each year. For 2025/26, Section 31 Grant will also form part of the Base Budget.
Budget Allocations	The distribution of financial resources to different departments, ie. Directorates and Divisions, within the Council.
Budget Reduction Proposals	<p>Actions are identified that are expected to reduce expenditure, or increase income, meaning the corresponding budget can be reduced (expenditure) or increased (income) measurably as a consequence. Therefore, a proposal is made, and it constitutes as a saving.</p> <p><i>In everyday language: Actions that reduce existing spending, such as finding more affordable suppliers, resulting in measurable reductions in the corresponding budget.</i></p>
Collection Fund	<p>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.</p> <p><i>In everyday language: A separate fund the Council uses to handle business rates and Council Tax income, showing how this money is shared with the Greater London Authority (GLA), Central Government, and the council's main base budget (known as precepts or demands). Depending on business rates or Council Tax collected, and the precepts/demands due, this Fund will show a surplus or deficit at the end of the year.</i></p>
Cumulative Totals	The total amount built up over time by adding successive quantities. For example, the cumulative budget gap over four years, will refer to the budget gap at the end of the four-year period after combining the gap of the four financial years.
Draft Proposals	In the context of budget setting, these are planned changes to service delivery or scope to deliver financial savings, which have not yet been finalised. They are subject to change based on feedback and further discussion.
General Fund	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 (HRA)	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. The funding generated from rental income, service charges, major works and other income is ringfenced for housing related expenditure such as housing management, repairs and financing stock improvement works.
Initiatives	A plan or action that is intended to achieve a specific goal. For example, a 'budget saving initiative' is a plan or action aimed at reducing expenses and saving money within a budget.
Medium Term Financial	The Council's financial plan for managing the General Fund revenue budgets (income, expenditure, and investments) over the next four years to

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Term:	Explanation:
Strategy (MTFS)	ensure it can deliver services within its financial resources (ie. legally the Council must set a balanced budget) and meet its financial goals. The MTFS makes certain assumptions about future income, including Council Tax increases, and expenditure, including growth and risk pressures, to calculate whether there is a Budget Gap. Where a Budget Gap is identified, a programme of work will be established to bring forward Budget savings proposals. The MTFS is agreed in July each year.
Private Finance Initiative (PFI)	A Private Finance Initiative (PFI) is a long-term contract between a private party and a government entity where the private sector designs, builds, finances, and operates a public asset and related services. In a PFI contract the private party bears the risks associated with construction and maintenance and management responsibility, and remuneration is linked to performance. <i>In everyday language: This would be akin to the Council entering into a 25-year contract in which the Council pays a contractor an annual sum for service delivery plus an element similar to a mortgage repayment for the capital cost.</i>
Reserves	Amounts set aside for purposes falling outside the definition of provisions made above are considered as reserves.
Revenue Support Grant (RSG)	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.
Settlement Funding Assessment (SFA)	A measure used by Government to determine the amount of funding allocated to the Council. The two main components are the Revenue Support Grant (RSG) and the Baseline Funding Level (BFL) which is the amount retained from business rates. This forms the core financial support provided by Government to the Council.

22. Report Author and Contact

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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 Melanie Dawson.

23. Appendices

Climate Budget

V1 Lewisham Council Climate Budget 2025/26-2027/28

Capital Programme

W1 Lewisham Council Capital Strategy 2025-2044

Housing Revenue Account

X1a Brockley Residents Feedback and Queries Relating to the Rent and Service

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Charges Proposed Increase for 2025/26

- X1b Brockley Residents Meeting Services Charges Rise for 2025/26
- X1c Lewisham Council Housing Services – Rent & Service Charge Proposals – Tenant Feedback Meeting
- X2a Brockley Rent Increase Proposal Report 2025/26
- X2b Regenter Service Charge Proposal Report 2025/26
- X3 Rent Increase Proposal Report LBL 2025/26
- X4 Garage Rent Increase 2025/26
- X5a Former Tennant Arrears Write Offs related to HRA Stock
- X5b Summary of Aerial Debt Write Offs
- X6 Other Associated Housing Charges for 2025/26
- X7 HRA Business Plan

General Fund

- Y1 Summary of Previously Agreed Budget Reduction Proposals for 2025/26
- Y2a 2025/26 Budget Reductions – Agreed in 2024/25 (Member Decisions)
- Y2b 2025/26 Budget Reductions – Agreed in 2024/25 (Officer Decisions)
- Y3 2025/26 Budget by Corporate Priority
- Y4 Ready Reckoner for Council Tax 2025/26
- Y5 Chief Financial Officer's Section 25 Statement
- Y6 Council Tax and Statutory Calculations
- Y7 Summary of Proposed Budget Pressures to be Funded in 2025/26
- Y8 2025/26 Proposed Fees and Charges
- Y9a Equalities Impact Assessments (EIAs) for Budget Reduction Proposals
- Y9b Equalities Assessment of Budget Growth
- Y10a General Fund Arrears Write-Offs: Former Tenants' Arrears related to Temporary Accommodation Stock
- Y10b General Fund Arrears Write-Offs: Business Rates Arrears
- Y10c General Fund Arrears Write-Offs: Adult Social Care Sundry Debt Arrears
- Y11 Making Fair Financial Decisions

Treasury Management

- Z1 Interest Rate Forecasts 2025-2027
- Z2 Extract from Credit Worthiness Policy

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- Z3 Benchmarking Extract
- Z4 Economic Update from MUFG Corporate Markets (formerly Link Group)
- Z5 Approved Countries for Investment
- Z6 Requirement of the CIPFA Treasury Management Code of Practice

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