MAYOR & CABINET				
REPORT TITLE	2017/18 Budget			
KEY DECISION	Yes		**Item No.**	
WARD	All			
CONTRIBUTORS	Executive Director for Resources & Regeneration			
CLASS	Part 1	**Date**	8 February 2017	

Lateness: This report was not available for the original dispatch because officers needing additional time to complete their review of the financial details through the report.

Urgency: The report is urgent and cannot wait until the next meeting of Mayor & Cabinet as their feedback on this this report will influence the preparation of the budget update report for Mayor and Cabinet on the 15 February and the final budget proposals to Council on the 22 February.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. EXECUTIVE SUMMARY

1.1 This report sets out the range of budget assumptions which Council is required to agree to enable it to set a balanced budget for 2017/18. These include the following:

- The proposed Capital Programme (General Fund and Housing Revenue Account) budget for 2017/18 to 2020/21 of £336.6m, of which £123.5m is for 2017/18;

- The proposed rent decrease of 1.0% (an average of £0.97 per week) in respect of dwelling rents, 1.0% (average £0.35 per week) in respect of hostels, and a range of other proposed changes to service charges. The proposed annual expenditure for the Housing Revenue Account is £159.8m, including the capital and new build programme, for 2017/18;

- The provisional Dedicated Schools Grant allocation of £290.7m and a separate Pupil Premium allocation expected to be £16.0m for 2017/18.

- In respect of the General Fund, the assumed net revenue expenditure budget of £232.746m. This is made up of provisional Settlement Funding from government of £135.019m (revenue support grant and business rates), forecast Council Tax receipts including an increase in Council Tax of 4.99%, and a surplus from growth in the Council Tax base and on collection of Council Tax in previous years from the Collection Fund.

- The changes to the prior year General Fund position to meet the 2017/18 net revenue budget of £232.746m are proposed on the basis of the following assumptions:
  - £22.236m of revenue budget savings have been previously agreed for 2017/18;
  - £1.000m reduction in the annual budget for corporate risks and pressures;
  - £6.500m of corporate budget for risks and pressures in 2017/18, plus £0.750m of the same no longer required from 2016/17; of which it is being recommended that £5.120m of specific identified budget pressures be funded now and £2.130m be set aside for identified but as yet un-quantified risks;
  - £5.0m use of the New Homes Bonus reserve for revenue purposes for one year with the position to be reviewed for 2018/19;
  - Once-off reserves are used to fund the current savings shortfall of £0.027m for 2017/18 to balance the budget, pending further proposals from the Lewisham Future Programme in 2017/18 to make this up; and
  - An assumed 4.99% increase in Band D Council Tax for Lewisham's services for 2017/18; including the 3% increase announced in the Local Government Finance Settlement for Social Care.

1.2 The report also looks to the medium term financial outlook and notes the prospects for the budget in 2018/19, savings required, and the continued work of the Lewisham Future Programme to meet identified potential budget shortfalls in future years. These are estimated at circa £32.6m over the following two years, 2018/19 and 2019/20.

1.3 The report updates the Council's Treasury Management strategy for both borrowing and investments. The proposed approach and levels of risk the Council takes in its treasury functions remain broadly the same. However, officers continue to explore the opportunity and timing to undertake debt restructuring to reduce balance sheet risk.

2. PURPOSE

2.1 The purpose of this report is to set out the overall financial position of the Council in relation to 2016/17 and to set the Budget for 2017/18. This report allows for the Council Tax to be agreed and housing rents to be set for 2017/18. It sets the Capital Programme for the next four years and the Council's Treasury Strategy for 2017/18.

2.2 The report also provides summary information on the revenue budget savings proposals that were presented at Mayor & Cabinet on 28 September 2016 and those agreed in previous budgets for implementation in 2017/18. The approval and successful delivery of these savings are required in order to help balance the budget for 2017/18 and to address the budget requirement for 2018/19.

3. RECOMMENDATIONS

3.1 It is recommended that the Mayor considers the comments of the Public Accounts Select Committee of 25 January 2017.

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

Capital Programme

3.3 notes and asks Council to note the 2016/17 Quarter 3 Capital Programme monitoring position and the Capital Programme potential future schemes and resources as set out in section 5 of this report;

3.4 recommends that Council approves the 2017/18 to 2020/21 Capital Programme of £336.6m, as set out in section 5 of this report and attached at Appendices W1 and W2;

3.5 recommends that Council agrees to write-off debt totalling £282,759.34 related to Building Control works at the former Hatcham Temple Grove School. Further detail is provided in Appendix W3;

Housing Revenue Account

3.6 notes and asks Council to note the consultation report on service charges to tenants' and leaseholders in the Brockley area, presented to area panel members on 13 December 2016, as attached at Appendix X2;

3.7 notes and asks Council to note the consultation report on service charges to tenants' and leaseholders and the Lewisham Homes budget strategy presented to area panel members on 15 December 2016, as attached at Appendix X3;

3.8 recommends that Council set a decrease in dwelling rents of 1.0% (an average of £0.97 per week) – as per the requirements from government as presented in section 6 of this report;

3.9 recommends that Council set a decrease in the hostels accommodation charge by 1.0% (or £0.35 per week), in accordance with Government requirements;

3.10 approves the following average weekly increases/decreases for dwellings for:

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

- caretaking 3.00% (£0.13)
- grounds 3.00% (£0.06)
- communal lighting 3.00% (£0.02)
- bulk waste collection 3.00% (£0.04)
- window cleaning 3.00% (£0.01)
- tenants' levy no change

3.10.2 service charges to Lewisham Homes managed dwellings:

- caretaking 1.99% (£0.12)
- grounds 0.69% (£0.01)

- window cleaning no change
- communal lighting 3.33% (£0.04)
- block pest control 1.88% (£0.03)
- waste collection -4.17% (-£0.02)
- heating & hot water no change
- tenants' levy no change
- bulk waste disposal -5.00% (-£0.04)
- sheltered housing 1.00% (£0.24)

3.11 approves the following average weekly percentage changes for hostels and shared temporary units for;

- service charges (hostels) – caretaking etc.; 2.00% (£1.42)
- energy cost increases for heat, light & power; 8.93% (£0.49)
- water charges increase; 5.56% (£0.01)

3.12 approves an increase in garage rents by Retail Price Inflation (RPI) of 2.00% (£0.23 per week) for Brockley residents and 2.00% (£0.23 per week) for Lewisham Homes residents;

3.13 notes and asks Council to note that the budgeted expenditure for the Housing Revenue Account (HRA) for 2017/18 is £159.8m which includes the capital and new build programmes;

3.14 agrees and asks Council to endorse the HRA budget strategy savings proposals in order to achieve a balanced budget in 2017/18, as attached at Appendix X1;

Dedicated Schools Grant and Pupil Premium

3.15 agrees and asks Council to agree, subject to final confirmation of the allocation, that the provisional Dedicated Schools Grant allocation of £290.7m be the Schools' Budget for 2017/18 and notes and asks Council to

- note the proposed fair funding formula consultation on both the schools block and high needs block
- note the position on the early years block
- note the position on the schools block
- agree that a PFI factor should be introduced to the schools funding formula for Lewisham.
- note the latest financial position in schools
- note the likely future cost pressures on schools
- note the estimated pupil premium of £16.0m
- note the position on the Education Services Grant

General Fund Revenue Budget

3.16 notes and asks Council to note the projected overall variance against the agreed 2016/17 revenue budget of £11.6m as set out in section 8 of this report and that any year-end overspend will have to be met from reserves;

3.17 agrees and asks Council to agree officers' recommendation to opt in to the Public Sector Audit Appointments (PSAA) process to appoint an auditor for the 2018/19 financial year.

3.18 endorses and asks Council to endorse the previously approved revenue budget savings of £16.2m for 2017/18 and budget savings proposals of £6m as per the Mayor and Cabinet meeting of the 28 September 2016, as set out in section 8 of the report and summarised in Appendix Y1 and Y2;

3.19 agrees and asks Council to agree the transfer of £5.0m in 2017/18 from the New Homes Bonus reserve to the General Fund for one year to meet funding shortfalls and that the position be reviewed again for 2018/19;

3.20 agrees and ask Council to agree the use of £0.027m reserves to meet the budget gap in 2017/18;

3.21 agrees and ask Council to agree the remaining £2.75m of unallocated corporate risk and pressures monies in 2016/17 be transferred to Adult Social Care budgets from 2017/18;

3.22 agrees and asks Council to agree to a saving of £1.0m per year for three years from 2017/18 (£3m in total) from the reduction of the corporate risks and pressures budget to £6.5m;

3.23 notes and asks council to note that £0.75m of the 2016/17 risk and pressures monies allocated to Directorate budgets is no longer required and is to be recovered corporately and re-allocated in 2017/18, in addition to the £6.5m above;

3.24 agrees and asks Council to agree the allocation of £5.12m in 2017/18 to fund quantified budget pressures from the £7.25m (£6.5m plus £0.75m) set aside for corporate risks and pressures;

3.25 agrees and asks Council to agree to create a fund in respect of the identified but as yet un-quantified revenue budget risks in the sum of £2.13m in 2017/18 (the balance of budget for corporate risks and pressures), allowing the Executive Director for Resources & Regeneration to hold these resources corporately in case these pressures emerge during the year, and authorises the Executive Director for Resources and Regeneration to allocate these funds to meet such pressures when satisfied that those pressures cannot be contained within the Directorates' cash limit;

3.26 agrees to recommend to Council that a General Fund Budget Requirement of £232.746m for 2017/18 be approved, based on a 4.99% increase in Lewisham's Council Tax element. This will result in a Band D equivalent Council Tax level of £1,157.68 for Lewisham's services and £1,437.70 overall. This represents an overall increase in Council Tax for 2017/18 of 4.28% and is subject to the GLA precept for 2017/18 being increased by £4.02 (i.e. 1.5%) from £276.00 to £280.02**,** in line with the GLA's draft proposal;

3.27 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 8 of the report and is set out in more detail in Appendix Y3;

3.28 asks that the Executive Director for Resources & Regeneration issues cash limits to all Directorates once the 2017/18 Revenue Budget is agreed;

3.29 notes that the Chief Financial Officer's Section 25 Statement will be presented in the Budget Update Report on the 15 February 2017 for approval;

3.30 agrees and asks Council to agree the draft statutory calculations for 2017/18 as set out at Appendix Y5;

3.31 notes and asks Council to note the prospects for the revenue budget for 2018/19 and future years as set out in section 9;

3.32 agrees that officers continue to develop firm proposals and bring them forward as soon as possible as part of the Lewisham Future Programme to help meet the future forecast budget shortfalls;

3.33 agrees and asks Council to agree the use of up to £10.6m of once off corporate resources for transformation projects as set out in the report and at Appendix Y7 (£2.2m in 2016/17 and £8.4m in 2017/18 and future years).

Other Grants (within the General Fund)

3.34 notes and asks Council to note the adjustments to and impact of various specific grants for 2017/18 on the General Fund as set out in section 8 of this report;

Treasury Management Strategy

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

3.36 agrees and recommends that Council approves the 2017/18 treasury strategy, including the authority to undertake debt restructuring and to invest for longer than one year in non-specified property investments (namely, pooled property funds and AAA Residential Mortgage Backed Securities), along with the investment strategy and the credit worthiness policy as set out at Appendix Z3;

3.37 agrees and recommends that Council approves the revised Minimum Revenue Provision (MRP) policy which confirms the asset life approach adopted in 2016/17 and adds an option to waive the MRP charge on borrowing where sufficient collateral and security is held against the relevant borrowing, as set out in section 10 of this report.

3.38 agrees and recommends that Council agrees to delegate to the Executive Director for Resources & Regeneration authority during 2017/18 to make amendments to borrowing and investment limits provided they are consistent with the strategy and there is no change to the Council's authorised limit for borrowing;

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

3.40 agrees and recommends that Council approves a minimum sovereign rating of AA-.

4. STRUCTURE OF THE REPORT, POLICY CONTEXT, AND BACKGROUND

4.1 The 2017/18 Budget Report is structured as follows:

Section 1	Executive Summary
Section 2	Purpose
Section 3	Recommendations
Section 4	Structure of the Report, Policy Context, and Background
Section 5	Capital Programme
Section 6	Housing Revenue Account
Section 7	Dedicated Schools Grant and Pupil Premium
Section 8	General Fund Revenue Budget, Savings, and Council Tax
Section 9	Other Grants and Future Years' Budget Strategy
Section 10	Treasury Management Strategy
Section 11	Consultation on the Budget
Section 12	Financial Implications
Section 13	Legal Implications
Section 14	Human Resources Implications
Section 15	Crime and Disorder Implications
Section 16	Equalities Implications
Section 17	Environmental Implications
Section 18	Conclusion
Section 19	Background Documents and Further Information
Section 20	Appendices

POLICY CONTEXT

4.2 The Council's strategy and priorities drive the Budget with changes in resource allocation determined in accordance with policies and strategy. The Council's vision "together, we will make Lewisham the best place in London to live, work and learn" was adopted by the Lewisham Strategic Partnership as part of the Sustainable Community Strategy, along with six over-arching priorities:

<u>Sustainable Community Strategy</u>

- **Ambitious and achieving**: where people are inspired and supported to their potential.
- **Safer**: where people feel safe and live free from crime, antisocial behaviour, and abuse.
- **Empowered and responsible**: where people are actively involved in their local area and contribute to supportive communities.
- **Clean, green, and liveable**: where people live in high quality housing and can care for and enjoy their environment.
- **Healthy, active and enjoyable**: where people can actively participate in maintaining and improving their health and well-being.
- **Dynamic and prosperous**: where people are part of vibrant communities and town centres, well connected to London and beyond.

Corporate Priorities

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

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

Values

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

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

4.3 As noted in the 2016/17 budget, the Council's strong and resilient framework for prioritising action has served the organisation well in the face of austerity and on-going cuts to local government spending. This continues to mean, that even in the face of the most daunting financial challenges facing the Council and its partners, we continue to work alongside our communities to achieve more than we could by simply working alone.

4.4 This joint endeavour helps work through complex challenges, such as the pressures faced by health and social care services, and to secure investment in the borough, for new homes, school improvements, regenerating town centres, new and 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 bring the Bakerloo Line extension here to support housing supply and businesses grow through to our nationally recognised programmes of care and support to some of our most vulnerable and troubled families.

4.5 However, it remains clear that the Council cannot do all that it once did, nor meet all those expectations that might once have been met, for we are in a very different financial position than just a few years ago. Very severe financial constraints have been imposed on Council services with cuts to be made year on year on year, and this on-going pressure is addressed here in this report, incorporating further budget savings for 2017/18 and noting the continued outlook for austerity to at least 2020/21.

BACKGROUND

4.6 At a national level the requirement to rebalance the public finances, and therefore the financial outlook for the Council, remains extremely challenging with significant real term reductions in local government resources forecast to continue into the next parliament (i.e. beyond 2020/21).

4.7 In the Autumn Statement, the Chancellor of the Exchequer announced the Government is no longer on course to balance the budget during the current Parliament and has formally dropped this ambition in a significant loosening of its fiscal targets. Public sector net borrowing is now expected to fall more slowly than forecast in March 2016, primarily reflecting weak tax receipts so far this year and a more subdued outlook for economic growth as the UK negotiates a new relationship with the European Union.

4.8 The Office for Budget Responsibility (OBR) provides independent analysis of the UK's public finances. However, given the uncertainty following the EU Referendum result in June 2016 surrounding the choices and trade-offs that the Government may have to make, and the consequences of different outcomes as the UK prepares to leave the

European Union (Brexit), the OBR has made limited judgements on the effect the outcome of Brexit will have on the economy and assumptions on GDP growth, unemployment etc.. The government has retained some borrowing headroom (£26bn) to provide some flexibility to meet these uncertainties. Any specific impacts for the local government sector remain unknown at the present time.

4.9 Based on these assumptions the OBR forecast the economy will grow more slowly than expected in March 2016 and has revised Gross Domestic Product (GDP) growth in 2017 down from 2.2% to 1.4% and cumulative growth over the whole forecast to 2020 revised down by 1.4%. A weaker outlook for investment and therefore productivity growth is the main cause. Inflation, measured by the Consumer Price Index (CPI), is forecast to peak at 2.6% and unemployment to rise modestly to 5.5 per cent during 2018. Subdued earnings growth and higher inflation will mean that real income growth stalls in 2017, putting pressure on household budgets. The budget deficit has been revised up by £12.7 billion for 2016/17, primarily due to weakness in income tax receipts that largely pre-dates the referendum. The weaker growth outlook means that their pre-policy-measures forecast revision rises to £18.1 billion by 2020/21.

4.10 The provisional Local Government Finance Settlement was announced on 15 December 2016, with the final settlement expected in early February 2017. Following the four year settlement offer in 2016, which 97% of councils have accepted (including Lewisham), the settlement for 2017/18 confirms the resource allocations consistent with the 2016 four year offer.

4.11 Along with the settlement announcement, the Government confirmed the continuation of the Adult Social Care (ASC) precept created last year to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on Social Care. Councils can raise the ASC precept on average by 2% per year for each of the four years from 2016/17 to 2019/20. New for 2017/18 in the settlement was some additional flexibility to allow councils to raise the ASC precept sooner by being able to raise up to 3% in each of 2017/18 and 2018/19 but by no more that 6% in total over the three years 2017/18 to 2019/20. The details of this were presented to Mayor & Cabinet in the budget update report on the 11 January. For Lewisham, taking the flexibility to add 3% for the ASC precept to Council Tax in 2017/18 will provide additional funding of £2.68m in 2017/18 for Social care.

4.12 Separate from the ASC precept implications for Council Tax, the settlement also confirmed the referendum principle for any Council Tax increase remains at 2%, i.e. any increase in Council Tax of 2% or more must be put to a full local referendum to be agreed before the budget can be confirmed.

4.13 More widely the direction of travel for local government finance continues, including:

- Government's intention to phase out the Revenue Support Grant;
- Encouragement but no structured process (other than with requirement for Mayoral governance arrangements) for increased local devolution arrangements;
- Changes to the Business Rates regime in anticipation of this moving to be 100% devolved to local government by 2020;
- Changes, 'sharpening the incentives', to the New Homes Bonus (NHB) scheme (reducing payments from six to four years, introducing a minimum baseline growth threshold, and excluding properties for which planning is granted on appeal);

- Establishing more financial support for Social Care services; including, via the ASC precept mentioned above and redirecting the monies from NHB into an 'improved Better Care Fund' paid direct to local authorities.

4.14 Leaving all other previous assumptions (from the July 2016 Medium Term Financial Strategy) unchanged, the provisional estimate is that the forecast savings required in 2017/18 is now at £28.263m (before measures).

4.15 The Lewisham Future Programme Board was established to determine and progress cross-cutting and thematic reviews to deliver the savings required. The Council has already made savings of £138.4m to meet its revenue budget requirements since May 2010 and is proposing further savings of £23.2m in 2017/18.

4.16 Assuming the measures proposed and the 2017/18 budget as set out in this report are agreed, it is expected that the Council will need to identify further savings of circa £32.6m for the following two years, 2018/19 to 2019/20. This will bring the total savings in cash terms made by the Council in the decade to 2020 to just shy of £200m.

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

- Capital Programme for 2016/17 to 2020/21;
- Housing Revenue Account and level of rents for 2017/18;
- Dedicated Schools Grant for 2017/18;
- General Fund Revenue Budget for 2017/18;
- Other Grants for 2017/18;
- Council Tax level for 2017/18; and
- Treasury Management Strategy for 2017/18.

5 CAPITAL PROGRAMME

5.1 In considering the Council's overall financial position, the Capital Programme is considered first. This is to ensure that any revenue implications of capital decisions are taken into account. The Capital Programme budget for 2017/18 to 2020/21 is proposed at £336.6m, of which £123.5m is for 2017/18.

5.2 This section of the report is structured as follows:

- Update on 2016/17 Capital Programme;
- Proposed Capital Programme 2017/18 to 2020/21; and
- Future schemes and resources.

Update on 2016/17 Capital Programme

5.3 Progress in delivering the 2016/17 Capital Programme has been reported to Mayor & Cabinet and the Public Accounts Select Committee regularly throughout the year. The latest forecast projection was that the revised budget allocated for the year of £87.4m, reported to Mayor and Cabinet on 19 October 2016, would be delivered this year. However, at this stage, the revised budget shows a slight decrease of £2.6m to £84.8m from the last reported budget figure. This change is mainly due to the reduction of the 2016/17 Schools Places Programme budgets.

5.4 The capital programme for 2016/17 has seen a number of schemes progress well with the main areas of capital spend involving the provision of school places and housing.

Proposed Capital Programme 2017/18 to 2020/21

5.5 The Council's proposed Capital Programme for 2017/18 to 2020/21 is currently £336.6m, as set out in Table A1:

Table A1: Proposed Capital Programme for 2017/18 to 2020/21

	16/17 £m	17/18 £m	18/19 £m	19/20 £m	20/21 £m	4 Year Total £m
General Fund						
Building Schools for the Future	2.8	0.0	0.0	0.0	0.0	**0.0**
Schools – Primary Places and other Capital Works	14.3	20.6	14.1	0.0	0.0	**34.7**
Highways, Footways and Bridges	8.5	3.5	3.5	3.5	3.5	**14.0**
Major Regeneration Schemes	11.7	10.1	0.5	9.0	0.0	**19.6**
Town Centres and High Street Improvements	0.3	0.0	3.5	0.0	0.0	**3.5**
Asset Management Programme	1.5	3.8	3.9	2.5	2.5	**12.7**
Other Schemes	9.0	7.5	2.6	2.8	2.0	**14.9**
	48.1	**45.5**	**28.1**	**17.8**	**8.0**	**99.4**
Housing Revenue Account	**36.7**	**78.0**	**68.2**	**40.4**	**50.6**	**237.2**
Total Programme	**84.8**	**123.5**	**96.3**	**58.2**	**58.6**	**336.6**

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

Table A2: Proposed Capital Programme Resources for 2017/18 to 2020/21

	16/17 £m	17/18 £m	18/19 £m	19/20 £m	20/21 £m	4 Year Total £m
General Fund						
Prudential Borrowing	4.6	5.3	4.0	9.0	0.0	**18.3**
Grants and Contributions	19.3	21.0	15.0	0.7	0.7	**37.4**
Specific Capital Receipts	7.2	6.1	0.0	0.8	0.0	**6.9**
General Capital Receipts / Reserves / Revenue	17.0	13.1	9.1	7.3	7.3	**36.8**
	48.1	**45.5**	**28.1**	**17.8**	**8.0**	**99.4**

Housing Revenue Account						
Prudential Borrowing	0.0	0.0	0.0	0.0	0.0	**0.0**
Grants	0.0	0.0	0.0	0.0	0.0	**0.0**
Specific Capital Receipts	20.7	15.1	34.8	6.0	0.0	**55.9**
Reserves / Revenue	16.0	62.9	33.4	34.4	50.4	**181.3**
	36.7	**78.0**	**68.2**	**40.4**	**50.6**	**237.2**
Total Resources	**84.8**	**123.5**	**96.3**	**58.2**	**58.6**	**336.6**

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

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

5.9 No changes are proposed at this stage to the existing General Fund revenue contributions to capital (CERA) of £2.0m per year from General Fund. However, the £1.2m per year contribution from schools will cease with effect from 2017/18. The revenue funding line also includes amounts transferred to reserves in previous years for schemes which, at that time, had not been delivered.

5.10 The Capital Programme will be further updated to include future grants, once these are known and will also include the year-end outturn expenditure and resourcing. This is expected to be reported to Members before the summer recess and will not impact on delivery of the Programme for 2017/18.

Future schemes and resources

5.11 During 2015/16, the Council established the Regeneration and Capital Programme Delivery Board comprising key officers involved in the planning and delivery of the capital programme. This Board has responsibility and accountability for the delivery of all regeneration and capital projects and programmes of the built environment and is also responsible for ensuring that all projects and programmes are adequately and appropriately resourced.

5.12 The key objectives of the Board are to ensure that a consistent and corporate approach is taken to the development and authorisation of all project and programme initiation documents and the associated financing and funding of projects and programmes. It meets every two months and ensures that a corporate approach is taken to the monitoring, management and delivery of all projects and programmes. It reports through to the Regeneration Board which is chaired by the Executive Director for Resources and Regeneration.

5.13 During the latter part of 2016, the Regeneration and Capital Programme Delivery Board invited officers to put forward bids for capital funding. Proposals totalling £43.3m were received, and can be broadly grouped into schemes that are ‘invest to save’ schemes, ‘growth to existing’ schemes, or new schemes that would help to achieve ‘corporate priorities’. The total funding required to fully deliver the proposed schemes is shown in table A3 below.

Table A3: Summary of proposed future schemes

	2017/18	2018/19	2019/20	Total
	£’000	£’000	£’000	£’000
Invest to save schemes	13,811	8,000	8,000	29,811
Growth to existing schemes	120	765	0	885
Corporate priority schemes	2,542	1,340	8,760	12,642
TOTAL	**16,473**	**10,105**	**16,760**	**43,338**

5.14 The ‘invest to save’ schemes include those that would improve the offer of the Council’s leisure centres to help maintain and increase revenue generation and schemes that could help the Council generate income through housing delivery. The ‘growth to existing’ schemes relate to environmental and housing schemes already underway but where further funding may be required to achieve the full potential. The ‘corporate priority’ schemes are those which could help the Council better achieve its environmental, housing and educational objectives.

Resources available to finance future schemes

5.15 The Council is forecasting capital receipts of £42m over the next three years. £26m of this will be applied to finance already approved schemes, leaving a balance of £16m available to finance new schemes. It is important to note, however, that actual amounts of capital receipts may differ from the forecasts as a result of future events and market conditions.

5.16 It is expected that section 106 receipts and CIL will be able to finance £1.6m in relation to invest to save and corporate priority schemes.

5.17 There is then a shortfall of approximately £25.5m between the value of the schemes that have been proposed for funding, and the estimated available future resources, as per the table A4 below:

Table A4: estimated financial resources for future schemes

	2017/18	2018/19	2019/20	Total
	£’000	£’000	£’000	£’000
Future scheme proposals (see table A3)	**16,473**	**10,105**	**16,760**	**43,338**
Capital Receipts	7,380	1,580	7,300	16,260
S106 / CIL	1,618			1,618
Resources available	**8,998**	**1,580**	**7,300**	**17,878**

Resource shortfall (Gap)	**7,475**	**8,525**	**9,460**	**25,460**

5.18 During 2017/18, updates on the Capital Programme will be reported to Mayor & Cabinet and the Public Accounts Select Committee on a regular basis. As capital receipts and other resources come in to the Council, it may be possible to bring some of the future scheme proposals into the programme. These additions to the programme will be put forward for approval by members as part of the Capital Programme update reports.

5.19 In addition to the above, officers are recommending the write off of £283k irrecoverable debt which represents the Authority's proportion of uninsurable and irrecoverable losses relating to Hatcham Temple Grove School. Full details are set out in Appendix W3.

Summary

5.20 The proposed 2017/18 to 2020/21 Capital Programme totals £336.6m (General Fund £99.4m and HRA £237.2m) and includes all the Council's capital projects. It sets out the key priorities for the Council over the four year period and will be reviewed regularly. The Capital Programme is set out in more detail in Appendices W1 and W2.

6. HOUSING REVENUE ACCOUNT

6.1 This section of the report considers the Housing Revenue Account (HRA). The budgeted expenditure for the HRA in 2017/18 is £159.8m, including the capital and new build programme.

6.2 It is structured as follows:

- Update on the HRA financial position for 2016/17
- Update on the HRA Business Plan
- Future Years' Forecast

Update on the HRA financial position for 2016/17

6.3 The HRA is budgeted to spend over £100m in 2016/17. The latest forecast on the HRA for 2016/17, is that net expenditure can be contained within budget by the year end. There are currently minimal reported pressures which can, if necessary, be mitigated by the use of once-off contingencies, reserves and revenue working balances. Expenditure against repairs & maintenance budgets is expected to be contained within the sums allocated.

Update on the HRA Business Plan

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

6.5 The plan has undergone a major revision following the Government's announcement in the July 2015 budget statement to legislate for a 1% reduction in social rents to be applied each year for the next four years from 2016/17. The legislation was passed in March 2016.

6.6 The impact of the change in policy is a total reduction of forecast rental income within the business plan of £2.62m in 2017/18 (£1.90m for 2016/17). The expected cumulative rent reduction over the four years 2016/17 to 2019/20 is £25.0m, with £374.0m being lost over the life of the 30 year business plan.

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

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

6.9 The plan also contains costs associated with new build units and a target of 500 additional units by the end of the Mayor's current term. Table B1 provides an illustration of the expected HRA budget for the next 5 years, which includes the current 1% rent reduction estimates.

Table B1: HRA Income and Expenditure Estimates

HRA Income & Expenditure Estimates - 5 year Forecast	2017/18	2018/19	2019/20	2020/21	2021/22
	£M's	£M's	£M's	£M's	£M's
Income					
Rental income	-70.7	-69.6	-70.0	-71.8	-73.3
Tenants service charge income	-5.9	-5.9	-6.1	-6.2	-6.3
Leasehold service charge income	-4.3	-4.5	-4.6	-4.7	-4.8
Hostel charges and grant income	-1.3	-1.4	-1.4	-1.4	-1.4
Major Works recoveries	-4.9	-5.8	-6.1	-9.8	-9.3
Other income	-1.5	-1.5	-1.5	-1.4	-1.4
Interest earned on balances	-0.9	-0.7	-0.7	-0.5	-0.4
Total Income	**-89.5**	**-89.4**	**-90.4**	**-95.8**	**-96.9**
Expenditure					
Management costs	35.4	35.5	35.7	36.1	36.5
Repairs & maintenance	15.6	15.7	15.9	16.0	16.2
PFI Costs	5.8	6.2	6.7	7.2	7.7
Interest & other finance costs	3.9	3.8	3.8	3.8	3.8
Depreciation	21.1	21.3	21.6	21.8	22.2
Revenue Contribution to Capital	0.0	6.0	14.8	30.9	26.7
Total Expenditure	**81.8**	**88.5**	**98.5**	**115.8**	**113.1**
Surplus/(deficit)	**7.7**	**0.9**	**-8.1**	**-20.0**	**-16.2**
Opening HRA reserves	46.7	54.4	55.3	47.2	27.2
Contribution to/(Drawdown) from reserves	7.7	0.9	-8.1	-20.0	-16.2
Closing HRA Reserves	**54.4**	**55.3**	**47.2**	**27.2**	**11.0**

HRA Income & Expenditure Estimates - 5 year Forecast	2017/18	2018/19	2019/20	2020/21	2021/22
	£M's	£M's	£M's	£M's	£M's
Forecast Capital Programme & Funding	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£M's	**£M's**	**£M's**	**£M's**	**£M's**
Capital programme (including decent Homes)	37.1	34.0	35.5	50.2	50.4
New Build construction & on-going costs	40.9	34.2	4.9	0.4	0.6
Total Capital Expenditure	**78.0**	**68.2**	**40.4**	**50.6**	**51.0**
Capital Programme Funded By:					
MRR Opening Balance	-49.5	-7.7	0.0	0.0	-2.1
Revenue Contribution to Capital	0.0	-6.0	-14.8	-30.9	-26.7
Depreciation	-21.1	-21.3	-21.6	-21.8	-22.2
Capital Receipts	-15.1	-33.2	-4.0	0.0	0.0
Borrowing	0.0	0.0	0.0	0.0	0.0
Total Capital Funding	**-85.7**	**-68.2**	**-40.4**	**-52.7**	**-51.0**
Capital shortfall	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
HRA - Actual Debt Level (Forecast)	74.8	74.8	74.8	74.8	74.8
HRA Self-financing Settlement Debt Level	127.3	127.3	127.3	127.3	127.3

6.10 As can be seen from the above table, the expected total expenditure, before financing, for the HRA in 2017/18 is £159.8m, composing of £81.8m operational costs and £78.0m capital and new build costs.

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

Future Years' Forecast

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

6.13 There is an ongoing process to identify opportunities for savings and efficiencies to deliver services for improved value for money and this is described in Appendix X1. Although no direct savings have been identified so far for 2017/18, any savings and efficiencies delivered against the HRA business model and future budgets can be re-invested to off-sent constrained rent rises or to help bridge any investment gap identified. Discussions are ongoing to identify appropriate savings and 'target' management and maintenance costs per unit. For example, there is already an assumed reduction in the Lewisham Homes fee in 2017/18 to reflect stock losses through Right to Buy Sales.

6.14 Separate reports which set out in detail the proposals relating to service charges for Brockley and Lewisham Homes residents are attached at Appendix X2 and Appendix X3, respectively.

Rental Income and allowances

6.15 The average weekly rent is currently £97.58 in 2016/17.

6.16 Due to the requirements to comply with Government legislation, rents are expected to reduce by 1% each year for a four year period starting 2016/17.

6.17 A 1% reduction in average rents for 2017/18 will equate to an average decrease of £0.97 over a 52 week period. This will reduce the full year average dwelling rent for the London Borough of Lewisham from £97.58 to £96.61 per week (pw). The proposed decrease will result in a loss of £0.722m of rental income to the HRA against 2016/17 income levels.

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

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

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

6.21 No comments were received from Lewisham Homes residents concerning the proposals for rents and service charges.

6.22 No comments were received from RB3 Brockley concerning the proposals for rents and service charges.

6.23 No comments were received from tenants in hostels or from the Excalibur TMO.

6.24 Details of the options for the rent & service charge changes for 2017/18 were presented to the Housing Select Committee on 10 January 2017. Members noted the contents.

6.25 Having regard to the outcomes of the consultations held in December 2016 as set out above (and with more detail in Appendices X1, X2 and X3), the Mayor is asked to make a recommendation to full Council that a rent decrease be agreed to accord with Government requirements. The new average rent for 2017/18 is likely to be in the region of £96.61pw, a reduction of approximately £0.97pw from 2016/17 levels.

Other Associated Charges

6.26 There are a range of other associated charges. These include: garage rents, tenants levy, hostels, Linkline, private sector leasing, heating and hot water. These charges and any proposed changes to them for 2017/18 are set out in detail in Appendix X4.

Summary

6.27 The gross budgeted expenditure for the HRA in 2017/18 is £159.8m. Council is asked to approve a rent decrease having considered Government requirements and tenant's feedback following consultation held in December 2016. The current average weekly rent is £97.58 in 2016/17. This will reduce to £96.61pw in 2017/18.

7. DEDICATED SCHOOLS GRANT AND PUPIL PREMIUM

7.1 This section of the report considers the Dedicated Schools' Grant (DSG) and level of Pupil Premium for 2017/18. This grant is formula based, calculated by the Government with the Council passing it onto schools. The respective budgets for 2017/18 are £290.7m and £16.0m.

7.2 It is structured as follows:

- Update on 2016/17 Dedicated Schools' Grant
- Dedicated Schools' Grant for 2017/18
- Pupil Premium
- Funding Consultation
- Cost Pressures in schools
- Early Years Funding
- Education Services Grant

Update on 2016/17 Dedicated Schools' Grant

7.3 The level of the Dedicated Schools' Grant (DSG) for 2016/17 is £284.7m. This will be revised later to take account of the pupil count which for early years children is undertaken in January 2017.

7.4 There are no budget pressures in the DSG apart from the individual school budgets. The central spend of the grant is expected to balance at the year end.

7.5 At the end of the 2015/16 financial year there were 11 schools that had deficits. Out of these three schools that had a license deficit agreement in place for the year end.

7.6 There are 9 schools who have submitted deficit budget plans this year. Looking further ahead the returns show another 8 schools going into deficit in 2017/18. There are 45 schools who are operating an in-deficit in 2016/17, having balanced their budget by using their carry forward. There are 26 schools reporting a zero balance at the year end.

Dedicated Schools' Grant for 2017/18

7.7 The DSG for 2017/18 has provisionally been set by the Department for Education (DfE) at £290.7m, although this will change during the year to reflect updated pupil numbers. The DSG is now approximately £58m (or 25%) larger than the Council's Net General Fund budget.

7.8 In comparison with last year, there is a £6.0m increase (1.5%) in the DSG. This is due to the following:

- An increase of £0.4m driven by the estimated increase in pupil numbers, largely in the primary age group, while the amount per pupil has been frozen in cash terms.
- Nationally an extra amount of £130m has been added to the High Needs Block. Lewisham will receive an extra £0.5m or 1.7% of this extra amount.
- As detailed below there has been a transfer from the Education Services Grant for retained duties of £0.6m
- Extra funding of £2.8m has been built into the settlement to provide 30 hours of childcare for working parents. This is effective from 1 September 2017.
- There is a transfer of £1.7m from the Education Funding Agency for the funding of High Needs pupils in FE institutions which will need to be met from the DSG in the future.

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

7.10 The Schools Forum met on 17 January 2017 and recommended that the Mayor introduce a PFI funding factor into the schools funding formula for 2017/18. The intention is that this smooth the fixed PFI costs to schools against any significant shortfall in income. The PFI factor will fund any annual cost of a PFI scheme which equates to more than 10% of the school's individual formula budget.

7.11 Under the regulations the Schools Forum decides:

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

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

7.13 The projection for 2017/18 is an overspend of £1.7m on the High Needs Block through an annual forecast growth in pupil numbers of 110 children with Education, Health and Care plans.

7.14 The Schools Forum set up a task group to review the High Needs Pupils costs in 2013. This group made a number of recommendations to the Forum which met on the 8 December 2016 to consider them. The Forum agreed savings of to cover the £1.7m by

- A reduction in Special Schools' (excludes New Woodlands) budgets of £0.5m
- That £1.0m of the capital expenditure from revenue (CERA) budget in the Schools Block of the DSG is used to offset the pressure *
- the saving agreed last year on Alternative Provision of £0.2m covering both Abbey Manor College and New Woodlands

*The national regulations stipulate that this funding cannot be used for capital now.

7.15 The Special Education Need and Disability (SEND) Strategy 2016 to 2019 set out the local authority commitment to children and young people with SEND. As part of the action plan for the delivery of the strategy it was agreed that a review of the current banding system of high needs pupil should be undertaken to ensure equity, transparency and fairness across all schools sectors and that the banding levels should be based on the needs of pupils.

7.16 One of the key principles of the banding review was that any proposals should be cost neutral over the total budget across all special schools, although there may be impact on individual schools. The other main principle was to ensure that there is greater clarity in the system of which band a pupils fits into and to make sure that the system was easy to moderate. This clarity will be provided by ensuring the banding system is transparent, equitable and fair. To help this it was agreed there should be a single banding systems for all schools (special, mainstream and resource base) rather than having separate banding models for each of the three types of provision.

7.17 The Forum on the 8 December 2017 agreed the revised bandings, the funding rates for each band and set the implementation date as the 1 April 2017. An application has been made to the DFE to dis-apply the minimum funding guarantee as some schools lose more than the 1.5%.

Pupil Premium

7.18 In addition to the DSG, schools will continue to receive the pupil premium. The majority of the pupil premium is allocated to schools on the basis of the number of children on roll who were entitled to a free school meal in the past six years.

7.19 In 2017/18 the rate of funding is set at the same level as 2016/17. This is £1,320 per primary child, £935 per secondary child and £1,900 per child in Looked After Care. The DfE no longer provide forecasts of the total pupil premium. Officer's calculations are for £16.0m for 2017/18, which is now the expected level for 2016/17.

Funding Consultation

7.20 The DfE issued on the 14 December 2016 their response to the national school funding reform consultation that took place in the spring. Sitting alongside the response is a further consultation which runs to the 22 March 2017. This gives greater details of the impact of the national funding formula for schools and high needs by both local authority and by school.

7.21 The impact is less severe than original anticipated due to

- The introduction of at least £200m of additional funding in 2018/19 and 2019/20.
- The inclusion of a 3 per cent funding floor.
- Additional funding for high needs, ensuring that no local authority loses high needs funding as a result of the new formula.

7.22 The full implementation date is set for April 2018 where individual schools funding will be delivered by national funding rates.
Overall the position in Lewisham is:

		Total £m	**Change £m**	
2016/17 baseline (£m)	Schools block	208.764		
	High needs block	48.652		
	Central school services block	1.424		
	Total	258.841		
Illustrative NFF funding in first year of transition	Schools block	205.870	- 2.89	-1.39%
	High needs block	48.652		
	Central school services block	1.459	0.03	
	Total	255.981	- 2.86	
Illustrative NFF if fully implemented in 2016-17	Schools block	203.006	- 5.76	-2.76%
	High needs block	48.652		
	Central school services block	1.513	0.09	
	Total	253.171	- 5.67	

7.23 The typical size Lewisham schools will see the following type of reductions over the two year period

	£'000
Large Secondary	200
Small Secondary	150
Large Primary	75
Medium Primary	50
Small Primary	30

The percentage reduction from the funding changes is standard at 2.8%. The reduction will be split evenly over the next two years.

Cost pressures in Schools

7.24 The DfE estimates that mainstream schools will have to find savings of £3.0 billion (8.0%) by 2019/20 to counteract cumulative cost pressures, such as pay rises and higher employer contributions to national insurance and the teachers' pension scheme. It expects that schools will need to make efficiency savings through better procurement (estimated savings of £1.3 billion) and by using their staff more efficiently (the balance of £1.7 billion). This is broadly in line with local estimates.
With the proposed national funding formula reductions of 3% and the cost pressures above, schools will have to find reductions of 11% over the next three years. For Lewisham's largest secondary schools who have income of around £10m this will mean savings in the region of £1m.

Early Years Funding

7.25 The DfE have issued a new funding formula for Early Years providers. While all providers will fare differently under the Government proposals the overall outcome will be that Nursery schools will see very significant reductions in funding, Maintained school nursery classes will see some reduction, generally in the region of £9k and the Private, Voluntary and Independent (PVI)sector will see increases.

7.26 The proposed national funding formula for funding local authorities will receive is made up of:

- 89.5% Pupil numbers;
- 8% KS1 FSM numbers;
- 1.5% EAL numbers;
- 1% DLA numbers; and
- There is an area cost adjustment based on general labour market costs and rates bills.

7.27 Unlike schools funding, early years funding will continue to be distributed by Local Authorities through a local formula. The most significant change to the local funding formula used by local authorities to distribute the funding to providers is that there can only be one universal base hourly rate for all types or providers. Currently this is not the case in Lewisham. The rates we used are:

- £7.70 Nursery schools
- £4.85/£5.13 Primary schools (dependent upon OFSTED)
- £3.84/£4.67 PVI's (dependent upon OFSTED)

7.28 The schools forum set up a task group to look at the proposals in more detail.
The Schools Forum has agreed that the Universal Base Rate can be deferred until April 2018. This would enable phasing in the school's reductions, but at the expense of PVI rates.

7.29 Currently additional hours are allocated to children deemed to have social needs. This will be reduced to a third of its current provision. Currently 279 children receive this and the budget is £900k. In the longer term it will not be permissible for Local Authorities to fund additional hours for these type of children.

7.30 The proposals include details of the implementation extra 30 hours of childcare from September 2017. This increase will only be available to working parents.

Educations Services Grant (ESG)

7.31 In 2016/17 the allocation of ESG for Lewisham is £3.5m. It is made up of two elements: a so called general fund which is referred to in this section of the paper as the ESG Central Fund (to avoid confusion with Lewisham's own General Fund which is used to fund core services) of £2.9m and a retained duties element of £0.6m.

7.32 The ESG central funding rate for local authorities in the 2016 to 2017 financial year is £77 per pupil in mainstream schools and £288.75 and £327.25 per place in pupil referral units and special schools respectively. This funding is being discontinued from September 2017.

7.33 The retained duties funding rate for local authorities is a flat rate of £15 per pupil **in all state funded schools**, which includes academies. There is no differential funding for Special Schools and pupil referral units for the retained duties element of the ESG.

The total ESG grant is to cover the following services

- School improvement
- Statutory and regulatory duties
- Education welfare service
- Central support services
- Asset management
- Premature retirement costs/redundancy costs (new provisions)
- Therapies and other health-related services
- Monitoring national curriculum assessment.

7.34 The funding previously allocated through the ESG retained duties rate (£15 per pupil) will be transferred into the schools block for 2017 to 2018. The DFE will allow local authorities to retain some of their schools block funding to cover the statutory duties that they carry out for maintained schools which were previously funded through the ESG. The amount to be retained by the local authority needs has to be agreed by the maintained schools members of the Schools Forum. Lewisham Schools Forum did this on the 8 December 2016. This amounted to £0.6m of the former £3.5m grant.

7.35 School Improvement Grant - The Department for Education have announced a separate grant that will be allocated to local authorities (LAs) to continue to monitor and broker school improvement provision for low-performing maintained schools and intervene in certain cases. That was previously met from the Education Services Grant. The grant for Lewisham is £187k and covers the period from September 2017 to March 2018.

8 GENERAL FUND REVENUE BUDGET AND COUNCIL TAX

8.1 This section considers the General Fund revenue budget and Council Tax. The General Fund budget for 2017/18, assuming a Council Tax increase of 4.99%, is £232.746m. Details of the savings anticipated for 2017/18 are provided at Appendices Y1 and Y2.

8.2 It is structured as follows:

- Update on 2016/17 Revenue Budget;
- The Budget Model;
- Saving proposals;
- Council Tax for 2017/18; and
- Overall Budget Position for 2017/18.

Update on 2016/17 Revenue Budget

8.3 The Council's revenue budget for 2016/17 was agreed at Council on 24 February 2016. The general fund budget requirement was set at £236.218m.

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

8.5 Budget holders have been continually challenged to maintain tight control on spending throughout the year through the continuation and strengthening of Directorate Expenditure Panels (DEPs) and the additional layer of scrutiny added through the operation of the Corporate Expenditure Panel (CEP).

8.6 An initial projected overspend of £7.7m was reported at the end of May 2016. However, since this positon was first reported, the position has worsened. This is in spite of the continued management attention given to seek the containment of costs and, where possible, accelerating service changes to reduce costs.

8.7 The current projected overspend at as the end of November 2016 is £11.6m. The most significant increases during this time has been in the area of adult social care, which has seen the overspend projection increase by nearly £2.5m. This is due to a number of factors, including the significant pressure being felt on the placements budget through the increased costs of residential care in older adults' placements and changes associated with the re-letting of contracts for home care. Increases elsewhere relate to children's social care and increased transport costs in the environment division.

8.8 Overall, this remains a significant overspending projection, and stringent management action must continue for the remainder of this year to help bring the projected overspend down.

8.9 It should be noted that a sum of £3.75m was held corporately as part of setting the 2016/17 budget for managing 'risks and other budget pressures' which emerge during the year. As in previous years, the Executive Director for Resources and Regeneration gives due consideration as to when it might be appropriate to apply this sum. To date during the year, corporately £1.0m has been committed to address the ongoing cost pressures in the dry recycling contract, leaving a balance of £2.75m. If allocated in full this will have the effect of reducing the current projected overspend to £8.8m.

Directorates

8.10 Table C1 sets out the latest forecast budget variances on the General Fund by Directorate, before applying the sum for 'risks and other budget pressures'

Table C1: Forecast outturn for 2016/17 as at end of November 2016

Directorate	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/ (under) spend Nov. 2016
	£m	£m	£m	£m
Children & Young People	61.6	(14.0)	47.6	5.3
Community Services	170.0	(76.9)	93.1	3.4
Customer Services	101.5	(57.0)	44.5	3.3
Resources & Regeneration	73.9	(46.9)	27.0	(0.4)
Directorate Totals	**407.0**	**(194.8)**	**212.2**	**11.6**
Corporate Items	24.0	0.0	24.0	0.0
Net Revenue Budget	**431.0**	**(194.8)**	**236.2**	**11.6**

Auditor Appointment

8.11 There are three main ways to appoint an auditor under the new regime before 31 December 2017, in time for the 2018/19 financial year: by the authority itself acting independently, by the authority acting alongside other authorities or by Public Sector Audit Appointments (PSAA) through a national sector led scheme managed by PSAA and established under regulations made under the Act. The PSAA is an independent limited company incorporated by the Local Government Association (LGA). These arrangements are to enable the existing contracts to be retendered and replace those previously managed by the Audit Commission, now closed.

8.12 The Secretary of State for Communities and Local Government gave PSAA the task of establishing and managing audit appointments in England under the Local Audit (Appointing Persons) Regulations 2015 for authorities who want to opt into the scheme. This option means that authorities cede the power of appointing and managing the auditor to a central body, providing potential savings on procurement and removing the additional bureaucracy of creating an auditor panel. It reduces the involvement of authorities and saves time by delegating the decision-making to an independent checkpoint.

8.13 Authorities must opt in to realise these benefit and have until 9 March 2017 to do so. The regulations require a Full Council resolution to opt in. This will last for five years and authorities that choose not to opt in will have another opportunity to apply to join the national scheme subsequently for later financial years. It is expected that PSAA will appoint several audit firms, subject to receiving acceptable tenders, to ensure that no single firm achieves market dominance. It must also consult each individual authority on the appointment of its auditor and will take into account the desirability of appointing the same auditor to authorities that share accounting and financial services, or that have made other joint arrangements that impact audit work.

8.14 Similar to the majority of local authorities, officers are recommending that Lewisham 'opts in' to take advantage of the national sector led scheme developed by PSAA.

Corporate Financial Provisions

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

8.16 Consideration is now being given to employing the use of corporate measures to balance the budget at year end. It is proposed to meet any 2016/17 budget overspend from reserves.

The Budget Model

8.17 This section of the report sets out the construction of the 2017/18 base budget. This section is structured as follows:

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

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

8.18 The Council has made substantial reductions to its expenditure over the last seven years. On all credible economic forecasts, it will continue to need to make further reductions for at least the next three to four years. This section of the report summarises a series of proposals that would enable the Council to set a balanced budget for 2017/18 as part of a sustainable financial strategy to 2019/20. Looking beyond 2019/20 very much depends on the financial implications for the Council from government policy in the next parliament, the next Comprehensive Spending Review (including the impact from Brexit), details for how the introduction of 100% of business rates will be implemented and any related developments in respect of more devolution to London.

Council Tax

8.19 The assumption used in the model for preparing the 2017/18 budget, subject to confirmation by Council, is for the maximum 4.99% Council Tax increase (a 3% increase for the revised social care precept and a 1.99% increase under the referendum principle). This is consistent with the government's financial models for local government funding to 2019/20.

8.20 If Council choose to set a different Council Tax increase they will need to be mindful that any increase below this recommendation will result in additional budget pressures, resulting in a higher savings requirement. And any increase above this recommendation would require support in a local referendum due to the limit set by the Secretary of State.

8.21 Further information on the options for Council when setting the Council Tax is set out in more detail towards the end of this section.

Inflation

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

8.23 In December 2016, the Office for National Statistics (ONS) reported that the rate of Gross Domestic Product (GDP) growth in the economy was greater than 2% with CPI inflation in the UK at 1.6% in December. The November Office of Budget Responsibility (OBR) forecasts for inflation, which were published alongside the Chancellor's Autumn Statement, are a rise to a peak of 2.6% in 2018 before returning to near the UK target of 2% annually thereafter, with GDP growth falling to 1.4% in 2017 before returning to 2% throughout the period to 2019/20.

8.24 For financial planning purposes, the Council has previously assumed an average pay inflation of 1% per annum, which equates to approximately £1.1m. In December 2015, a final offer was made to the unions of a 1% pay award for 2017/18 by the National Joint Council (NJC) for Local Government Services, with staff on very low pay being offered increases that will bring them up to the new National Living Wage (NLW) introduced by the government in 2015. The NLW is currently set at £7.50/hr from April 2017. Lewisham's lowest pay band exceeds this amount and therefore a provision of 1% per annum for 2017/18 has been made.

8.25 The Council currently applies a non-pay inflation rate of 2.5% per annum. This is close to the forecast inflation rates for 2017 and reflects the underlying commitments in Council contracts. This equates to approximately £2.5m per annum (net). This figure was put forward as an efficiency saving for three years starting from 2015/16, with 2017/18 being the final year of this measure.

New Homes Bonus

8.26 The New Homes Bonus (NHB) sits alongside the Council's planning system and is designed to create a fiscal incentive to encourage housing growth. The Department for Communities and Local Government (DCLG) is paying the NHB as un-ringfenced grant to enable local authorities to decide how to spend the funding. The scheme design sets some guidance about the priorities that spend should be focused on, in that it is being provided to 'help deliver the vision and objectives of the community and the spatial strategy for the area and in line with local community wishes'.

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

8.28 In the provisional Local Government Finance Settlement statement, the Secretary of State announced that in 2017/18 and 2018/19 NHB legacy payments will be changed to five and four years respectively. The funding released by doing this will be re-invested back into local government to support social care and will be distributed on a needs basis. Going forward a baseline level of 0.4% growth will also be applied for which NHB will not be paid and the government is finalising the consultation which is expected to confirm that NHB will not be paid on properties for which planning is granted on appeal.

8.29 The provisional allocation for 2017/18 in Lewisham, including on-going payments, is £10.139m, with the years 1 and 2 allocations of £1.664m dropping out and with the allocation for Year 7 (2017/18) delivery being £2.072m. The impact of the changes noted above will be to reduce the level of NHB the Council receives by at least a third from the original scheme going forward.

8.30 The cumulative nature of the NHB is set out in summary in Table C6 below.

Table C6 – New Homes Bonus Allocation Profile

	2012/13 £m	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
Yr 1 - 6 yrs paid in full	0.706	0.706	0.706	0.706	0.706	-
Yr 2 – limited to 5 yrs	0.958	0.958	0.958	0.958	0.958	0
Yr 3 – limited to 5 yrs		2.150	2.150	2.150	2.150	2.150
Yr 4 – limited to 4 yrs			2.629	2.629	2.629	2.629
Yr 5 – limited to 4 yrs				1.399	1.399	1.399
Yr 6 – limited to 4 yrs					1.889	1.889
Yr 7 – limited to 4 yrs						2.072
Total Allocation	**1.664**	**3.814**	**6.443**	**7.842**	**9.731**	**10.139**
Less: London LEP Top slice	**0**	**0**	**0**	**-2.218**	**0**	**0**
Lewisham Total	**1.664**	**3.814**	**6.443**	**5.624**	**9.731**	**10.139**

8.31 The Council produces an Annual Monitoring Report (AMR) which assesses the level of development which has taken place and reviews the performance on plan making and related steps being undertaken to progress the regeneration of the borough. The AMR provides a housing trajectory and identifies the anticipated amount of residential development over the coming years.

8.32 A significant amount of planned growth for the borough is yet to come. The AMR provides an update on the progress of strategic sites within the regeneration and growth areas, including Deptford and New Cross, Lewisham Town Centre and Catford Town Centre. Overall, strategic sites are progressing and are generally being constructed within anticipated timescales. The bringing forward of housing supply in London is a priority for the Council and the London Mayor. The AMR provides a housing trajectory and identifies the anticipated amount of residential development over the coming years.

8.33 In view of the planned growth in housing and associated infrastructure in the borough in future years it was agreed to commit £0.65m of the NHB allocation per annum to provide delivery support for this. This represents a year-on-year commitment for the Council. Given the planned growth in the Borough over the coming years, the funding will be used to support work to improve the borough's town centres, increase the number of jobs in the borough, provide improved transport links to the rest of London, and build upon the necessary infrastructure such as schools, health facilities, and open spaces.

8.34 While initially being held with a view to funding future capital works, a review of the NHB has been conducted consistent with the government's commitment that NHB will continue (albeit at a reduced level) for the remainder of the parliament and the expectation that councils use their reserves. Given the pressures on the overall budget, and as in 2016/17 and consistent with previous years, it is proposed to use some of the NHB for revenue funding shortfalls. This will be effected by releasing £5.0m of the accumulated reserve balance from the NHB scheme to the General Fund for 2017/18 only.

Budget Pressures to be funded

2016/17

8.35 In 2016/17, £7.5m of funds were set aside in the budget model to meet specific identified budget pressures and potential budget risks. Of this £7.5m in the 2016/17 budget, £3.75m was allocated to services to fund quantified pressures, leaving £3.75m unallocated and held corporately against identified risks. As noted above in the 2016/17 financial forecast monitoring, £1.0m of this was allocated in the year for Dry Recycling, leaving £2.75m of corporate risks and pressures unallocated.

8.36 An ongoing area of significant financial pressure for the Council are the rising demands and costs of Adult Social Care, including Transition costs for young adults as well as costs for the elderly. The forecast overspend in this area for 2016/17 is £3.5m. And, if agreed, the Adult Social Care precept for 2017/18 will raise £2.7m.

8.37 The population of the Borough is forecast to increase by a net 3,000 annually for the foreseeable future. This growth combined with the demographic change being experienced nationally for people to live longer lives, even with severe disabilities, is creating particular pressure on health and social care services. In respect of adult social care, the Council is also experiencing an increase in the transfer of high cost packages and placements for young people with a learning disability from the Children & Young People's directorate to Adult Social Care. In the region of £1.0m annually. Additional provision also has to be made for a few new physical disability placements a year (brain injuries and other accidents).

8.38 The budget pressures in Adult Social Care have been reviewed and it is recommended that the remaining £2.75m of corporate risk and pressures unallocated in 2016/17 now be allocated to Adult Social Care.

8.39 In 2016/17 the Adult Social Care precept raised £1.7m. This was committed to funding the costs of paying the National / London Living Wage in all contracts. The additional £2.75m in 2017/18 will ensure all the Adult Social Care precept raised continues to be committed in this area.

2017/18

8.40 Following the Pension Fund valuation at the 31 March 2016 the annual corporate lump sum contribution is no longer required. It is therefore proposed to reduce the budget for pressures and risks in 2017/18 to £6.5m, from £7.5m. This generates a £1.0m annual saving in the budget requirement. This saving can be offered as for the last three years £1.0m has been committed to support the Council's deficit pension fund position. Following the triennial actuarial valuation of the Pension Fund in 2016 this lump sum contribution is no longer required from April 2017, at least for the next three years. Not having to fund this pressure in the General Fund over this period will provide a saving of £3m in total, £1.0m each year from 2017/18 to 2019/20.

8.41 The budget pressures anticipated in 2017/18 have been reviewed and it is recommended that a number of these specific identified pressures are recovered or funded now. In terms of accounting for these, it is proposed that the budgets are recovered where appropriate and then allocated in liner with the decisions of this budget from the corporate risk and pressures monies to the relevant Directorates when determining their cash limits for 2017/18.

8.42 Table C2 provides a summary of the corporate risk and pressures budget and those pressures and risks that are being recommended to be recovered or funded.

Table C2: Summary of 2017/18 budget pressures to be funded

Description	**£'000**	**£'000**
2017/18		
Opening budget for 2017/18	6,500	
Prior year corporate budget no longer required		
Concessionary fares	500	
No Recourse to Public Funds - costs	250	
Risk & Pressures budget available in 2017/18		**7,250**
Previously committed		
Highways & Footways (year 4 of 10)	-350	
Licensing arrangements (year 2 of 5)	-200	
No Recourse to Public Funds - operations	-500	
Arising from policy changes		
Business rates appeals	-500	
Apprenticeship levy	-400	
Unachieved elements of previous years savings		
CYP – various in respect of Education Support	-400	
Environment – waste disposal & parks income	-500	
R&R – advertising and wireless income	-350	
Demand pressures		
Looked After Children	-1,200	
Leaving Care	-200	
CYP Transport	-500	
Business Rates Discretionary Relief	-20	
Risks & Pressures recommended to be funded		**-5,120**
Risks & Pressures budget recommend to be held against possible overspends in 2017/18		**2,130**

Concessionary Fares - £0.50m to be recovered corporately

8.43 London Councils have advised on the expected Lewisham's Freedom Pass costs for 2017/18. The figure is £0.5m lower than in 2016/17. As this funding, previously committed from corporate resources, will no longer be required in 2017/18 it is being returned to the corporate budget for risks and pressures.

No Recourse to Public Funds, costs - £0.25m to be recovered corporately

8.44 As reported in previous budgets, the rise in number and costs of No Recourse to Public Funds cases has created significant pressures on the s17 budget in the Children and Young People Directorate in recent years. In 2014/15 the Council reorganised and created a team to pilot new ways of working and interventions focused solely on this area to bring costs down. Corporately these pressures were also recognised in the budgets of 2015/16 and 2016/17 with £4.1m of risk and pressures monies committed to this area.

8.45 The work of the team to ensure effective and fair assessments and control costs where families are accepted is working and an underspend on the No Recourse to Public Funds s17 costs is forecast in 2016/17. As these funds are no longer required it is proposed they are returned to the corporate budget for risks and pressures in 2017/18.

Highways and Footways pressure – £0.35m

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

8.47 Corporate funding of £0.3m for 2017/18 will be provided with an additional £0.3m being added to the budget until 2020/21 and a balance of £0.1m in 2021/22. Therefore, the total allocation over the period is £2.2m, although this will eventually be offset by £0.8m of released budget arising from repaid prudential borrowing over the period 2024/25 to 2033/34.

8.48 It was also agreed in 2014/15 to create an ongoing budget of £0.5m for the replacement of footways over a ten year period 2014/15 until 2023/24. For 2017/18, a budget allocation of £0.05m will be needed with an additional £0.05m being added to the budget for each of the years to 2023/24.

Additional Licensing Scheme £0.20m

8.49 In 2015/16 Mayor and Cabinet approved the introduction of an “additional” licensing scheme in Lewisham to improve conditions of private rented flats above commercial premises (primarily over shops) across the borough.

8.50 The scheme agreed was at a cost of £1.0m over five years. This is the second of the five years of contributions.

No Recourse to Public Funds, operations – £0.50m

8.51 As noted above, the Council created a new team to focus on and manage the assessment of No Recourse to Public Fund cases. To date it has been funded in-year on an rolling annual basis as a pilot scheme from corporate resources.

8.52 The results and benefits of this approach are now understood and, while costs are being better controlled, this is still an area experiencing considerable demand. It is therefore proposed to fund this work on a permanent basis by providing an ongoing operational budget to the Customer Services Directorate.

Business Rate appeals - £0.5m

8.53 The Valuation Office continues to hear appeals on valuations from the 2010 list. Any of these that are upheld will require the Council to return the backdated overpayment and reduce the ongoing level of rates to be collected. This cost can be amortised over five years.

8.54 In 2017 the new valuations from the 2015 list will be applied and, given the 36% rise in valuations for Lewisham, it is anticipated there will be a number of appeals under the new 'check, challenge, appeal' arrangements that will take time to be considered. The business rate base in Lewisham also has some particular concentrations, in particular around rateable values for technology infrastructure and the public sector assets, where there continues to be change.

8.55 Recognising these uncertainties and the real risk from business rates appeals in 2017/18 and the coming years, it proposed this be recognised and funded.

Apprenticeship Levy - £0.4m

8.56 The chancellor's Autumn Statement in November 2016 confirmed that, from April 2017, employers with a wage bill of more than £3 million will have to pay a 0.5 per cent levy to fund apprenticeships training.

8.57 In Lewisham for the non-schools pay bill that falls to the General Fund this levy equates to £0.4m.

Previous years unachieved savings - £1.25m

8.58 As is noted elsewhere in this report the Council has brought forward and implemented significant savings since 2010/11 and will continue to need to do so until at least 2020/21. In doing so not all of the savings are delivered in full, either in terms of timing or value, as the savings targets have been stretching in the face of the ambition and challenge the Council faces to live within its budget.

8.59 Where this arises the first action is for management to try to address the obstacles and find solutions so that the agreed savings are delivered. This is monitored through the financial forecast reporting and the management actions being taken to effect budgetary control. However, it may not always be possible to fully resolve the pressure and where this is the case it should be recognised.

8.60 Looking at the persistent overspends in the financial forecasts from the impact of partially achieved savings identifies the following where it is now proposed to inject corporate resource to reduce the budget pressures. This will release management attention so that for 2017/18 the focus can be on developing new savings proposals to address the remaining savings gap in the Medium Term Financial Strategy. By Directorate these include, with the original savings reference in brackets, the following:

- Children & Young People Directorate are reporting a mix of various overspends resulting from the partial achievement of prior year savings totalling £0.4m.

These include savings for: Attendance to Welfare (J2b), Occupational Therapy (Q3d), Educational Psychologists (Q3c), and Multi Agency Planning work (Q3f).

- Environment Services are reporting pressures on the cost of waste services as the number of properties in the Borough grows (as seen the in the Council Tax Base) and shortfalls in the income hoped to be generated from parks (N1 and N6). It is proposed to add £0.5m to these budgets to meet these pressures.
- Regeneration, Assets and Place are pursuing income from using more of the Council's assets to generate advertising income (G2a) and a return from supporting wireless connectivity (G2b) across the Borough. Despite this work the full income target is not going to be achieved and it is proposed to add £0.35m to these budgets for 2017/18.

Looked After Children and Children Leaving Care – £1.40m

8.61 The Looked After Children service provides social work support to all the children who are looked after by the London Borough of Lewisham. It performs all the statutory functions, including care planning and ensuring that their health and education needs are met. And that they are also supported when the time comes to leave care safely.

8.62 At the start of 2010, the number of Looked After Children peaked and then they started to decline. This continued until the summer of 2011 from when numbers were fairly stable. However, the numbers started to rise again in April 2013 and in 2016 are consistently above 400, often with extensive and expensive support costs required. Young People are the fastest growing section of Lewisham's population. The current demographics indicate that the pupil population is growing by 2.5% which, all other things being equal, roughly projects to an increase in the Looked After Children of one a month.

8.63 Even with the work to manage the budget pressure through effective and economic placement decisions, overall spend on these services is exceeding the available budget. It is therefore proposed to fund this service area by an additional £1.4m from 2017/18.

Transport Costs - £0.50m

8.64 There is an ongoing project to review the transport passenger service the Council provides. It is revisiting the options available to provide this service and looking at the best service configurations to drive down costs. This project has a savings target of £1.0m, half in 2016/17 and half in 2017/18.

8.65 It is recognised from the financial monitoring that a barrier to making this saving is that, in the Children & Young People Directorate in particular, there is already a demand pressure that is driving significant overspends year on year. It is therefore proposed to put an additional £0.5m into the transport budget to ensure the focus can be on the new ways of working and delivering the agreed saving.

Business Rates Discretionary Rates relief - £0.02m

8.66 From April 2017 businesses in Lewisham will be charged their business rates on the new 2015 valuations. Overall in Lewisham business rate valuations have increased 36% since the previous valuation by the Valuations Office Agency (VOA) in 2010. However, this increase in Lewisham is distorted by one particularly large technology infrastructure business on the list. Excluding the particular circumstances of this business the average rise in the new rates in Lewisham is 23%.

8.67 The Council sets aside an annual budget of £86k to be able to offer a contribution as a discretionary business rates relief to community organisations that are not able to obtain relief through other discounts (for example, via charitable status) or which are in particular need. The proposal is therefore to increase this budget by 23% to £109k, uplift of £20k, so that the scale of benefit in Lewisham is sustained.

Risks and other potential budget pressures to be managed

8.68 Following the review of budget pressures within Directorates, there are a number of other risks and issues which, although difficult to quantify with absolute certainty, could prove significant should they materialise.

8.69 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:

- Adult Social Care and Transition
- Child Sexual Exploitation
- National / London Living Wage
- Redundancy
- Unachieved savings

Adult Social Care, including Transition demands

8.70 As noted above this is an area of continuing pressure for the Council. This is expected to continue into future years. However, the impact of the additional funding committed to these services for 2017/18 through the Adult Social Care precept and the changes arising from transformation savings are assessed it is not possible to fully evaluate the risk at this time.

Child Sexual Exploitation

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

National / London Living Wage

8.72 In 2015 the Chancellor announced the obligation for all employers to pay at least a national living wage. The Council has for some years now ensured it pays the London Living Wage to staff and contractors where this has been possible to contract for. However, there have remained some areas where this has not always been possible – for example; sub-contractors on some facilities contracts and contracting for some care services. New European procurement rules and the introduction of the national living wage go some way to closing this remaining gap to ensure all employees are paid a fair wage. The government has also confirmed that the minimum and living wages will rise faster than inflation to at least 2020.

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

Redundancy

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

Unachieved savings

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

8.76 Where these have been identified from savings for earlier years these are addressed in the funded pressures above. However, while management actions continue to be taken to fully implement savings for the coming year such pressures cannot be easily quantified at this stage. Should these pressures arise in the year and are not be able to be contained with Directorate budgets, they may need to be met from the risk fund or become an additional call on reserves.

Summary of Budget Pressures

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

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

8.79 After allowing the allocation of corporate risk & pressures to be funded in 2017/18 as summarised in Table C2 above, an unallocated balance of £2.15m would remain. It is proposed that the Executive Director for Resources & Regeneration hold this fund corporately. This fund would be used to allocate resources to fund emergent budget pressures during the year (such as those described above) which cannot be quantified with certainty at this moment in time.

Saving proposals

8.80 On the 28 September 2016 the Mayor:

- Endorsed previously agreed savings proposals from the 2015/16 and 2016/17 budgets for implementation in 2017/18, totalling £16.3m.
- Agreed and delegated £4.915m of saving proposals for 2017/18, and requested a further £1,084 worth of proposals be progressed and necessary consultations undertaken to then return to Mayor and Cabinet for decision.

8.81 The total savings included in the 2017/18 budget calculation is £23.236m (including the £1m reduction in budget pressures recommended in this report). The savings must be achieved in order to maintain a balanced budget. The final approval and delivery of these savings will be monitored, any shortfall will have to be covered, in the short term, through the use of reserves.

8.82 As anticipated in the Medium Term Financial Strategy (July 2016) and following the provisional Local Government Finance Settlement (December 2016), the Executive Director for Resources & Regeneration has been considering options to bridge a budget shortfall in order to balance the budget for 2017/18. It is proposed to use a small amount of corporate reserves (£0.027m) with the bulk of the gap being met from use of £5.0m of the New Homes Bonus reserve in 2017/18.

8.83 Estimates for Revenue Support Grant in 2018/19 to 2019/20 have been provided by the Government which has offered to provide a four year settlement on Revenue Support Grant from 2016/17 up to 2019/20. The Council submitted a four year efficiency plan in October 2016. The prospects for future years' budgets based on the provisional settlement figures are set out in more detail in section 9 of this report.

Council Tax for 2017/18

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

Collection Fund

8.85 Collection Fund surpluses or deficits reflect whether the Council over or under achieves its Council Tax collection targets. Therefore, this requires a calculation to be made of how much the Council has already received for the Council Tax in the current and past years and how much of the outstanding debt it expects to collect.

8.86 The statutory calculation was carried out for the 15 January (date prescribed by the relevant statutory instrument). This calculation showed there is an estimated surplus on the Collection Fund in respect of Council Tax, for the years 1994/95 to 2016/17 of £4.818m.

8.87 This surplus is shared with the precepting authority, the Greater London Authority (GLA), in proportion to relative shares of budgeted Council Tax income in the current financial year. This means that £3.853m of the £4.818m surplus has to be included in the calculation of Lewisham's budget as the additional Council Tax owed and collected in year. The remaining balance of £0.964m will be allocated to the GLA.

8.88 Members should note that the Council agreed on the 18 January 2016 to maintain the Council Tax Reduction Scheme (CTRS) approach of previous years, which is for the Council to continue to pass on the cumulative Settlement Funding Assessment cut from the previous years since the scheme's introduction. This now stands at 33%. This means that everyone of working-age has to pay a minimum of 33% of their council tax liability.

Council Tax Levels

8.89 The current position is still that Council Tax may not be increased by 2% or more (inclusive of levies) without a referendum. In addition, there is also the opportunity to increase Council Tax by up to a further 3% under the social care precept (2% in 2016/17). The government's assumptions in the local government financial settlement to 2019/20 include the raising of both Council Tax and the social care precept in each and every year to meet the recognised funding pressures faced by the sector.

8.90 In 2017/18, the Social care precept will work by giving local authorities the flexibility to raise council tax in their area by up to 3% above the existing referendum threshold. In Lewisham this will provide additional funding of £2.68m, ring fenced for adult social care spend in 2017/18. If implemented this charge has to be identified on the face of the Council Tax bill and made clear in the accompanying guidance for rate payers.

8.91 At the same time a general increase in Council Tax of 1.99% (i.e. within the limit of the 2% referendum threshold) would also provide additional funding of £1.78m.

8.92 In considering savings proposals and the level of Council Tax, Members make political judgements, balancing these with their specific legal responsibilities to set a balanced budget for 2017/18 and their general responsibilities to steward the Council's finances over the medium term.

8.93 In 2016/17, the Band D Council Tax in Lewisham is £1,378.66 on a base of 78,528.58 Band D equivalent properties. Of this, £276 relates to the activities of the GLA which the Council pays over to them on collection.

8.94 The GLA is consulting on a precept of £280.02 (Band D equivalent) for 2017/18, an increase of £4.02, or approximately 1.5% and a final decision is expected from them on or after the 20 February 2017. The entire precept increase will be applied to the policing budget.

8.95 For 2017/18, the Band D Council Tax in Lewisham is recommended to be £1,437.70 on a base of 81,087.65 Band D equivalent properties (the base was approved at Council on the 18 January). Of this, £280.02 relates to the activities of the GLA which the Council will pay over to them on collection.

8.96 Table C3 below shows, for illustrative purposes, the Council Tax payable by a Lewisham resident in a Band D property in 2017/18 under a range of possible Council Tax increases, and the financial implications of this for the Council. A full Council Tax Ready Reckoner is attached at Appendix Y3.

8.97 The starting point is for an assumed 4.99% increase in Council for 2017/18. Any reduction from this level of increase will reduce the level of income the Council collects and will increase the draw on reserves for 2017/18 and the savings gap in future years.

Table C3 – Band D Council Tax Levels for 2017/18

	Amounts payable by residents – Band D				Lewisham
Change in Council Tax	**Lewisham element**	**GLA element**	**Total**	**Change in total**	**Annual income forgone**
	£	**£**	**£**	**%**	**£m**
4.99% increase	**1,157.68**	**280.02**	**1,437.70**	**+4.28%**	**0.00**

	Amounts payable by residents – Band D				Lewisham
Change in Council Tax	Lewisham element	GLA element	Total	Change in total	Annual income forgone
4.50% increase	1,152.28	280.02	1,432.30	+3.89%	0.438
4.00% increase	1,146.76	280.02	1,426.78	+3.49%	0.886
3.50% increase	1,141.25	280.02	1,421.27	+3.09%	1.333
3.00% increase	1,135.74	280.02	1,415.76	+2.69%	1.780
2.50% increase	1,130.22	280.02	1,410.24	+2.29%	2.227
2.00% increase	1,124.71	280.02	1,404.73	+1.89%	2.674
1.50% increase	1,119.20	280.02	1,399.22	+1.49%	3.121
1.00% increase	1,113.68	280.02	1,393.77	+1.09%	3.568
0.50% increase	1,108.17	280.02	1,388.19	+0.69%	4.015
Council Tax Freeze	1,102.66	280.02	1,382.68	+0.29%	4.462

Overall Budget Position for 2017/18

8.98 For 2017/18, the overall budget position for the Council is an assumed General Fund Budget Requirement of £232.746m, as set out in Table C4 below.

Table C4 - Overall Budget Position for 2017/18

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Settlement Funding Assessment (SFA) for 2017/18	(135.019)	
Council Tax 2017/18 at 4.99% increase	(93.874)	
Surplus on Collection Fund	(3.853)	
Assumed Budget Requirement for 2017/18		**(232.746)**
Total Resources available for 2017/18		
Base Budget for 2016/17	236.218	
Plus: Reversal of reserves drawn in 16/17 (once off)	10.943	
Plus: Additional Pay inflation	0.978	
Plus: Non-pay Inflation	2.500	
Plus: Education Support Grant changes for 17/18	2.870	
Plus: Budget pressures to be funded from 17/18 fund	5.120	
Plus: Risks and other potential budget pressures	2.130	
Less: 16/17 pressures funding no longer required	(0.750)	
Less: Previously agreed savings for 2017/18	(16.237)	
Less: September approved savings for 2017/18	(5.999)	
Less: Use of New Homes Bonus reserve	(5.000)	
Less: Once off use of Corporate reserves	(0.027)	
Total		**232.746**

Use of Provisions and Reserves

2017/18 budget

8.99 Should all the above proposals be agreed, then this would leave a remaining gap of some £5.027m to be funded by the once off use of NHB and Corporate reserves in 2017/18. This is set out in the Table C4 above.

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

Invest to Save

8.101 Through the work of the Lewisham Future Programme (LFP), the Council continues to review all areas of expenditure to identify and bring forward savings proposals that match the Council's priorities and risk profile for services. There are no easy 'efficiencies' remaining and the changes required to make further savings are more complex. They require greater transformation in culture, ways of working and the infrastructure to support them.

8.102 Savings of this nature typically take longer to implement, the outcomes are more uncertain, and (from the financial perspective) require an element of upfront investment to achieve them. The areas where this investment is currently being considered are consistent with the Lewisham 2020 priorities set by members and include: the digital transformation work to assist with more flexible ways of working, the restack of Laurence House to rationalise the corporate estate, and updates to the Council's key systems to improve efficiencies and control. The work of the transformation programme is set out in more detail in Appendix Y7.

8.103 The outline programme identifies the need for spend on these areas as set out in Table C5 below:

Table C5 – Invest to Save

Invest to Save projects	**2016/17 £m**	**2017/18 & future years £m**	**Total £m**
Staff Costs – Digital Team	0.300	1.700	2.000
ASC / CYP Systems Improvement	0.400	0.200	0.600
Digital Programme	0.306	1.520	1.826
- Digital Programme	***1.006***	***3.420***	***4.426***
Wifi Upgrade	0.150		0.150
Completing infrastructure upgrade	0.250		0.250
- Technology Infrastructure	***0.400***	***0.000***	***0.400***
Laurence House Restack	0.500	2.000	2.500
Enterprise Resource Planning	0.300	3.000	3.300
Total	**2.206**	**8.420**	**10.626**

8.104 These investments are and will be considered based on detailed business cases to assess the opportunity and regular updates provided to members. The costs are not built into ongoing Directorate revenue budgets and therefore need to be funded from once off corporate resources.

8.105 The Executive Director for Resources and Regeneration recommends that the use of up to £10.6m of once off corporate resources for transformation projects (£2.2m in 2016/17 and £8.4m in 2017/18 and future years) be approved.

9 OTHER GRANTS AND FUTURE YEARS' BUDGET STRATEGY

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

- Better Care Fund 2017/18
- Public Health Grant 2017/18
- Various other grants 2016/17
- Future Years' Budget Strategy 2016/17 onwards

Better Care Fund

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

9.3 For Lewisham the value in 2016/17 is £21.218m out of a national total of £3.9bn. The local plan was approved by NHS England and the 2017/18 plan is currently being developed. In particular, the 2017/18 plan will take into account those service areas where spend has been lower than expected in 2016/17, with funds redirected to areas of greater need. Individual allocations have not yet been announced but as no significant increase is expected in the national total any local increase is likely to be limited to an adjustment for inflation.

9.4 The Fund must be used in accordance with the final approved plan and through a section 75 pooled fund agreement. The full value of the element of the Fund linked to non-elective admissions reduction target is be paid over to Lewisham Clinical Commissioning Group (CCG) at the start of the financial year. However, the CCG may only release the full value of this funding into the pool if the proposed admissions reduction target is met. If the target is not met, the CCG may only release into the pool a part of that funding proportionate to the partial achievement of the target. Any part of this funding that is not released into the pool due to the target not being met must be dealt with in accordance with NHS England requirements. The partners have agreed contingency arrangements to address this risk and they will continue into 2017/18.

Public Health Grant

9.5 In 2016/17 the Council's allocation for Public Health Grant is £25.298m, including an increase of £7.6m to match the transfer of financial responsibility for health visiting and a reduction of £2.08m as part of a reduction in the level of grant nationally. Further national reductions of 2.6% annually have been announced for the next three financial years and the 2017/18 Lewisham allocation is £24.967m.

9.6 The grant remains ring-fenced and the agreed commitment of these funds will therefore need to be reviewed annually and rebalanced to ensure the reductions are met and funds are directed to those services and activities with the greatest public health benefit. The report to M&C in September 2016 brought forward the savings for agreement to ensure this happens. These were agreed subject to a £260k shortfall which will need to managed in 2017/18 or addressed along with the other savings due in 2017/18 to make the next year's reductions and keep spending in-line with the available grant.

Other Grants and Levies

9.7 Certain specific grants have changed for 2017/18. The main ones are:

- The removal of the ESG (£3.5m in 2016/17) with £0.6m now rolled into the DSG. This is set out in detail in section 7 above.
- The changes to the NHB funding (£9.7m in 2016/17), the details for which are set out in section 8 above.

9.8 In 2017/18 the government is also introducing the improved Better Care Fund (iBCF) to work alongside the BCF which is described above. The iBCF for Lewisham is expected to be £1.2m in 2017/18. This funding is intended for meeting the costs of social care and supporting the integration work between health and social care systems. Also, there is a one off Adult Social Care grant for 2017/18 which for Lewisham will be £1.4m. Both of these grants in 2017/18 will be funded nationally from the reduction in NHB following the changes made to that grant.

9.9 As the NHB incentives sharpen and depending on the demand for adult social care in future years in Lewisham it is expected that the shift from NHB to iBCF experienced through these funding streams will increase.

9.10 It is expected that, as the funding on specific grants changes, the related cost of service provision will also be adjusted to ensure the Directorates manage their activities within the available resources.

9.11 The Council is also required to levy monies totalling in the region of £1.6m for other bodies, in addition to the Council Tax collected on behalf of the GLA (see Collection Fund). These bodies are the London Pension Fund Agency, Lee Valley Regional Park, and Environment Agency. At present the final amounts for 2017/18 have yet to be confirmed and it is therefore assumed these will stay at or close to their 2016/17 levels which are set out in Appendix Y5. Any variations will be absorbed in the corporate provisions and corrected for the following year.

Future Years' Budget Strategy 2017/18 onwards

<u>Revenue Budget</u>

9.12 The Medium Term Financial Strategy was reported to Mayor & Cabinet in July 2016. This set out that an estimated £45m of savings required from 2017/18 to 2019/20 over and above the £16.2m of savings already agreed at that time for 2017/18. This position has been superseded by the savings proposals submitted to Mayor and Cabinet in September 2016, the provisional local government finance settlement announced in December 2016 and annual review of the statutory calculation for the Collection Fund.

9.13 The revised profile for savings required is now broadly;

- £22m to be implemented in 2017/18;
- £5m gap remaining for 2017/18 to be met from reserves;
- £16m gap for 2018/19 against which £5m of outline proposals were set out in September and now need to firmed up and extended; and
- £11m gap for 2019/20 against which £9m of outline proposals were set out in September and now need to be firmed up and brought forward if possible.

9.14 If the budget for 2017/18, as set out in this report, is agreed the expected additional savings required are circa £32.6m by 2019/20. The Lewisham Future Programme (LFP) was established to carry out cross-cutting and thematic reviews to deliver these savings. The savings report received by the Mayor in September 2016 alongside this budget report presents the LFP work to date. This continues and further savings proposals will be bought forward in 2017/18 to close the budget gaps identified above.

9.15 In 2017/18 officers will update the MTFS and look to extend the planning horizon to 2021/22 to include the impact of moving to the 100% retention of business rates.

10. TREASURY MANAGEMENT STRATEGY

10.1 This section sets out the Council's Treasury Management Strategy for 2017/18 and is structured as follows:

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

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

Capital Investment Plans

10.3 The Treaury Management Strategy for 2017/18 incorporates the capital plans of the Council, as set out in section 5 of this report.

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

10.5 The Council's expected treasury portfolio position at 31 March 2017, with forward projections is summarised below. Table D1 compares the actual external debt against the Capital Financing Requirement (CFR) which is the underlying capital borrowing need. This table illustrates over/(under) borrowing.

Table D1 – External Debt Projections

	2015/16 Actual £m	2016/17 Expected £m	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m
External Debt at 1 April	190.4	191.3	190.9	236.9	226.9
Change in External Debt	0.9	(0.4)	46.0	(10.0)	0
Other Long-Term Liabilities	247.8	243.8	236.2	228.3	220.7
Gross Debt at 31 March	**439.1**	**434.7**	**473.1**	**455.2**	**447.6**
Capital Financing Requirement at 31 March*	**489.5**	**487.1**	**477.2**	**466.8**	**463.0**
Borrowing – over / (under)	**(50.4)**	**(52.4)**	**(4.1)**	**(11.6)**	**(15.4)**

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

Prudential Indicators

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

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

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

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

Table D2: Operational Boundary

	2016/17 Expected £m	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m
Maximum External Debt at 31 March	190.9	236.9	226.9	226.9

	2016/17 Expected £m	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m
Other Long-Term Liabilities	243.8	236.2	228.3	220.7
Operational Boundary for Year	**434.7**	**473.1**	**455.2**	**447.6**

The Authorised Limit for External Debt

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

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

Table D3 – Authorised Limits

	2016/17 Expected £m	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m
Operational Boundary for Year	**434.7**	**473.1**	**455.2**	**447.6**
Provision for Non Receipt of Expected Income	56.0	56.0	56.0	56.0
Authorised Limit for Year	**490.7**	**529.1**	**511.2**	**503.6**

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

Table D4 – HRA Debt Limit

	2016/17 Expected £m	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m
HRA Debt "Cap" (Statutory)	127.3	127.3	127.3	127.3
HRA Debt (CFR) at 31 March	(74.8)	(74.8)	(74.8)	(74.8)
HRA Borrowing "Headroom"	52.5	52.5	52.5	52.5

Minimum Revenue Provision (MRP) Policy

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

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

10.14 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).
- A straight line MRP of 2.5% equivalent to forty years for property (such as land and buildings).

10.15 The Authority is proposing to borrow and provide loan(s) to its Arms Length Management Organisation (ALMO) in 2017/18. The loan(s)` will be used by the ALMO to fund capital expenditure and should therefore be treated by the Council as capital expenditure and a loan to a third party.

10.16 The Authority's Capital Financing Requirement (CFR) will increase by the amount of loans advanced (agreed at £20m by M&C in September 2016). Under the terms of the proposed contractual loan agreements these funds will be advanced on an interest only basis with the principal to be returned in full at the term of the loan and interest paid thorough out the life of the loan in line with the terms on which the Council borrows the funds. Once funds are returned to the Authority, they are classed as a capital receipt, and will be off-set against the CFR, which will reduce accordingly. As the funds will be returned in full and collateral as security to the loans advanced has been agreed, there is no need to set aside a prudent provision to repay the debt liability in the interim period, so there is no MRP application.

10.17 The risk is that at some point during the term of the loan the collateral held as security by the third party is not sufficient to meet the obligations recorded by the Council. The outstanding loan/CFR position will therefore be reviewed on an annual basis and if the likelihood of default increases, a prudent MRP policy will commence as a charge to the Council's revenue.

10.18 To enable the Council to apply this MRP exemption a change to the treasury policy is proposed. Namely, to add a variation to the Councils MRP policy as adopted in 2016/17 which adds a third element – that no MRP need be charged on capital expenditure where the Council has assessed that sufficient collateral is held at a current valuation to meet the outstanding CFR liability and that should it be determined at any point that insufficient collateral is held to match the Council's CFR liability a prudent MRP charge will commence.

Borrowing Strategy (including Treasury Indicators)

10.19 The Council's external debt as at 31 March 2017, gross borrowing plus long term liabilities, is expected to be £434.7m. The Council's borrowing strategy is consistent with last year's strategy. The Council is currently maintaining an under-borrowed position in that the CFR is not fully funded with loan debt, as cash supporting the

Council’s reserves, balances and cash flow has been used as an alternative funding measure. In the current economic climate, this strategy is considered prudent while investment returns are low, counterparty risk is higher than historic averages, and borrowing rates are still relatively high.

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

10.21 Alternatively, if it was felt that there was a significant risk of a sharp rise in medium to long-term interest rates than currently forecast (perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases or in world economic activity driving inflation up), then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn, whilst interest rates are still lower than forecast. Once again, any such decisions would be reported to Mayor & Cabinet and subsequently Council, at the next available opportunity.

10.22 Members should note that the Council’s policy is not to borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within the approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Treasury Indicators

10.23 There are three debt related treasury activity limits which restrain the activity of the treasury function within certain limits. The purpose of these is to manage risk and reduce the impact of any adverse movement in interest rates. These limits need to be balanced against the requirement for the treasury function to retain some flexibility to enable it to respond quickly to opportunities to reduce costs and improve performance.

10.24 The debt related indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

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

Table D5: Treasury Indicators and Limits

Interest rate exposures	2016/17		2017/18	2018/19
	Upper		Upper	Upper
Limits on fixed interest rates:				
• **Debt only**	100%		100%	100%
• **Investments only**	80%		80%	80%
Limits on variable interest rates				
• **Debt only**	15%		15%	15%
• **Investments only**	75%		75%	75%
Maturity structure of fixed interest rate borrowing 207/18				
			Lower	**Upper**
Under 12 months			0%	10%
12 months to 2 years			0%	10%
2 years to 5 years			0%	10%
5 years to 10 years			0%	25%
10 years to 20 years			0%	20%
20 years to 30 years			0%	25%
30 years to 40 years			0%	50%
40 years to 50 years			0%	60%
Maturity structure of variable interest rate borrowing 207/18				
			Lower	**Upper**
30 years to 40 years			0%	60%
40 years to 50 years			0%	40%

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

Debt Rescheduling

10.26 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during 2016/17. However, the Council continues to explore opportunities in respect of the financing of its PFIs and external loans.

10.27 The current Treasury indicators reflect that the existing fixed interest rate borrowing profile has been stable. This needs updating to recognise that the existing borrowing continues to mature. At the same time, following advice from our Treasury Advisors, it is proposed to introduce some headroom and flexibility in the indicators (i.e. so they add up to more than 100%). This will enable the Authority to take on additional borrowing with an appropriate level of maturity for the purposes the borrowing is required. The table below sets out the changes.

10.28 The Council has £114m of LOBO loans (Lender's Option Borrower's Option) of which £25m will be in their call period in 2017/18. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also the option of repayment of the loan without penalty.

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

Annual Investment Strategy

Investment Policy

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

10.31 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria 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.

10.32 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. This is fully integrated into the credit methodology provided by the advisors in producing its colour codings which show the varying degrees of suggested institution creditworthiness. This has been set out in more detail at Appendix Z3.

10.33 Other information sources used will include the financial press, share prices and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

10.34 Investment instruments identified for use in the financial year are listed in Appendix Z3, under the 'specified' and 'non-specified' investments categories. The proposed counterparty limits for 2017/18 are presented to Council for approval in this same appendix.

10.35 In accordance with guidance from the Department for Communities and Local Government and CIPFA, and in order to minimise the risk to investments, officers have clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. This has been set out at Appendix Z3. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published information by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency.

10.36 Other information sources used include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

10.37 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoid a concentration of risk.

Credit Worthiness policy

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

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

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

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

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

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

Country limits

10.40 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix Z4. This list will be added to, or deducted from, by officers should country ratings change in accordance with this policy.

Investment Policy

10.41 Investments will be made with reference to the core balances and cashflow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 24 months). In order to maintain sufficient liquidity, the Council will seek to utilise its instant access call accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest. The remainder of its investments will be placed in fixed term deposits of up to 24 (previously 12 months) months to generate maximum return.

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

10.43 Officers are also recommending that the Council's investment policy be amended to include the option to invest in UK or European Residential Mortgage Backed Securities (RMBS). This would be a non-specified investment and provide the opportunity of diversification away from current concentration of credit risk in financial institutions through specified investments. RMBS are a type of bond which pays out at LIBOR plus a percentage. This is above the market rate the Council is able to obtain on its fixed term invesments. The cashflows come from residential debt such as mortgages and home equity loans. A pool of mortgage loans created by banks or other financial insttutions is used to provide security for the bond. They are traded with high liquidity. Only the highest rated (AAA) categories are being considered for the Council's policy. Stress tests indicate that losses at the UK AAA rated level would require a national fall in house prices of over 50% together with a mortgage default rate of 50%. The worst UK experience since 1989 has been a fall of 25% and 3% respectively.

10.44 If agreed, the Treasury Policy will be deemed amended to enable these types of non-specified investment to be entered into if, within the forecast cashflow for the Council and on advice from the Council's Treasury advisors, they continue to meet the objectives of the policy for security, liquidity and return.

Prospects for Investment Returns

10.45 Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

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

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%
- 2020/21 0.75%
- 2021/22 1.00%
- 2022/23 1.50%
- 2023/24 1.75%
- Later years 2.75%

10.47 The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in

Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace. A more extensive table of interest rate forecasts for 2017/18, including Public Works Loan Board (PWLB) borrowing rate forecasts is set out in Appendix Z1.

Summary

10.48 This section, in accordance with statutory requirements, sets out the Council's Treasury Management Strategy for 2017/18. The approach remains broadly the same as last year.

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

11 CONSULTATION ON THE BUDGET

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

Rent Setting and Housing Panel

11.2 As in previous years, tenants' consultation was in line with Residents' Compact arrangements. This provided tenant representatives of Lewisham Homes with an opportunity on 15th December 2016 at the joint Housing Panel meeting to consider the positions and to feedback any views to Mayor & Cabinet. Tenant representative of Brockley convened their Brockley Residents' Board on 13th December 2016 to hear the proposals and fed back.

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

Business Ratepayers

11.4 Representatives of business ratepayers are being consulted online on Council's outline budget between 20 January and 3 February 2017. The results of this consultation will be made available in the Budget Report Update presented to Mayor and Cabinet on 15 February 2017.

12. FINANCIAL IMPLICATIONS

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

13. LEGAL IMPLICATIONS

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

Capital Programme

13.2 Generally, only expenditure relating to tangible assets (e.g. roads, buildings or other structures, plant, machinery, apparatus and vehicles) can be regarded as capital expenditure. (Section 16 Local Government Act 2003 and regulations made under it).

13.3 The Local Government Act 2003 introduced a prudential system of financial control, replacing a system of credit approvals with a system whereby local authorities are free to borrow or invest so long as their capital spending plans are affordable, prudent, and sustainable. Authorities are required to determine and keep under review how much they can afford to borrow having regard to CIPFA's Prudential Code of Capital Finance in Local Authorities. The Code requires that in making borrowing and investment decisions, the Council is to take account of affordability, prudence, and sustainability, value for money, stewardship of assets, service objectives, and practicality.

13.4 Section 11 Local Government Act 2003 allows for regulations to be made requiring an amount equal to the whole or any part of a capital receipt to be paid to the Secretary of State. Since April 2013 there has been no requirement to set aside capital receipts on housing land (SI2013/476). For right to buy receipts, the Council can retain 25% of the net receipt (after taking off transaction costs) and is then entitled to enter an agreement with the Secretary of State to fund replacement homes with the balance. Conditions on the use of the balance of the receipts are that spending has to happen within three years and that 70% of the funding needs to come from Council revenue or borrowing. If the funding is not used within three years, it has to be paid to the Department for Communities for Local Government, with interest.

Housing Revenue Account

13.5 Section 24 of the Housing Act 1985 provides that a local authority may make such reasonable charges as they determine for the tenancy or occupation of their houses. The Council must review rents from time to time and make such charges as circumstances require.

13.6 Under the Local Government and Housing Act 1989, the Council is obliged to maintain a separate HRA (Section 74) and by Section 76 must prevent a debit balance on that account. Rents must therefore be set to avoid such a debit.

13.7 By Schedule 4 of the same Act where benefits or amenities arising out of a housing authority functions are provided for persons housed by the authority but are shared by the community, the Authority must make such contribution to the HRA from their other revenues to properly reflect the community's share of the benefits/amenities.

13.8 The process for varying the terms of a secure tenancy is set out in Sections 102 and 103 of the Housing Act 1985. It requires the Council to serve notice of variation at least four weeks before the effective date; the provision of sufficient information to explain the variation; and an opportunity for the tenant to serve a Notice to Quit ending their tenancy.

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

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

Balanced Budget

13.11 Members have a duty to ensure that the Council acts lawfully. It must set and maintain a balanced budget each year. The Council must take steps to deal with any projected overspends and identify savings or other measures to bring the budget under control. If the Capital Programme is overspending, this may be brought back into line through savings, slippage, or contributions from revenue. The proposals in this report are designed to produce a balanced budget in 2017/18.

13.12 In this context, Members are reminded of their fiduciary duty to the Council Tax payer, effectively to act as trustee of the Council's resources and to ensure proper custodianship of Council funds.

An annual budget

13.13 By law, the setting of the Council's budget is an annual process. However, to enable meaningful planning, a number of savings proposals for 2017/18 were anticipated in the course of the budget process. They were the subject of full report at that time and they are now listed in Appendix Y1 and Appendix Y2. Members are asked now to approve and endorse those reductions for this year. This report is predicated on taking all of the agreed and proposed savings. If not, any shortfall will have to be met through adjustments to the annual budget in this report.

13.14 The body of the report refers to the various consultation exercises (for example with tenants' and business) which the Council has carried out/is carrying out in accordance with statutory requirements relating to this budget process. The Mayor must consider the outcome of that consultation with an open mind before reaching a decision about his final proposals to Council. It is noted that the outcome of consultation with business rate payers will only be available from the 6 February 2017 and any decisions about the Mayor's proposals on the budget are subject to consideration of that consultation response.

Referendum

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

Council Tax. Attention is drawn to the statement of the Secretary of State that the Council may impose a precept of 3% on the Council Tax, ring-fenced for social care provision, and may impose an additional increase of less than 2% without the need for a referendum. The maximum proposed Council Tax increase is 4.99% and therefore below the combined limit.

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

Robustness of estimates and adequacy of reserves

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

13.18 The Chief Financial Officer's section 25 statement will be appended to the Budget Report update to Mayor & Cabinet on 15 February 2017.

Treasury Strategy

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

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

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

Constitutional provisions

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

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

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

Statutory duties and powers

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

Reasonableness and proper process

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

Staff consultation

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

Best Value

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

Integration with health

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

14 HUMAN RESOURCES IMPLICATIONS

14.1. There are no specific human resources implications arising from this report. Any such implications were considered as part of the revenue budget savings proposals presented to Mayor & Cabinet on 28 September 2016. A summary of the savings proposals are attached at Appendix Y2 to this report.

15. CRIME AND DISORDER

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

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

16. EQUALITIES

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

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

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

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

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

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

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

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

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

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

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

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

17. ENVIRONMENTAL IMPLICATIONS

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

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

18. CONCLUSION

18.1. This report sets out the information necessary for the Council to set the 2017/18 budget. Updates will be made to this report at Mayor & Cabinet on 15 February 2017. Final decisions will be taken at the meeting of full Council on 22 February 2017.

19. BACKGROUND DOCUMENTS AND FURTHER INFORMATION

Short Title of	Date	Location	Contact
Medium Term Financial Strategy	13 July 2017 (M&C)	5th Floor Laurence House	David Austin
Savings Proposals for 2017/18	28 September 2016 (M&C) 24 February 2016 (Council)	5th Floor Laurence House	David Austin
Setting the Council Tax Base & Discounts for Second Homes and Empty Properties	11 January 2017 (Council)	5th Floor Laurence House	David Austin

<u>For further information on this report, please contact:</u>

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20. APPENDICES

<u>Capital Programme</u>

W1 2016/17 to 2020/21 Capital Programme – Major Projects
W2 Proposed Capital Programme – Original to latest Budget
W3 Hatcham Temple Grove School – Debt Write-off

<u>Housing Revenue Account</u>

X1 Proposed Housing Revenue Account Savings 2017/18
X2 Leasehold and Tenants charges consultation 2017/18
X3 Leasehold and Tenants charges and Lewisham Homes Budget Strategy 2017/18
X4 Other associated housing charges for 2017/18

<u>General Fund</u>

Y1 Summary of previously agreed budget savings for 2017/18
Y2 Summary of Proposed Revenue Budget savings 2017/18
Y3 Ready Reckoner for Council Tax 2017/18
Y4 Chief Financial Officer's Section 25 Statement – *To follow M&C 15th February 2017*
Y5 Council Tax and Statutory Calculations
Y6 Making Fair Financial Decisions
Y7 Transformation Programme

Treasury Management

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

Glossary of abbreviations