COUNCIL			
REPORT TITLE	2018/19 Budget Report		
KEY DECISION	Yes	**Item No.**	
WARD	All		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	**Date**	21 February 2018

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 2018/19. These include the following:

- The proposed Capital Programme (General Fund and Housing Revenue Account) budget for 2018/19 to 2020/21 of £271.5m, of which £135.9m is for 2018/19;

- 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 £156.8m, including the capital and new build programme, for 2018/19;

- The provisional Dedicated Schools Grant allocation of £292.3m and a separate Pupil Premium allocation expected to be £17.0m for 2018/19.

- In respect of the General Fund, the assumed net revenue expenditure budget of £241.281. This is made up of provisional Settlement Funding from government of £128.470m (revenue support grant and business rates), forecast Council Tax receipts including an increase in Council Tax of 3.99%, 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 2018/19 net revenue budget of £241.281m are proposed on the basis of the following assumptions:
  - £4.856m of revenue budget savings have been previously agreed for 2018/19;
  - £6.500m of corporate budget for risks and pressures in 2018/19 plus £2.130m set aside in 2017/18 for unidentified risks, of which it is being recommended that £6.915m of specific identified budget pressures be funded now and £1.715m 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 2019/20;

- Once-off reserves are used to fund the current savings shortfall of £3.570m for 2018/19 to balance the budget, pending further proposals from the Lewisham Future Programme in 2018/19 to make this up; and
- An assumed 3.99% increase in Band D Council Tax for Lewisham's services for 2018/19; including the 2.99% increase in the core Council Tax as announced in the Local Government Finance Settlement and 1% increase for the Social Care precept.

1.2 The report looks to the medium term financial outlook and notes the prospects for the budget in 2019/20, 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 £35m over the following two years, 2019/20 and 2020/21.

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 as last year, and officers continue to explore alternative investment options and further opportunities to undertake debt restructuring in order 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 2017/18 and to set the Budget for 2018/19. This report allows for the Council Tax to be agreed and housing rents to be set for 2018/19. It sets the Capital Programme for the next four years and the Council's Treasury Strategy for 2018/19.

2.2 The report also provides summary information on the revenue budget savings proposals that were presented at Mayor & Cabinet on 6 December 2017, and those agreed in previous budgets, for implementation in 2018/19. The approval and successful delivery of these savings is required in order to help balance the budget for 2018/19 and prepare to address the budget requirement for 2019/20.

3. RECOMMENDATIONS

3.1 That Council approves the recommendations shown below in respect of the 2018/19 Budget. This is subject to any amendments which the Mayor may make when considering the 2018/19 Budget update report to be presented to Mayor & Cabinet on 14 February 2018.

3.2 Council is asked to:

Capital Programme

3.3 note the 2017/18 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 approve the 2018/19 to 2020/21 Capital Programme of £271.5m, as set out in section 5 of this report and attached at Appendices W1 and W2;

Housing Revenue Account

3.5 note the consultation report on service charges to tenants' and leaseholders in the Brockley area, presented to area panel members on 12 December 2017, as attached at Appendix X2;

3.6 note the consultation report on service charges to tenants' and leaseholders and the Lewisham Homes budget strategy presented to area panel members on 14 December 2017, as attached at Appendix X3;

3.7 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;

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

3.9 endorse the Mayor's approval of the following average weekly increases/decreases for dwellings for:

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

- caretaking 4.90% (£0.24)
- grounds 4.90% (£0.12)
- communal lighting 4.90% (£0.06)
- bulk waste collection 4.90% (£0.02)
- window cleaning 4.90% (£0.01)
- tenants' levy 30.0% (£0.03)

3.11 service charges to Lewisham Homes managed dwellings:

- caretaking -1.17% (-£0.12)
- grounds 16.27% (£0.27)
- window cleaning 51.41% (£0.03)
- communal lighting 0.38% (£0.01)
- block pest control 1.87% (£0.03)
- waste collection 1.93% (£0.01)
- heating & hot water no change
- tenants' levy 30.0% (£0.03)
- bulk waste disposal 2.96% (£0.02)
- sheltered housing 1.00% (£0.24)

3.12 endorse the Mayor's approval of the following average weekly percentage changes for hostels and shared temporary units for;

- service charges (hostels) – caretaking etc.; no change
- energy cost increases for heat, light & power; no change

- water charges increase; no change

3.13 endorse the Mayor’s approval of an increase in garage rents by Retail Price Inflation (RPI) of 3.9% (£0.46 per week) for Brockley residents and 3.9% (£0.46 per week) for Lewisham Homes residents;

3.14 note that the budgeted expenditure for the Housing Revenue Account (HRA) for 2018/19 is £156.8m, split £84.1m revenue and £72.7m capital, which includes the decent homes and new build programmes;

3.15 endorse the HRA budget strategy savings proposals in order to achieve a balanced budget in 2018/19, as attached at Appendix X1;

Dedicated Schools Grant and Pupil Premium

3.16 agree, subject to final confirmation of the allocation, that the provisional Dedicated Schools Grant allocation of £292.3m be the Schools’ Budget for 2018/19;

3.17 note the implementation of the national funding formula schools block for schools;

3.18 agree that Lewisham uses the national funding formula schools block to allocate funds to schools from April 2018;

3.19 agree that Minimum Funding Guarantee for the schools block be set at 0.25% for 2018/19;

3.20 agree the change to the PFI factor in the formula to base it on estimates for the schools block;

3.21 agree to implement the new banding systems in resource bases at a cost to the High Needs block of £251k;

3.22 agree to implement the new banding system for Education Health Care Plans (EHCP) in mainstream schools at a cost to the High Needs block of £47k;

3.23 note the latest financial position in schools;

3.24 note the likely future cost pressures on schools;

3.25 note the estimated pupil premium of £17.0m;

3.26 note the changes to the way the High Needs block is calculated;

3.27 note the Loan Scheme consultation for the schools block;

3.28 note the position of the consultation on eligibility for free school meals and the early years pupil premium under Universal Credit;

General Fund Revenue Budget

3.29 note the projected Directorate Services overall variance against the agreed 2017/18 revenue budget of £12.9m as set out in section 8 of this report and that any year-end overspend will have to be met from reserves;

3.30 endorse the previously approved revenue budget savings of £0.58m for 2018/19 and budget savings proposals of £4.28m as per the Mayor and Cabinet meeting of the 6 December 2017, as set out in section 8 of the report and summarised in Appendix Y1 and Y2;

3.31 agree the transfer of £5.0m in 2018/19 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 2019/20;

3.32 agree the use of £3.570m reserves to meet the budget gap in 2018/19;

3.33 agree the allocation of £6.500m in 2018/19 be set aside for corporate risks and pressures, added to the £2.130m set aside for unidentified risks in 2017/18;

3.34 agree the allocation of £6.915m in 2018/19 to fund quantified budget pressures from the £8.630m set aside for corporate risks and pressures;

3.35 agree to create a fund in respect of the identified but as yet un-quantified revenue budget risks in the sum of £1.715m in 2018/19 (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 limits;

3.36 agree that the Executive Director for Resources and Regeneration identify up to £5m of earmarked reserves to fund service transformation costs to facilitate services change and develop further savings proposals;

3.37 agree that a General Fund Budget Requirement of £241.281m for 2018/19 be approved.

3.38 agree to a 3.99% increase in Lewisham's Council Tax element. This will result in a Band D equivalent Council Tax level of £1,203.87 for Lewisham's services and £1,498.10 overall. This represents an overall increase in Council Tax for 2018/19 of 4.2% and is subject to the Greater London Authority (GLA) precept for 2018/19 being increased by £14.21 (i.e. 5.1%) from £280.02 to £294.23**,** in line with the GLA's draft budget proposal;

3.39 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;

3.40 note the exemption from Council Tax for Care Leavers up to the age of 25 in the Borough, agreed by Council in January 2018 when setting the 2018/19 Council Tax base, and the review underway to assess other possible exemptions;

3.41 ask that the Executive Director for Resources & Regeneration issues cash limits to all Directorates once the 2018/19 Revenue Budget is agreed;

3.42 agree the draft statutory calculations for 2018/19 as set out at Appendix Y5;

3.43 note the prospects for the revenue budget for 2019/20 and future years as set out in section 9;

3.44 agree 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;

Other Grants (within the General Fund)

3.45 note the adjustments to and impact of various specific grants for 2018/19 on the General Fund as set out in section 8 of this report;

Treasury Management Strategy

3.46 approve the prudential indicators and treasury indicators, as set out in section 10 of this report;

3.47 approve the Annual Investment Strategy and Credit Worthiness Policy, set out in further detail at Appendix Z3;

3.48 approve the Minimum Revenue Provision (MRP) policy as set out in section 10 of this report;

3.49 agree to delegate to the Executive Director for Resources & Regeneration authority during 2018/19 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;

3.50 approve 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

3.51 approve a minimum sovereign rating of AA-.

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

4.1 The 2018/19 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:

Sustainable Community Strategy

- **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, the Council is 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 2017/18 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, the Council continues to work alongside our communities to achieve more than it 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 the Council's ambitions for the future of the borough; ranging from its work to bring the Bakerloo Line extension to the Borough to support housing supply and businesses grow, through to the nationally recognised programmes of care and support to some of the Borough's 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 in this report, incorporating further budget savings for 2018/19 and noting the continued outlook for austerity to at least 2020/21.

BACKGROUND

National

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.

4.7 The Office for Budget Responsibility (OBR) produced its Economic and Fiscal outlook in November 2017. Based on its assumptions the OBR forecasts that the economy will grow more slowly than expected in March 2017 and has revised Gross Domestic Product (GDP) growth in 2017 down from 2.2% to 1.5%. On average the economy is expected to grow at 1.4% in 2018, 1.3% in both 2019 and 2020, before picking back up to 1.5% in 2021, and finally 1.6% in 2022.

4.8 In November, a fall in productivity and a weaker economic outlook due to downgrades in forecasts for consumer, household and business spending are primary causes of the slower growth.

4.9 In December 2017, inflation, measured by the Consumer Price Index (CPI), is at 3%,1% above the government's target. The Retail price Index (RPI) is at 4.1%. This is largely influenced by the sustained fall in the value of pound, rising oil prices, and other tighter global fiscal policies as Central Bank interventions are scaled back.

4.10 As price rises (such as food) work through the economy, coupled with a drag from wage growth below inflation, inflation is expected to fall slightly, but will remain higher than target at 2.4% in 2018. It is then expected to be in line with the target rate at around 2% from 2019 until 2022.

4.11 Forecast unemployment has fallen from 5.2 per cent in March 2017 to 4.3 percent in November 2017. This downward-trend is expected to reverse in 2018 largely due to inflation, increase in national minimum wage and lower than expected GDP rise.

4.12 In the 2017 Autumn Budget, the Chancellor of the Exchequer said the Office for Budget Responsibility (OBR) confirmed that the Government borrowing is forecast to be £49.9 billion this year, £8.4 billion lower than forecast at the Spring Budget. The cumulative impact being to push the date for a surplus out to at least the mid 2020s. After taking account of all decisions since the Spring Budget, the OBR's GDP revision, and the measures announced in the autumn budget, borrowing was expected to fall in every year of the forecast. From £39.5 billion next year to £25.6 billion in 2022-23, to reach its lowest level in 20 years.

4.13 The current budget deficit is forecast to rise from £7.0bn in 2016 to £8.1bn in 2017. This is expected to fall every year after until 2022/23 where it's expected that there will be a budget surplus of over £29bn.

4.14 Clearly these economic forecasts maintain an above average uncertainty due to the timing and outcomes still to impact the UK following the decision to leave the EU.

Local Government

4.15 The provisional Local Government Finance Settlement was announced on 15 December 2017, with the final settlement on the 6 February 2018. Following the four year settlement offer in 2016, which 97% of councils accepted, (including Lewisham), the settlement for 2018/19 confirms the resource allocations consistent with the 2016 four year offer. The one change for London in 2018/19 is the agreement to pool business ratings on a pilot basis from 1 April 2018.

4.16 Along with the settlement announcement, the Government confirmed the continuation of the Adult Social Care (ASC) precept to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on Social Care. In 2017/18, Councils were given additional flexibility 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. In 2017/18, Lewisham's ASC precept was raised by the maximum 3%. This means the Council is still able to increase its ASC precept by a total of 3% over the years 2018/19 and 19/20.

4.17 The Government also announced an increase of 1% to the limit by which Councils can increase their Council Tax (inclusive of levies) without a referendum, to a limit of 2.99% in 2018/19. This 1% will generate an approximate extra £1m of revenue for the Council.

4.18 More widely the direction of travel for local government finance continues as the creation of a London Business Rates Pilot Pool was announced, confirming Government's intention to phase out the Revenue Support Grant. Ahead of the Government's next Comprehensive Spending Review (CSR) in the summer of 2019, the pool will operate for at least one year with effect from 1 April 2018, and will include all London Boroughs and the Greater London Authority (GLA).

4.19 Leaving all other previous assumptions (from the July 2017 Medium Term Financial Strategy) unchanged, the provisional estimate is that the forecast savings required in 2018/19 is now at £13.4m (before measures).

4.20 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 £160.6m to meet its revenue budget requirements since May 2010 and is proposing savings of £4.8m in 2018/19.

4.21 Assuming the measures proposed and the 2018/19 budget as set out in this report are agreed, it is expected that the Council will need to identify further savings of circa £35m for the following two years, 2019/20 and 2020/21. This will bring the total savings in cash terms made by the Council in the decade to 2020 to more than £190m.

4.22 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 2017/18 to 2021/22;

- Housing Revenue Account (HRA) and level of rents for 2018/19;
- Dedicated Schools Grant (DSG) for 2018/19;
- General Fund Revenue Budget for 2018/19;
- Other Grants for 2018/19;
- Council Tax level for 2018/19; and
- Treasury Management Strategy for 2018/19.

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 2018/19 to 2020/21 is proposed at £271.5m, of which £135.9m is for 2018/19.

5.2 This section of the report is structured as follows:

- Update on 2017/18 Capital Programme
- Proposed Capital Programme 2018/19 to 2020/21; and
- Future schemes and resources

Update on 2017/18 Capital Programme

5.3 Progress in delivering the 2017/18 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 £102.4m, and reported to Public Accounts Select Committee on 16 November 2017, would be delivered this year. However, at this stage, the revised budget shows a slight decrease of £1.7m to the last reported budget figure, mainly due to the re-profiling of the HRA budgets.

5.4 The capital programme for 2017/18 has seen a number of schemes progress well with the main areas of capital spend involving highways maintenance, the provision of school places, and housing.

Highways

5.5 During 2017/18, investment from Transport for London (TfL) has been used to deliver major improvements to local streets, as part of the Local Implementation Plan (LIP) programme. This includes the transformation of Deptford High Street, which is part of TfL's major schemes programme, and builds on the continued regeneration of the town centre area. It also includes major works in Manor Lane (Lee Green), and Dartmouth Road (Forest Hill), to provide improved pedestrian environments, support local businesses, and reduce traffic speeds.

5.6 Following the release of a new Mayors Transport Strategy for London, a thorough review of the Council's LIP transport strategy is now underway, that will consider the Council's investment priorities for highways and transport over the next 5 years. As part of this review, the new strategy will need to consider the implications of cuts to the annual formula grants received from TfL, expected to be over £300,000 a year, as well as a two-year pause on maintenance funding from TfL, at a similar level of reduction.

5.7 To offset these losses, the Highways & Transport service continues to have success in bidding for additional funding, including being one of only seven London Boroughs to be awarded Liveable Neighbourhoods funding to deliver “Healthy Streets”, as well as the proposed Cycle Superhighway which will run the full length of A200 Evelyn Street.

5.8 In addition, the Council continues to invest resources in maintaining its highway assets, most notably through its £3.5million programme of carriageway and footway resurfacing works. The budget for carriageways allows for 60 to 70 roads to be resurfaced each year and, until 2017, the majority of these roads were those in the worst condition and categorised as “Red”.

5.9 As a result of the resurfacing programme, it is now anticipated that the Council will have repaired all those “Red” category roads by 2018/19. The focus will now move to works to roads classified as “Amber” roads, which represent better value for money as usually only one layer of the road surface is replaced. Therefore, although there are still some 386 roads classified as either Red or Amber that require essential works, the Council’s long-term investment strategy is starting to take effect. Since 2013, the number of annual insurance claims against the Council for carriageway defects has reduced by over two-thirds.

5.10 As progress continues on the condition of carriageways, the balance of focus will also move towards the footways programme where there are still approximately 70 roads categorised as Red and the proposal is to carry out essential repairs to around 10 roads each year.

Schools

Schools - Pupil Places Programme

5.11 Since December 2015, the Regeneration and Place Division has been working with colleagues in the Children and Young Peoples Directorate to develop a longer term strategy for the delivery of school places to meet identified needs across the borough and to do so in a sustainable and efficient manner. As part of this, a new cross directorate governance structure has been implemented and a new procurement strategy agreed; utilising two-stage design and build contracts which transfer risk away from the Council to the contractors. As primary place demand has levelled off recently across London, the priority for the programme is Special Educational Need and Disability provision. Four schemes are currently in early development stages for completion by 2020.

Schools – Minor Works Capital Programme

5.12 The School Minor Works Programme (SMWP) is an ongoing programme of minor capital works to existing community school buildings, primarily relating to mechanical/electrical infrastructure and building fabric needs. The programme is grant funded by central government and delivered on budget.

Housing Regeneration

5.13 In the past year excellent progress has been maintained on the Council’s two main housing regeneration projects, at Heathside & Lethbridge and at Excalibur, which in combination will deliver 1,500 high quality new homes, of which half will be affordable homes of varying types. At Heathside & Lethbridge phase 3 completed this year and included 98 new homes for social rent and phase 4a will also complete in this financial year. At Excalibur the first new homes have completed, enabling the first residents to move out of their pre-fab homes into high quality modern homes at protected rents.

5.14 Across the housing delivery programme there have been a number of achievements. As at January 2018, 330 new Council homes are underway, and all 500 are expected to start on site in 2018 in line with the Council's commitment. More than 100 homes have now been purchased by Lewisham Homes to provide better and more financially viable accommodation for homeless households.

5.15 In relation to existing homes, in this past year Lewisham Homes has commenced Decent Homes works on the final homes required to achieve 100% decent homes, which is a significant landmark. Alongside this Council has helped 72 households with disabled facilities grant funding helping to make homes safer and more suitable. The priority in the coming year will be to continue to respond quickly to the Grenfell tragedy. Aluminium Cladding Materials (ACM) on three Lewisham Homes blocks has already been removed and will be replaced in the next financial year. The Council and Lewisham Homes will continue to work closely in partnership on any other investment requirements as they arise.

Other Schemes

Catford Town Centre

5.16 2017 has been a successful year of positive pre-master planning engagement and placemaking programming - online, on social media, in person and via events reaching thousands of people following the strategic decision taken by the Mayor in July on the re-alignment of the South Circular (A205) through Catford Town Centre and the development of a masterplan for regenerating the Town Centre. TfL continues to be a key partner in progressing the road realignment. The challenge for 2018 is the procurement and development of a comprehensive Masterplan that meets Council objectives and local aspirations as well as delivering an aspirational, sustainable and viable town centre in Catford.

Beckenham Place Park

5.17 The restoration of the west side of Beckenham Place Park has secured planning and listed building consent. Preparatory works commenced in winter 2017 and the main restoration of the landscape and a number of listed building commences in early 2018/19. Work to the west side of the park will be complete by summer 2019. Works to the east side of the park to create flood storage in partnership with the Environment Agency are continuing with a planning application expected to be submitted in summer 2018.

Smart Working Programme

5.18 Following the development of an Accommodation Strategy during 2017/18, work is underway to secure a partner organisation to design and refurbish office and public meeting spaces facilities in Laurence House and the Civic Suite. A focus of the proposed works will be to improve the accommodation and address a number of relevant health and safety issues affecting the building. The refurbishment, and associated decant of staff, is expected to take place from summer 2018 and will deliver a modern, flexible workspace that encourages collaboration, agility and new ways of working. This will also act as a blueprint for the design of future council offices within the

Catford regeneration scheme. The Smarter Working Programme will also seek to consolidate offices and release sites for future redevelopment. The ground floor Laurence House reception works are almost complete and will provide a modern welcoming entrance for residents, visitors and staff.

Asset Management Programme

5.19 Over the past few years, the Asset Management Programme (AMP) has provided resources to fund much needed capital works across the operational corporate estate. This has included fabric works such as roof replacement and mechanical works including boiler replacements and lift repairs across the estate of approximately 90 buildings and sites. More recently, the programme has funded works to the Civic Suite, Laurence house reception as well as emergency repair works to the Broadway Theatre.

Proposed Capital Programme 2018/19 to 2020/21

5.20 The Council's proposed Capital Programme for 2018/19 to 2020/21 is currently £271.5m, as set out in Table A1:

Table A1: Proposed Capital Programme for 2018/19 to 2020/21

	17/18 £m	**18/19 £m**	**19/20 £m**	**20/21 £m**	**3 Year Total £m**
General Fund					
Smarter Working Programme (Invest to Save agreed 17/18)	0.3	2.0	0.6	0.0	**2.6**
Schools – Pupil Places and other Capital Works	20.1	18.8	1.0	0.8	**20.6**
Highways, Footways and Bridges	7.7	3.1	3.5	3.5	**10.1**
Regeneration Schemes	12.6	8.0	5.2	0.0	**13.2**
Lewisham Homes Property Acquisition	10.0	10.0	6.0	0.0	**16.0**
Town Centres and High Street Improvements	1.5	2.8	2.3	0.8	**5.9**
Asset Management Programme	3.8	3.9	2.5	2.5	**8.9**
Fleet Replacement Programme	0.5	2.6	0.0	0.0	**2.6**
Beckenham Place Park	0.4	5.5	1.7	0.6	**7.8**
Other Schemes	7.6	6.5	1.7	1.9	**10.1**
	64.5	**63.2**	**24.5**	**10.1**	**97.8**
Housing Revenue Account	**36.2**	**72.7**	**56.3**	**44.7**	**173.7**
Total Programme	**100.7**	**135.9**	**80.8**	**54.8**	**271.5**

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

Table A2: Proposed Capital Programme Resources for 2018/19 to 2020/21

	17/18 £m	18/19 £m	19/20 £m	20/21 £m	3 Year Total £m
General Fund					
Prudential Borrowing	12.8	17.7	9.0	0.0	**26.7**
Grants and Contributions	25.0	28.7	7.0	2.6	**38.3**
Capital Receipts	10.7	2.5	1.1	0.0	**3.6**
Reserves / Revenue	16.0	14.3	7.4	7.5	**29.2**
	64.5	**63.2**	**24.5**	**10.1**	**97.8**
Housing Revenue Account					
Prudential Borrowing	0.0	0.0	0.0	0.0	**0.0**
Grants	0.0	0.0	0.0	0.0	**0.0**
Specific Capital Receipts	0.0	0.0	0.0	0.0	**0.0**
Reserves / Revenue	36.2	72.7	56.3	44.7	**173.7**
	36.2	**72.7**	**56.3**	**44.7**	**173.7**
Total Resources	**100.7**	**135.9**	**80.8**	**54.8**	**271.5**

5.22 A table of major projects can be found at Appendix W1 and a full list of changes to the Programme since last year's budget report is shown in Appendix W2.

5.23 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.

5.24 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. The revenue funding line also includes amounts transferred to reserves in previous years for schemes which at that time, had not been delivered.

5.25 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 2018/19.

Future schemes and resources

5.26 The Regeneration and Capital Programme Delivery Board comprises 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.

5.27 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.

5.28 During the latter part of 2017, the Regeneration and Capital Programme Delivery Board conducted the second annual process, inviting bids for capital funding. Officers were also asked to submit bids for prior approved funding, so as to ensure the continuing best use of resources. Officers were asked to bid for funding for the next three financial years, and for that reason this report presents the capital programme budget over a three year period, rather than four years as in previous years.

5.29 These Boards have invited and scrutinised proposals totalling £134.9m of General Fund monies were put forward; these proposals were scrutinised by the Board and scored against corporate priorities. The bids were analysed in a number of ways, and the tables below show the aggregate value of bids grouped by service area and then by finance categorisation.

Table A3: Summary of proposed future schemes by service area

	2018/19	**2019/20**	**2020/21**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Environment / Public Realm	4,364	1,405	1,105	6,874
Highways & Transportation	6,935	5,525	4,200	16,660
Housing	37,325	10,839	8,034	56,198
School Places*	0	4,589	0	4,589
Strategic Regeneration	25,340	11,350	8,906	45,596
Corporate	4,885	124	0	5,009
TOTAL	**78,849**	**33,832**	**22,245**	**134,926**

* This is only the amount of General Fund budget requested on top of Basic Need grant provided by the Department for Education and secured S106 contributions.

Table A4: Summary of proposed future schemes by finance categorisation

	2018/19	2019/20	2020/21	Total
	£'000	£'000	£'000	£'000
Spend	17,123	12,643	6,305	36,071
Spend to save	18,600	2,500		21,100
Borrow-to-repay	41,231	17,875	15,731	74,837
Secured non-General Fund	1,895	814	209	2,918
TOTAL	**78,849**	**33,832**	**22,245**	**134,926**

5.30 Spend schemes are those that would not generate a direct financial return, even though they would help to achieve corporate priorities. Spend to save schemes would be expected to help the Council to achieve revenue budget savings, although they would not necessarily be able to fully repay the capital investment. Borrow-to-repay schemes are those that would be expected to fully repay the up-front capital investment and generate an on-going revenue return. Secured non-General Fund are schemes which require up-front General Fund investment, but where expenditure is subsequently recouped from capital receipts or other contributions.

Resources available to finance future schemes

5.31 The General Fund Capital Programme is financed by a number of sources, including capital receipts, central government grants, the revenue budget, S106 and CIL. As per table A2, General Fund resources totalling £97.8m have been committed towards financing the budgeted spend over the next three financial years.

5.32 In addition to the £97.8m of committed resource, there is an estimated £18.4m of uncommitted resource that is expected to become available over the next three years, mainly arising from forecast capital receipts. Therefore the maximum possible capital programme budget over the next three years, aside from new Prudential Borrowing, would be a total of £116.2m.

5.33 It is considered prudent, however, to leave a contingency of £10m (approximately 9% of available resource) to meet any overspends or urgent new commitments, and a further £10m is recommended to be set aside to provide finance for future Mayoral and corporate priorities over the next three years.

5.34 This then leaves a resource of £96.2m that is recommended to be committed at this point. This is slightly less than the £97.8m that has already been committed as per table A2, but it is expected that some programme slippage and good cost control will bridge this small gap.

5.35 This does, however, mean that there is no finance available to bring new corporate priority schemes onto the General Fund Capital Programme at this point. Borrow-to-repay schemes can be considered separately as they have demonstrably robust business cases, and the Council would be able to secure new resource through Prudential Borrowing in order to finance them.

5.36 During 2018/19, 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 schemes onto the programme. These additions to the programme will be put forward for scrutiny and approval by members as part of the Capital Programme update reports in the financial monitoring.

Summary

5.37 The proposed 2018/19 to 2020/21 Capital Programme totals £271.5m (General Fund £97.8m and HRA £173.7m) and includes all the Council's capital projects. It sets out the key priorities for the Council over the next three financial years 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 2018/19 is £156.8m, including the capital and new build programme.

6.2 It is structured as follows:

- Update on the HRA financial position for 2017/18;
- Update on the HRA Business Plan; and
- Future Years' Forecast.

Update on the HRA financial position for 2017/18

6.3 The HRA is budgeted to spend over £100.0m in 2017/18. The latest forecast on the HRA for 2017/18, 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 £7.6m in 2018/19 (£1.90m 2016/17, £2.62 2017/18). 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 and provide the same level of investment and services, the reduction in income will need to be off-set though increased efficiencies and reprioritisation of investment requirements.

6.8 A review of current investment needs and priorities 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. Table B1 provides an illustration of the expected HRA budget for the next five years, which includes the current 1% rent reduction estimates to 2019/20.

Table B1: HRA Income and Expenditure Estimates

HRA Income & Expenditure Estimates - 5 year Forecast	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Income					
Rental income	-69.0	-69.4	-70.9	-72.6	-74.5
Tenants service charge income	-6.0	-6.2	-6.3	-6.4	-6.5
Leasehold service charge income	-4.5	-4.6	-4.7	-4.8	-4.9
Hostel charges and grant income	-1.3	-1.3	-1.4	-1.4	-1.4
Major Works recoveries	-5.9	-4.7	-4.7	-4.0	-5.7
Other income	-1.6	-1.6	-1.6	-1.6	-1.6
Interest earned on balances	-1.1	-0.7	-0.5	-0.4	-0.3
Total Income	**-89.4**	**-88.5**	**-90.1**	**-91.2**	**-94.9**
Expenditure					
Management costs	35.6	35.8	36.2	36.7	37.2
Repairs & maintenance	15.6	15.9	16.0	16.2	16.4
PFI Costs	6.2	6.7	7.1	7.7	8.2
Interest & other finance costs	3.0	3.0	3.0	3.0	3.2
Depreciation	21.6	21.9	22.2	22.5	22.9
Revenue Contribution to Capital	2.1	35.4	22.5	16.6	10.7
Total Expenditure	**84.1**	**118.7**	**107.0**	**102.7**	**98.6**
Surplus/(deficit)	**5.3**	**-30.2**	**-16.9**	**-11.5**	**-3.7**
Opening HRA reserves	59.1	64.4	34.2	17.3	5.8
Contribution to/(Drawdown) from reserves	5.3	-30.2	-16.9	-11.5	-3.7
Closing HRA Reserves	**64.4**	**34.2**	**17.3**	**5.8**	**2.1**
Forecast Capital Programme & Funding	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£m	**£m**	**£m**	**£m**	**£m**
Capital programme (including	44.7	35.2	35.3	30.7	43.1

HRA Income & Expenditure Estimates - 5 year Forecast	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
decent Homes)					
New Build construction & on-going costs	28.0	21.1	9.4	8.4	0.5
Total Capital Expenditure	**72.7**	**56.3**	**44.7**	**39.1**	**43.6**
Capital Programme Funded By:					
MRR Opening Balance	-48.0	1.0	0.0	0.0	0.0
Revenue Contribution to Capital	-2.1	-35.4	-22.5	-16.6	-10.7
Depreciation	-21.6	-21.9	-22.2	-22.5	-22.9
Capital Receipts	0.0	0.0	0.0	0.0	0.0
Borrowing	0.0	0.0	0.0	0.0	-10.0
Total Capital Funding	**-71.7**	**-56.3**	**-44.7**	**-39.1**	**-43.6**
Capital shortfall	**1.0**	**0.0**	**0.0**	**0.0**	**0.0**
HRA - Actual Debt Level (Forecast)	59.4	59.4	59.4	59.4	69.3
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 2018/19 is £156.8m, compromising £84.1m operational costs and £72.7m 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 2018/19, any savings and efficiencies delivered against the HRA business model and future budgets can be re-invested to off-set constrained rent rises or to help bridge any investment gap identified. Discussions are ongoing to identify appropriate savings and 'target' management and maintenance costs per unit. For example, there is already an assumed reduction in the Lewisham Homes fee in 2018/19 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 £96.69 in 2017/18.

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 and until 2019/20.

6.17 A 1% reduction in average rents for 2018/19 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 £96.69 to £95.72 per week (pw). The proposed decrease will result in a loss of £0.708m of rental income to the HRA when compared to 2017/18 income levels.

6.18 Government are currently consulting on returning to the previous method of rent increase calculations once the rental contraction requirements have been completed. This was based on CPI + 1%. For the purpose of business and financial planning, it is assumed that this will be agreed and 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 rent limit calculation, set by Government, will result in additional recharges to the HRA via the Housing Benefit (HB) subsidy limitation charges. Any rise above this level will be lost through additional limitation recharges and therefore result in no benefit to the HRA.

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 (see Appendix X5).

6.21 No comments were received from Lewisham Homes residents concerning the proposals for rents. Comments were received on the increase to service charges specifically relating to the Grounds Maintenance service, agreeing that increased investment is required to enhance the estate environment.

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

6.23 Details of the options for the rent & service charge changes for 2018/19 were presented to the Housing Select Committee on 31 January 2017 and were noted.

6.24 Having regard to the outcomes of the consultations held in December 2017 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 2018/19 is likely to be in the region of £95.72pw, a reduction of approximately £0.97pw from 2017/18 levels.

Other Associated Charges

6.25 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 2018/19 are set out in detail in Appendix X4.

Summary

6.26 The gross budgeted expenditure for the HRA in 2018/19 is £156.8m, £84.1m revenue and £72.7m capital. Council is asked to approve a rent decrease having considered Government requirements and tenant's feedback following consultation held in December 2017. The current average weekly rent is £96.69 in 2017/18. This will reduce to £95.72pw in 2018/19.

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 2018/19. This grant is formula based, calculated by the Government with the Council passing it onto schools. The respective budgets for 2018/19 are £292.3m and £17.0m.

7.2 It is structured as follows:

- Update on 2017/18 Dedicated Schools' Grant;
- Dedicated Schools' Grant for 2018/19;
- Pupil Premium;
- National Funding Formula;
- Cost Pressures in schools
- High Needs Block Funding;
- Consultations on Schools Funding.

Update on 2017/18 Dedicated Schools' Grant

7.3 The level of the Dedicated Schools' Grant (DSG) for 2017/18 is £289.6m. This will be revised later to take account of the pupil count which for early years children is undertaken in January 2018.

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 2016/17 financial year there were 13 schools that had deficits. There is a risk that another seven schools could go into deficit by the end of 2017/18. Schools are responsible for managing their budgets within their available resources.

Dedicated Schools' Grant for 2018/19

7.6 The DSG for 2018/19 has provisionally been set by the Department for Education (DfE) at £292.3m, although this will change during the year to reflect updated pupil numbers. The DSG is now approximately £50m (or 21%) larger than the Council's Net General Fund budget.

7.7 In comparison with last year, there is a £2.7m increase (0.9%) in the DSG. This is due to the following:

- A reduction of £1.5m driven by the decrease in pupil numbers, in the secondary age group, offset by a small increase in the primary age group.
- There is an extra £2.0m which is the increase provided by central government through the national guarantee of providing an extra 0.5% increase per pupil.
- Extra funding of £2.2m has been built into the settlement to fund the full year effect of the 30 hours of childcare for working parents, which was originally effective from 1 September 2017. £2.8m was built into the 2017/18 settlement, giving an overall total for Childcare now of £5.0m.

National Funding Formula

7.8 The Department for Education has confirmed the introduction of a national funding formula for schools and for pupils with high needs from the 2018 to 2019 financial year. For the next two years the Department will run the national funding formula, add up the total of all schools for a local authority area and pass it to that local authority for distribution to the schools in their area. The local authority can then use their own funding formula.

7.9 Under the national funding formula, all Lewisham schools will lose funding and will therefore be protected to their current funding level. This is on a per pupil basis and excludes premises factors. The government has also announced that there will be sufficient funding in the system to allow for a 0.5% percent increase in all schools budgets on pupil related factors.

7.10 For Lewisham this means there is an extra £1m available. For both 2018/19 and 2019/20 as is demonstrated in table C1 below:

Table C1: Impact of New National Formula

Note		**Schools Block**	**High Needs**	**Central**	**Total**
		£'000	**£'000**	**£'000**	**£'000**
A	2017/18 Current	215,373	50,704		266,077
B	Baseline	211,029	49,673	5,375	266,077
C	2018/19 Indicative	212,066	50,647	5,410	268,123
D = B-C	**Change**	**1,037**	**974**	**35**	**2,046**

<u>Notes</u>

A = the current DSG (excluding the early years block)

B = the DfE created a new funding block – the central block, they also moved funding from the high needs block to the schools block

C = Is the indicative amounts for next year's funding

D = the increase in funding

7.11 The DfE has converted this to an amount per pupil basis (excluding premises factors. For Lewisham this is, for Primary and Secondary age pupils, £5,024 and £6,677 respectively. For both age groups Lewisham is now the 12th highest funded authority in the country. The English averages being for primary £4,058 and for secondary £5,229. The area cost adjustment for Lewisham is now 21%. The protection built into the funding for Lewisham schools under the national funding formula is £17.0m.

7.12 Whilst there is extra funding in the settlement and schools are being protected, costs are rising by more than funding, exasperated further where pupil numbers are falling. Some costs will need to be met before any money can be distributed, for example the increase in business rates, salaries and pensions, operating costs including inflation.

7.13 Overall, these estimated cost pressures of 8% over a three year period, allowing for the announcement of the small per pupil cash increase, reduce to 7%.

7.14 The total change in pupil numbers are as shown in tables C2 below:

Table C2: Pupil Numbers

	Oct-16	Oct-17	Change
Primary	25,286	25,354	+68
Secondary	11,532	11,320	-212

The National Funding Formula and the Lewisham Funding Formula

7.15 As all Lewisham schools are protected under the new national funding formula and given that the DfE has run the new national funding model and passed on the funds, the variances for individual school budgets should be limited.

7.16 The modelling of the National Funding Formula and the Lewisham funding formula has been undertaken using the same data. This has proved the theory above. However, when the budget for next year is calculated, Lewisham will be using different data and this may have an impact.

7.17 The DfE requires the Council to consult all schools on these changes. Those changes of how to apply funding locally have been consulted on and reported to Schools Forum in January 2018.

7.18 The approach of introducing the national funding formula is not unique and some Local Authorities are proposing to move to the national funding formula, some are considering splitting the distribution of the funding 50:50 between the national funding formula and their own formula (these are authorities where there is an increase in funding). Lewisham's objective should be to minimise change and turbulence for schools through this process.

Minimum Funding Guarantee (MFG)

7.19 Local Authorities are now allowed to set a pre-16 minimum funding guarantee (MFG) in their local formula, to protect schools from excessive year-on-year changes, and to allow changes in pupil characteristics (for example, reducing levels of deprivation in a school) to flow through. Consultation must take place with the Schools Forum. This is a new power as MFG in the past was set by the DfE.

7.20 There is not complete freedom for 2018 and 2019 as the MFG has to be set between plus 0.5% and minus 1.5% per pupil.

7.21 The Government has already specified that within the settlement there will be an overall guaranteed 0.5% increase per pupil. This is reflected in the schools block baseline figures shown in table C1 above. The overall sum for Lewisham is £1m.

7.22 However, there are elements of the formula that fall outside the per pupil guarantee such as business rates and Private Finance Initiative (PFI) costs which will need to be funded first and this will limit the amount that can be distributed.

7.23 It is recommended the Lewisham MFG is set at 0.25%. The Schools Forum considered this at their meeting on the 17 January 2018.

PFI costs

7.24 For the 2017/18 financial year a PFI factor was built into the Lewisham funding formula.

7.25 Under the national regulations, any PFI factor must be objective and clear and capable of being replicated for academies. An acceptable methodology would therefore generally contain some of the features set out below;

- X% of the school's budget share;
- £x per pupil;
- £x per square metre of floor area;
- historical lump sum previously agreed and indexed by x% per year;
- Agreements may refer to proportions or elements of the school's budget share which, due to changes in funding arrangements, may have changed significantly. Where this situation occurs, the DFE expect schools and local authorities to work together to agree an alternative arrangement, so that neither party is significantly disadvantaged.

7.26 The purpose of introducing a PFI factor is to ensure that PFI costs are not greater than 10% of the individual school's budget.

7.27 This was calculated on the basis of the prior year actuals. This seemed sensible as it avoids retrospective adjustment at a later date. As pupil numbers were expected to rise and hence the school budget share increase, the percentage of PFI costs to the budget would decrease all the time pupil numbers are rising, it was a marginal benefit to those schools with a PFI scheme.

7.28 Unexpectedly there have been significant falls in the pupil numbers at some of the PFI schools, making their budget deficit situation significantly worse. The current PFI funding formula delays the compensating increase in their budget. It is therefore proposed to move the PFI factor to an estimate of current year costs and only adjust the funding where an increase is required once the actual costs are known. This bridge funding would come from the schools contingency.

7.29 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 year's expenditure, admissions, and capital expenditure from revenue. The budget of the latter, under the funding regulations, is capped at the 2015/16 level.

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

7.31 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 7 December 2017 to consider them.

7.32 The 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 pupils 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. This follows special schools banding which was implemented in April 2017.

7.33 The Forum agreed that the new banding system should be extended:

- For children and young people in resource base provisions which will require additional funding of £251k for 2018/19 from the High Needs Block.

  and

- Education Health Care Plans (EHCP) funding in mainstream schools. The work on banding in respect of mainstream schools has also been undertaken which included detailed examination of children and young people with EHCPs in mainstream settings and the current banding matrix. It is proposed that the revised banding is a fixed rate rather than the variance currently used. The proposal will mean an additional £47k from the High Needs Block for 2018/19.

7.34 One of the key principles of the banding review 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 banding models for each of the three types of provision.

Pupil Premium

7.35 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.

7.36 In 2018/19 the rate of funding is set at the same level as 2017/18, for primary and secondary children. This is £1,320 per primary child and £935 per secondary child. For looked after children there is an increase to £2,300 per child. The DfE no longer provides forecasts of the total pupil premium. Officer's calculations are for £17.0m for 2018/19, which is now the expected level for 2017/18. There has been a recent consultation on the use of free meals to allocate the pupil premium. This is due to the roll out of national Universal Credit Scheme. See section 7.43 for more details.

High Needs Block Funding

7.37 There are significant changes to the way that allocations of High Needs funding for 2018 to 2019 to local authorities are determined because of the introduction of national funding formulae for schools, high needs and central school services.

7.38 The High Needs block is now calculated on the basis of a national formula (in recent years the bases has been historical allocations), although there is still an element of historical spend.

7.39 The factors include

- The basic entitlement ensures that local authorities receive resources for all the pupils that they fund in their area, with £4,000 nationally for each pupil in a special school but adjusted by area costs. It provides an equivalent to the funding that mainstream schools get for all their pupils, and that colleges receive through the 16-19 national funding formula.

- A historic spend factor attracts £2.7 billion nationally in 2018/19, based on 50% of local authorities' existing high needs spending. The DfE wanted this factor to reflect the importance of giving local authorities stability as they move towards a fairer distribution of funding and the importance of recognising that some of the factors driving current spending will take time to change, as local authorities review and develop their local offer, plan ahead and decide carefully where to spend more and where to spend less.

- Proxy factors are designed to target funding to local authorities in proportion both to their size, as indicated by their population of 2 to 18 year olds, and to their relative level of need. These relate to;

    - Deprivation;
    - Low attainment; and
    - Health and disability.

7.40 The DfE have provided an increase in funding for the high needs block which has allowed the funding floor to be lifted by 0.5% per head in 2018/19 and 1.0% per head by 2019/20 over the relevant 2017/18 high needs spending baseline.

7.41 This has resulted in Lewisham receiving an extra £1m in 2018/19.

Loan Scheme to cover school deficit

7.42 The DfE have just completed a consultation whereby they propose to make a directed revision to local authorities' schemes for financing schools in order to clarify the purpose of loan schemes and distinguish them from licensed deficits. They consider that any loans made to fund a revenue deficit of a school should not transfer to an academy on conversion. There is now a significant risk to Lewisham due to the schools in deficit, currently £4m and likely to grow as schools adapt to their tighter funding envelope.

Consultation on Universal Free credit

7.43 The Government have just concluded a consultation on a review of eligibility for children currently receiving additional support from the government during their education, such as free school meals and additional school funding. This is in respect of the national roll out of Universal Credit.

7.44 The proposals will protect all children currently receiving this support, while targeting these entitlements to ensure they reach those most in need in the future. Overall more children should benefit as a result.

7.45 The DfE proposals will mean around 50,000 more children should be eligible for free school meals once Universal Credit is rolled out.

Risks

7.46 If the High Needs Block overspend there is potential risk that this may fall onto the Local Authority.

7.47 If the change proposed in the consultation on School Loans goes ahead there is a risk that if a school coverts to an academy the deficit reverts to the Local Authority. At the end of the last financial year (2016/17) the total deficit of schools was £4m.

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 2018/19, assuming a Council Tax increase of 3.99%, is £241.281m. Details of the savings anticipated for 2018/19 are provided at Appendices Y1 and Y2.

8.2 It is structured as follows:

- Update on 2017/18 Revenue Budget;
- The Budget Model;
- Saving proposals;
- Council Tax for 2018/19; and
- Overall Budget Position for 2018/19.

Update on 2017/18 Revenue Budget

8.3 The Council's revenue budget for 2017/18 was agreed at Council on 22 February 2017. The general fund budget requirement was set at £232.746m.

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 are 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 £12.8m was reported at the end of May 2017. Since this positon was first reported, the forecast overspend has increased slightly to £12.9m. 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. 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.

8.7 It should be noted that a sum of £2.1m was held corporately as part of setting the 2017/18 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. This consideration will happen towards the end of the financial year, after assessing the progress that has been made to manage down the current forecast overspend. During the year £0.8m was allocated to Business Support, pending further service savings being identified. If allocated in full, the remaining balance will have the effect of reducing the current projected overspend to £11.6m.

Directorates

8.8 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’ noted above.

Table C1: Forecast outturn for 2017/18 as at end of November 2017

Directorate	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/ (under) spend Nov. 2017	Percentage of over/under spend to Net budget
	£m	**£m**	**£m**	**£m**	**%**
Children & Young People	66.7	(18.0)	48.7	7.7	16
Community Services	167.0	(80.0)	87.0	1.4	2
Customer Services	102.7	(60.1)	42.6	4.3	10
Resources & Regeneration	76.9	(51.8)	25.1	(0.5)	-2
Directorate Totals	**413.3**	**(209.9)**	**203.4**	**12.9**	
Corporate Items	29.3	0.0	29.3	0.0	-
Net Revenue Budget	**442.6**	**(209.9)**	**232.7**	**12.9**	**6**

Corporate Financial Provisions

8.9 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.

8.10 Consideration is now being given to employing the use of corporate measures to balance the budget at year end. It is proposed to meet any 2017/18 budget overspend from reserves.

The Budget Model

8.11 This section of the report sets out the construction of the 2018/19 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

8.12 The Council has made substantial reductions to its expenditure over the last eight 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 2018/19 as part of a sustainable financial strategy to 2019/20. Looking beyond 2019/20 still very much depends on the financial implications for the Council from government policy, the next Comprehensive Spending Review (CSR) is expected in 2019.

Council Tax

8.13 In the 2017/18 Settlement, the Government confirmed that councils with Adult Social Care responsibilities (upper tier and unitary authorities) were able to increase Council Tax by up to 3% in 2017/18 and 2018/19 subject to a maximum of 6% across the period 2017/18 to 2019/20. The Government funding calculations assume Councils will raise this additional tax income locally.

8.14 In 2017/18, the Council increased the precept by the maximum allowed, 3%. Over 2018/19 and 2019/20, the Council is able to increase the precept by a total of 3%. This report proposes a 1% precept increase in 2018/19 and a 2% increase in 2019/20.

8.15 The assumption used in the model for preparing the 2018/19 budget, subject to confirmation by Council, is for a total Council Tax increase (Lewisham element) of 3.99% (a 1% increase for the social care precept and a 2.99% increase in the core element under the revised referendum principle announced along with the Finance Settlement on 19 December 2017).

8.16 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 greater use of resources in the short term and a higher savings requirement going forward. Any increase in the core element above this recommendation would require support in a local referendum due to the limit set by the Secretary of State.

8.17 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

8.18 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.

8.19 In November 2017, the Office for National Statistics (ONS) reported that the rate of Gross Domestic Product (GDP) growth in the economy was greater than 2% with the rolling 12 month CPI inflation in the UK at 2.7% in December. In November 2017, the Office of Budget Responsibility (OBR) forecast that inflation wasn't expected to rise further but expected the rate to decline gradually through 2018 and 2019 as the effects of the fall in the pound around the time of the referendum begin to fade. Inflation is expected to settle close to the 2 per cent target around the middle of 2020.

8.20 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 2017, a final offer was made to the unions of a 2% 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 National Living Wage (NLW) introduced by the government in 2015. The NLW is currently set at £8.50/hr from April 2018. Lewisham's lowest pay band exceeds this amount. As this offer has not yet been accepted a provision of 2% for 2018/19 has been made.

8.21 The Council currently applies a non-pay inflation rate of 2.5% per annum. This is close to the forecast inflation rates for 2018 and reflects the underlying commitments in Council contracts. This equates to approximately £2.3m (net) in 2018/19. £1m of this figure has been put forward as an efficiency saving in 2018/19.

New Homes Bonus

8.22 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'.

8.23 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.

8.24 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 (effectively funding the new improved Better Care Fund (iBCF) from 2017/18). 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.

8.25 The full impact of these ‘collar and cap’ changes is effectively to half the NHB the Council receives.

8.26 The provisional allocation for 2018/19 in Lewisham, including on-going payments, is £6.911m, with the years 1 to 4 allocations of £6.443m dropping out and with the allocation for Year 8 (2018/19) delivery being £1.551m.

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

Table C6 – New Homes Bonus Allocation Profile

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Yr 1 - 6 yrs paid in full	0.706	0.706	0.706	0.706	-	
Yr 2 – limited to 5 yrs	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	1.399
Yr 6 – limited to 4 yrs				1.889	1.889	1.889
Yr 7 – limited to 4 yrs					2.072	2.072
Yr 8 – limited to 4 yrs						1.551
Total Allocation	3.814	6.443	7.842	9.731	10.139	6.911
Less: London LEP Top slice	0	0	-2.218	0	0	0
Lewisham Total	3.814	6.443	5.624	9.731	10.139	6.911

8.28 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. This is in the context of the draft London Mayor housing strategy which for Lewisham from 2018/19 have been raised to 2,117/year for ten years.

8.29 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 and Lewisham 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.

8.30 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. In particular for 2018/19, a project team will be funded from this allocation to work to promote the strategic aim of securing the Bakerloo Line extension into the Borough.

8.31 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 2017/18 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 2018/19 only.

Budget Pressures to be funded

2017/18

8.32 In 2017/18, the funds set aside in the budget model to meet specific identified budget pressures and potential budget risks was reduced from £7.5m to £6.5m (for 2 years). In addition to the £6.5m in the 2017/18 budget, £750k was clawed back from 2016/17 making the total budget available £7.250m. £5.120m was allocated to services to fund quantified pressures, leaving £2.130m unallocated and held corporately against identified risks. This £2.130m is now being added to the 2018/19 allocation to make available £8.630 in 2018/19.

8.33 An ongoing area of significant financial pressure for the Council are the rising demands and costs of Children's Social Care, including rising demands for assessments and high costs for placement. This is a challenge as the government's funding for social care is directed solely to adult provision.

8.34 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 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).

8.35 The budget pressures in Children's Social Care have been reviewed and it is recommended that the remaining £2.1m of corporate risk and pressures unallocated in 2017/18 now be allocated to Children's Social Care – front door, social workers and placement costs - in 2018/19.

8.36 The Adult Social Care precept continues to be committed to funding the costs of paying the National / London Living Wage in all contracts above inflation/annual increases until 2019/20.

2018/19

8.37 The budget pressures anticipated in 2018/19 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 line with the decisions of this budget from the corporate risk and pressures monies to the relevant Directorates when determining their cash limits for 2018/19.

8.38 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 2018/19 budget pressures to be funded

Description	£'000	£'000
2018/19		
Opening budget for 2018/19	6,500	
Unallocated Risks and Pressures from 2017/18	2,130	
Risk & Pressures budget available in 2018/19		**8,630**
Previously committed		
Highways & Footways (year 5 of 10)	-350	
Licensing arrangements (year 3 of 5)	-200	
	-550	
Unachieved elements of previous years savings		
Transport costs in CYP	-500	
Enforcement income	-200	
Domestic waste service	-200	
Garden waste service income	-150	
Parks and open spaces income	-75	
Wireless and advertising income	-130	
	-1,255	
Demand pressures		
Educational Psychologists and services to Children with complex needs	-540	
Youth first property maintenance	-300	
Travel assistance (see transport costs above)	-250	
Children multi agency safeguarding hub	-600	
Family social work – social work resources	-400	
Looked after Children placement costs	-1,500	
Youth offending service	-250	
Air quality monitoring	-40	
Registrars income	-100	
Waste disposal costs	-250	
Coroner's court costs	-50	
Mortuary costs with RB Greenwich	-15	
Crematorium costs / loss of income	-50	
Arborists costs	-100	

Legal Services Highways permits and licensing income Chief Executive office Street Lighting Communications – website	-200 -250 -90 -40 -85 -5,110	
Risks & Pressures recommended to be funded		**-6,915**
Risks & Pressures budget recommend to be held against possible overspends in 2018/19		**1,715**

Highways and Footways pressure – £0.35m

8.39 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.

8.40 Corporate funding of £0.3m for 2018/19 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.

8.41 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 2018/19, 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

8.42 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.

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

Previous Years unachieved savings - £1.255m

8.44 As is noted elsewhere in this report, the Council has brought forward and implemented significant savings since 2010/11 and will likely continue to need to do so until at least the mid 2020s. 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.

8.45 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.

8.46 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 2018/19 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:

8.47 Children & Young People – 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 had a savings target of £1.0m, half in 2016/17 and half in 2017/18. Neither has been met. While progress has been made in Community Services, it is recognised from the financial monitoring that a barrier to making this saving is the Children & Young People Directorate where there is already a significant demand pressure driving overspends year on year. It is therefore proposed to put an additional £0.75m reversing out the remaining £0.5m saving target and £0.25m reducing the ongoing demand pressure.

8.48 Customer Services – the Directorate put forward as savings a number of cost reduction and income generation proposals across their services. While good progress has been made these were significant service changes and not all have delivered in full. It is therefore proposed to fund changes to their base budgets to address the resulting pressures as follows:

- Enforcement – the move to create an internal enforcement service to limit the use of Baliffs has been a success with improved performance, better income collection and fewer complaints. However, the full income target has not been met and it is therefore proposed to correct this by injecting £0.2m into the service budget for 2018/19.
- Environment – there have been a number of changes to the service, both in how customers are asked to separate waste and to the collection rounds. The service aims were to improve recycling rates and reduce costs. Good progress is being made against these objectives. However, the full savings (income targets and costs) have not been achieved and it is therefore proposed to adjust the service budgets for 2018/19 to reflect this by £0.20m for the costs of the domestic waste service, £0.15m for the shortfall in income for the garden waste service, and £0.08m for the income gap and cost pressures on parks maintenance.

8.49 Resources & Regeneration – the ambition to seek to use the Council's assets to secure other income led to a saving to generate revenue from offering small cell WiFi from Council buildings and additional advertising income on Council sites. However, there is not the footfall demand for such WiFi services in Lewisham and competition moves on with most phone contracts now having larger data allowances and many service providers and business premises offering free WiFi. On the advertising front the sites identified for possible large scale advertising could not address planning concerns so cannot proceed. For these reasons it is proposed to write back the balance of these savings, £0.13m in 2018/19.

<u>Demand Pressures</u>

<u>*Educational Psychologists and services to Children with complex needs - £0.54m*</u>

8.50 These are both statutory services. Since 2014 and a change in the legislation which extended the age for these services from 16 year olds to 25 year olds the service has witnessed a 40% growth in demand and in Lewisham the complexity of cases to be supported. These pressures are no longer sustainable within the existing budget as the teams for both services have grown to ensure delays and backlogs in assessments are managed. It is therefore proposed to increase the budget for these services in 2018/19 by £0.54m.

Youth First property maintenance - £0.30m

8.51 When the Youth First mutual was created CYP included as part of the contract an amount towards the maintenance of the Council's assets they occupy. The mutual then buy back these services from the Council as their landlord to ensure the buildings are kept in good order. This has created a pressure in the CYP base budget which needs to be recognised to avoid this being a permanent overspend and management diversion. It is therefore proposed to add £0.3m to the CYP budget for the cost of the Youth Service contract. This will be reviewed going forward as the contract is retendered.

Travel assistance - £0.25m

8.52 This £0.25m is the service pressure additional to the £0.5m saving being reversed for CYP transport cost pressures as described above.

Children multi-agency safeguarding hub - £0.60m

8.53 Following the OFSTED inspection in 2015 the front door arrangements for the Council were strengthened in response to the recommendations raised. This involved the establishment of new Multi-Agency Safeguarding Hub (MASH) arrangements at a cost of £0.60m.

8.54 The business case was that as demand was better understood and the actions required assessed earlier a consequent in reduction in follow through work (at least the cost of interventions if not the number) should follow. To date the service has not seen this change reflected in their financial performance (see pressures below). It is therefore proposed to recognise the £0.6m cost for the MASH in the service's budget from 2018/19, while continuing to work with the services road map to review how the balance of risk, demand and services are managed within the available budgets.

Family Social Work social work resources - £0.40m

8.55 It was identified in 2017/18 that, through an exemption for social worker recruitment in 2016/17 in the corporate DEP/CEP process, that the service had recruited a number of social workers beyond their staffing budgets. This has formed part of the overspend that has been reported to members. Given the ongoing pressure to recruit children social workers and to support the service's strategy to limit the number of agency workers and convert them to permanent positions where possible, it is now proposed to recognise this as a permanent resource need and increase this budget by £0.40m for 2018/19.

Looked after Children Placement costs - £1.50m

8.56 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, ensuring that their health and education needs are met, and that they are also supported when the time comes to leave care safely.

8.57 As reported in 2017/18 budget when a £1.4m pressure on this service was funded, while numbers are rising slightly in the mid to high 400s the complexity of cases and limited availability of places nationally is driving significant pressure on the placement budget.

The overspend is currently more than £2m. From benchmarking across London these pressures are not unique to Lewisham. Further work is to be conducted to strengthen the supply of lower cost alternatives (e.g. recruiting local foster carers rather than using independent private agencies) and work with partners to develop the right market supply (e.g. for residential placements).

Youth Offending Service - £0.25m

8.58 Following an inspection in 2017 the actions to address the recommendations required some investment. In addition to the one off costs it is clear to sustain the expected standards some of this investment will be needed on a permanent rather than one off basis. It is therefore proposed to increase the base budget for this service by £0.25m.

Air Quality Monitoring - £0.04m

8.59 Consistent with the rising need to address the risks of poor air quality across London, Lewisham has been increasing its monitoring stations across the Borough. These need to be serviced and maintained and the cost of this additional work cannot be absorbed within the service existing budget. It is therefore proposed to increase their budget for 2018/19 by £0.04m for these activities.

Registrars Income – £0.10m

8.60 Following a number of years of growth in this area the income from citizenship and other ceremonies conducted by the Council is now falling putting pressure on the service budget. This is the second year of such pressure so it is proposed to recognise the underlying change in demand and reduce this service's income budget by £0.1m.

Waste disposal costs - £0.25m

8.61 As noted elsewhere in this report, the Council is facing a growing population and an increase in the number of households in the Borough. At the same time constraints (space and regulations) are driving up the costs of landfill. Despite the changes to the service to better segregate different types of waste, investment in new vehicles, and being more efficient in how the collection process operates; the cost of disposing of the waste generated in the borough is rising and causing an annual budget overspend. To address this pressure it is proposed to increase the waste disposal budget by £0.25m.

Coroner Court costs - £0.05m

8.62 Following a review in 2017 these charges were raised by the Coroner. The Council is obligated to meet these costs so it is proposed to bring the service budget in line with these increased charges of £0.05m in 2018/19.

Mortuary costs - £0.015m

8.63 The Council has moved to a shared service arrangement with the Royal Borough of Greenwich. This followed constraints on the space available in Lewisham given local demand. The service is providing the Boroughs needs but the costs if doing so have increased and as external do have to be met. It is proposed to bring the service budget in line with these increased charges of £0.015m in 2018/19.

Crematorium costs / loss of income - £0.05m

8.64 This is a competitive business and, despite recent investment in the facilities and equipment, changes in how, what and where families are choosing to access these services is changing. The service is therefore running harder to compete putting pressure on their budget and leading to a budget overspend. It is proposed to bring the service budget in line with these increased costs of £0.05m in 2018/19.

Arborist costs - £0.10m

8.65 Over the last two years the insurance risk fund has been supporting the landscape team undertake additional arboreal surveys, pruning and management works on high risk trees to mitigate the risk of subsidence claims. The hope was that, if successful, this would reduce the cost of insurance claims and related premiums. This has not happened yet but the surveys continue to identify tree works needed across the Borough. This needs to be part of a sustained and planned programme to support the Council defend against claims for property damage. It is therefore proposed to increase this service budget by £0.10m from 2018/19 to run this programme.

Legal Services - £0.20m

8.66 Changes to legislation, increasing demand and new burdens for services has also increased the need for legal support. The key pressures arise from support for social care (adults and children) and no recourse to public funds cases as well as a loss of income as fewer regulatory enforcement cases are pursued. The consequence has been a growing pressure on the Legal Services budget over the past two years which it is now proposed to correct by increasing the base budget by £0.20m in 2018/19.

Highways permits and licensing income - £0.25m

8.67 This is a pressure the service has been monitoring for a couple of years now, as noted in the regular financial monitoring reports to members. It arises from the utilities companies having got better at planning and reducing the need for their works to disrupt highways as much or for as long. This reduces the amount of income the Council can raise to licence these works. It is therefore proposed to reduce the service's income target for these works by £0.25m in 2018/19.

Chief Executives Office - £0.09m

8.68 As the Council moves to recruit a new Chief Executive in March 2018 this will be on a full time basis, reversing the saving when the previous Chief Executive went to three days a week. This will add £0.09m to the senior salaries budget for the Council from 2018/19.

Street Lighting - £0.04m

8.69 While very much appreciated, the festive lighting and trees over the December period raised a number of concerns and issues about the quality and safety of the installations. It is therefore proposed to increase the budget for providing these resources by investing £0.04m in the programme going forward.

Communications website - £0.085m

8.70 The Council is increasing the level of automation and self-service in providing services to customers. This will drive more traffic to the Council's online resources. Furthermore, the demands and expectations of the Council's website are increasing as more communications, exchanges and transactions will be hosted or channelled through the Council's online presence and use of social media. These demands require a more robust and flexible Council website that can be maintained to support these emerging needs going forward. The work programme to develop this is underway but the functionality of the new platform, along with licence and maintenance costs, will be higher compared to the current public site. It is proposed to fund this by increasing the Communication budget by the £0.085m needed from 2018/19.

Risks and other potential budget pressures to be managed

8.71 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.

8.72 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;
- Temporary Accommodation / Homelessness;
- Redundancy;
- Children and Social Work Act - Corporate parenting, local offer, and support to age 25; and
- Unachieved savings;

Adult Social Care, including Transition demands

8.73 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 service configuration changes, national policy priorities, the additional funding committed to these services for 2018/19 through the Adult Social Care precept and improved Better Care Fund, and the changes arising from transformation savings are not yet known or assessed so it is not possible to fully evaluate the risk at this time.

Child Sexual Exploitation

8.74 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 2018/19. Given these uncertainties it is not possible to fully evaluate the risk at this time.

National / London Living Wage

8.75 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.

8.76 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.

Temporary Accommodation / Homelessness

8.77 Government welfare changes, economic pressures on families and individuals, and the chronic supply shortage of affordable housing in London are pressures that directly impact the Council's housing services. These are recognised nationally, by the London Mayor and locally, of course, in Lewisham's strategies. Some monies (e.g. homelessness trailblazer scheme), some policy changes (e.g. changes to the way Universal Credit is being introduced and powers against rogue landlords), and actions the Council are taking to develop and procure more and better accommodation are all being progressed. These should help reduce the risks and service pressures that arise from the growth in temporary accommodation and homelessness in Lewisham. These risks are being carefully monitored but cannot be easily quantified in budgetary terms at this time.

Redundancy

8.78 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.

Children and Social Work Act - Corporate parenting, local offer, and support to age 25

8.79 The Children and Social Work Ac 2017- Corporate parenting, local offer, and support to care leavers up to age 25, defines what good corporate parenting looks like, and secures the involvement of the whole council in looking out for children in care or leaving care. It requires every local area to set out exactly what support they are offering to care leavers, making it easier for young people to access support. It extends the help of a personal adviser to all care leavers up to the age of 25.

8.80 It is expected that as this is a new burden there will be funding to cover the cost of additional personal advisors and associated support, there is a risk though that this will not happen.

Unachieved savings

8.81 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. For the 2018/19 budget this includes the £0.2m Linkline savings included in this report for agreement. 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.

8.82 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, especially where possible 'invest to save' commitments may be required to realise efficiencies and savings.

8.83 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

8.84 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.

8.85 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.

8.86 After allowing the allocation of corporate risk & pressures to be funded in 2018/19 as summarised in Table C2 above, an unallocated balance of £1.715m 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

8.87 On the 6 December 2017 the Mayor:

- Noted the previously agreed savings for 2018/19, totalling £0.580m
- Agreed and delegated £4.276m of saving proposals for 2018/19, with necessary consultations undertaken.

8.88 The total savings included in the 2018/19 budget calculation is £4.856m. 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.

8.89 As anticipated in the Medium Term Financial Strategy (July 2017) and following the provisional Local Government Finance Settlement (December 2017), the Executive Director for Resources & Regeneration has been considering options to bridge a budget shortfall in order to balance the budget for 2018/19. It is proposed to use an amount of New Homes Bonus (£5.0m) and an amount of general reserves (£3.570m) in 2018/19

8.90 Estimates for Revenue Support Grant in 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.

2018/19 Council Tax

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

Collection Fund;

8.92 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.

8.93 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 2017/18 of £10.839m.In addition to life time collection work this increase included the continuous growth of the council tax base and the results of the work to target single person discount claimed in error.

8.94 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 £8.728m of the £10.839m 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 £2.111m will be allocated to the GLA.

8.95 Members should note that the Council agreed on the 17 January 2018 that no changes will be made to the Council Tax Reduction Scheme (CTRS) for 2018/19 and that the Council will continue to pass on the government cuts in funding to working age claimants. However, it was also agreed that simplifying the budgeting arrangements was necessary due to the complexities of the current arrangements.

8.96 The budget arrangements are to be simplified by setting a fixed percentage reduction in liability for the working age claimants of the scheme to be agreed by Council as part of the budget setting process, and to be reconsidered on an annual basis in line with any further savings that may need to be made. This percentage was agreed to be fixed at 25% for 2018/19. This means that everyone of working-age has to pay a minimum of 25% of their council tax liability. This is an 8% reduction from last year (33%).

Council Tax Levels

8.97 In the 2018/19 Local Government Finance Settlement, the Government announced an increase of 1% to the limit by which Councils can increase their Council Tax (inclusive of levies) without a referendum (i.e. 2.99%). In addition, there is also the opportunity to increase Council Tax by up to a further 3% under the Social Care between 2018/19 and 2019/20. 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.

8.98 In 2018/19, the recommendation is that the Council approve a 1% Social Care precept which will provide additional funding of £1m, ring fenced for Adult Social Care spend. If implemented this charge has to be identified on the face of the Council Tax bill and made clear in the accompanying guidance for rate payers.

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

8.100 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 2018/19 and their general responsibilities to steward the Council's finances over the medium term.

8.101 In 2017/18, the Band D Council Tax in Lewisham is £1,437.70 on a base of 81,087.65 Band D equivalent properties. Of this, £280.02 relates to the activities of the GLA which the Council pays over to them on collection.

8.102 The GLA is consulting on a precept of £294.23 (Band D equivalent) for 2018/19, an increase of £14.21, or approximately 5.1% and a final decision is expected from them on or after the 22 February 2018. The entire precept increase will be applied to the policing budget.

8.103 For 2018/19, the Band D Council Tax in Lewisham is recommended to be £1,498.10 on a base of 86,456.64 Band D equivalent properties (the base was approved at Council on the 17 January). Of this, £294.23 relates to the activities of the GLA which the Council will pay over to them on collection.

8.104 Table C3 below shows, for illustrative purposes, the Council Tax payable by a Lewisham resident in a Band D property in 2018/19 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.

8.105 The starting point is for an assumed 5.99% increase in Council for 2018/19, which includes the maximum core increase permissible without a referendum. Any reduction from this level of increase will reduce the level of income the Council collects and will increase the draw on reserves for 2018/19 and the savings gap in future years.

Table C3 – Band D Council Tax Levels for 2018/19

	Amounts payable by residents - Band D				Lewisham
Change in Council Tax	Lewisham element	GLA element	Total	Change in total	Additional Income / Annual income forgone
	£	£	£	%	£m
5.99% increase	1,227.02	294.23	1,521.25	+5.81%	2.000
4.99% increase	1,215.44	294.23	1,509.67	+5.00%	1.000
3.99% increase	**1,203.87**	**294.23**	**1,498.10**	**+4.20%**	**0.000**
3.50% increase	1,198.20	294.23	1,492.43	+3.81%	-0.490
3.00% increase	1,192.41	294.23	1,486.64	+3.40%	-0.991
2.50% increase	1,186.62	294.23	1,480.85	+3.00%	-1.491
2.00% increase	1,180.83	294.23	1,475.06	+2.60%	-1.992
1.50% increase	1,175.05	294.23	1,469.28	+2.20%	-2.492
1.00% increase	1,169.26	294.23	1,463.49	+1.79%	-2.992
0.50% increase	1,163.47	294.23	1,457.70	+1.39%	-3.493
Council Tax Freeze	1,157.68	294.23	1,451.91	+0.99%	-3.993

8.106 In January 2018 at their Council meeting, Council set the Council Tax base for 2018/19 and agreed the maximum incentives available to bring properties back into use, charge for second homes, and complete works in the shortest possible time. Council also agreed to implement a Council Tax exemption for Care Leavers up to the age of 25 in the Borough and initiate a review of opportunities for other potential exemptions.

Overall Budget Position for 2018/19

8.107 For 2018/19, the overall budget position for the Council is an assumed General Fund Budget Requirement of £241.281m, as set out in Table C4 below.

Table C4 - Overall Budget Position for 2018/19

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Settlement Funding Assessment (SFA) for 2017/18	(128.470)	
Council Tax 2018/19 at 3.99% increase	(104.083)	
Surplus on Collection Fund	(8,728)	
Assumed Budget Requirement for 28/19		**(241.281)**
Total Resources available for 2018/19		
Base Budget for 2017/18	232.746	
Plus: Reversal of reserves drawn in 17/18 (once off)	5.027	
Plus: Additional Pay inflation	2.157	
Plus: Non-pay Inflation	2.277	
Plus: Education Support Grant changes for 18/19	0.700	
Plus: Single Persons Discount work	0.300	
Plus: Budget pressures to be funded from 18/19 fund	4.785	
Plus: Risks and other potential budget pressures	1.715	
Plus: Increase in general bad debt provision	5.000	
Less: Previously agreed savings for 2018/19	(0.580)	
Less: September approved savings for 2018/19	(4.276)	
Less: Use of New Homes Bonus reserve	(5.000)	
Less: Once-off use of reserves	(3.570)	
Total		**241.281**

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

<u>2018/19 budget</u>

8.108 Should all the above proposals be agreed, then this would leave a remaining gap of some £8.570m to be funded by the once off use of NHB and general reserves. This is set out in the Table C4 above.

8.109 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.

<u>Invest to Save</u>

8.110 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.

8.111 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.

8.112 In 2017/18 the budget committed £10.6m to invest to save. The digital and systems work is making progress and will continue into 2018/19. The organisational development together with the office restack is in implementation and expected to be fully rolled out in 2018/19.

8.113 It is also recognised that further investment is required to maintain the momentum of these changes and go further. These costs are not built into ongoing Directorate revenue budgets and therefore need to be funded from once off corporate resources.

8.114 The Executive Director for Resources and Regeneration recommends that the specific earmarked reserves be reviewed to support the use of up to £5m of once off corporate resources for transformation projects. This needs to be done recognising what has worked well in terms of delivering both financial and non-financial benefits.

9. OTHER GRANTS AND FUTURE YEARS' BUDGET STRATEGY

9.1 This section of the report considers the 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 2018/19;
- Public Health Grant 2018/19;
- Levies;
- London Business Rates Pilot Pool; and
- Future Years' Budget Strategy 2018/19 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 new conditions attached.

9.3 For Lewisham the value in 2017/18 is £21.672m increasing to £22.156m in 2018/19. The local plan for both financial years was approved by NHS England. In each year the plan includes a small contingency.

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 2018/19.

9.5 In 2017/18 the government also introduced the improved Better Care Fund (iBCF) to work alongside the BCF which is described above. The iBCF in 2017/18 was £7.595m (and a one-off grant of £1.4m). In 2018/19 this increases to £10.470m. This is intended to fund adult social care activity. Plans for its use also require the agreement of local CCGs and as with BCF have been agreed in Lewisham for both 2017/18 and 2018/19.

Public Health Grant

9.6 In 2017/18 the Council's allocation for Public Health Grant is £24.967m. National reductions of 2.6% annually have been announced for the next three financial years and the expected 2018/19 Lewisham allocation is £24.325m.

9.7 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. Proposals have been developed and presented to the Health and Wellbeing Board, which will achieve the necessary reductions in spend for 2018/19.

Levies

9.8 The Council is 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 (LPFA), Lee Valley Regional Park, and Environment Agency. At present the final amounts for 2018/19 have been confirmed for Lee Valley and the Environment Agency. The LPFA is yet to confirm its new levy and it is therefore assumed it will stay at or close to its 2017/18 level. The levies are set out in Appendix Y5. Any variations by the LPFA will be absorbed in the corporate provisions and corrected for the following year.

London Business Rates Pilot Pool

9.9 The Government's stated policy objective is to move to 100% devolved business rates. This may require local authorities to assume additional responsibilities to match costs to the available business rates and enable the Treasury to reduce other sources of funding, in particular by phasing out Revenue Support Grant (RSG).

9.10 London Councils put forward a proposal to establish a London-wide pilot pool which would include all 33 London Boroughs and the GLA. A first report outlining the proposed manner in which the pool would work was presented to Mayor and Cabinet and Council in November 2017. The Government formally confirmed its commitment to establishing a 100% business rate retention pilot in London in April 2018 in the Autumn Budget. In January 2018, Mayor and Cabinet and Full Council were presented with the proposal for Lewisham to support the creation of the pool and the framework for its operation.

9.11 The key principles that underpin the London pooling agreement are that:

- The pool in 2018/19 would not bind boroughs or the Mayor indefinitely – the founding agreement includes notice provisions for authorities to withdraw provided notice is given by 31 August each year. Were the pool to continue beyond 2018/19, unanimous agreement would be required to reconfirm a pool from 2020/21 onwards (the expected year in which funding baselines will be update as a result of the Fair Funding Review).
- No authority can be worse off as a result of participating - where authorities anticipate a decline in business rates, the first call on any additional resources generated by the pool would be used to ensure each borough and the GLA receives at least the same amount as it would have without entering the pool (this would include the equivalent of a safety net payment were it eligible for one individually under the current 67% system).
- All members will receive some share of any net benefits arising from the pilot pool – recognising that growing London's economy is a collective endeavour in which all boroughs make some contribution to the success of the whole, all members of the pool will receive at least some financial benefit, were the pool to generate additional resources.

9.12 Lewisham will now be part of the pool for at least one year starting from April 2018.

Future Years' Budget Strategy 2018/19 onwards

<u>Revenue Budget</u>

9.13 The Medium Term Financial Strategy was reported to Mayor & Cabinet in July 2017. This set out that an estimated £32m of savings required from 2018/19 to 2019/20. This position has been superseded by the savings proposals submitted to Mayor and Cabinet in December 2017, the provisional local government finance settlement announced in December 2017 and annual review of the statutory calculation for the Collection Fund.

9.14 The revised profile for savings required is now broadly;

- £4.86m to be implemented in 2018/19;
- £8.57m gap remaining for 2018/19 to be met from New Homes Bonus and general reserves;
- £24m gap for 2019/20 against which only £0.1m of outline proposals were set out in September 2016 and now need to firmed up and extended;.

9.15 If the budget for 2018/19, as set out in this report, is agreed the expected additional savings required are circa £24m 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 December 2017 in conjunction with this budget report presents the LFP work to date. This continues and further saving proposals may be bought forward in 2018/19 to close the budget gaps identified above.

9.16 In 2018/19 officers will update the MTFS and look to extend the planning horizon to 2022/23 to include the impact of moving to the 100% retention of business rates. However, this remains difficult pending the detail of the fair funding review and the government's CSR beyond 2019/20.

10. TREASURY MANAGEMENT STRATEGY

Background

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

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

Treasury Management Strategy for 2018/19

10.3 The Strategy for 2018/19 covers two main areas:

Capital Issues:

- Capital Investment Plans;
- Prudential Indicators; and
- Minimum Revenue Provision (MRP) Policy.

Treasury Management Issues:

- Borrowing Strategy including Treasury Indicators;
- Debt Rescheduling;
- Annual Investment Strategy;
- Credit Worthiness Policy; and
- Prospects for Investment Returns.

10.4 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department for Communities and Local Government (DCLG) guidance on Minimum Revenue Provision (MRP) and Investments, and the CIPFA Treasury Management Code.

Proposals to Amend the Prudential Framework and CIPFA Treasury Management and Prudential Codes

10.5 The Department for Communities and Local Government is in the process of consulting on changes to the statutory guidance on local authority investments and minimum revenue provision. CIPFA has also recently consulted on changes to the Treasury Management Code of Practice and the Prudential Code. The results of these consultations have yet to be published at the time of writing, but draft proposals focus on suggested changes to prudential indicators and the reporting of commercial, non-Treasury investments, particularly the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases or the use of existing cash balances.

10.6 The draft proposals have not yet been fully implemented into the Treasury Management Strategy for 2018/19; once the final proposals have been published, changes will be made to the Strategy as required and presented to Members for agreement.

Treasury Management Consultants

10.7 The Council uses Link Asset Services as its external Treasury Management advisors. The Council recognises that responsibility for Treasury Management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of Treasury Management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Capital Investment Plans

10.8 The Treasury Management Strategy for 2018/19 incorporates the capital plans of the Council, as set out in section 5 of this report, which are a key driver of Treasury Management activity.

10.9 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 appropriate borrowing facilities.

Prudential Indicators

10.10 The Council's expected Treasury portfolio position as at 31 March 2018 with forward projections is summarised below. Table D1 compares the actual external debt the Treasury Management operations) against the Capital Financing Requirement (CFR) which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, and so its underlying borrowing need. This table illustrates over/(under) borrowing.

Table D1: External Debt Projections

	2016/17 Actual £m	2017/18 Expected £m	2018/19 Forecast £m	2019/20 Forecast £m	2020/21 Forecast £m
External Debt at 1 April	191.3	190.9	217.4	217.2	217.0
Change in External Debt	(0.4)	26.5	(0.2)	(0.2)	(4.0)
Other Long-Term Liabilities	243.8	236.2	228.3	220.7	211.9
Gross Debt at 31 March	**434.7**	**453.6**	**445.5**	**437.7**	**424.9**
Capital Financing Requirement at 31 March*	**486.4**	**487.1**	**496.4**	**490.2**	**481.0**

Borrowing – over / (under)	**(51.7)**	**(33.5)**	**(50.9)**	**(52.5)**	**(56.1)**

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

10.11 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, 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, but ensures that borrowing is not undertaken for revenue or speculative purposes.

10.12 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.

Treasury Indicators: Limits to Borrowing Activity

10.13 There are two parameters of external debt, the 'operational boundary' and 'authorised limit for external debt', which the Council reports on as part of its Treasury indicators. Both are described in further detail in the following paragraphs.

The Operational Boundary for External Debt

10.14 This is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. The Council's operational boundary is set out in Table D2.

Table D2: Operational Boundary

	2017/18 Expected £m	2018/19 Forecast £m	2019/20 Forecast £m	2020/21 Forecast £m
Maximum External Debt at 31 March	217.4	217.2	217.0	213.0
Other Long-Term Liabilities	236.2	228.3	220.7	211.9
Operational Boundary for Year	**453.6**	**445.5**	**437.7**	**424.9**

The Authorised Limit for External Debt

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

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

10.17 Council is asked to approve the following authorised limits as set out in Table D3.

Table D3: Authorised Limits for External Debt

	2017/18 Expected £m	2018/19 Forecast £m	2019/20 Forecast £m	2020/21 Forecast £m
Operational Boundary for Year	**453.6**	**445.5**	**437.7**	**424.9**
Provision for Non Receipt of Expected Income	56.0	56.0	56.0	56.0
Authorised Limit for Year	**509.6**	**501.5**	**493.7**	**480.9**

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

Table D4: HRA Debt Limit

	2017/18 Expected £m	2018/19 Forecast £m	2019/20 Forecast £m	2020/21 Forecast £m
HRA Debt "Cap" (Statutory)	127.3	127.3	127.3	127.3
HRA Debt (CFR) at 31 March	(63.7)	(63.7)	(63.7)	(63.7)
HRA Borrowing "Headroom"	63.6	63.6	63.6	63.6

Minimum Revenue Provision (MRP) Policy

10.19 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.

10.20 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.

10.21 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).

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

10.23 In 2017/18 the Council took out a new £10m loan with the PWLB and advanced it to its Arm's Length Management Organisation (ALMO), Lewisham Homes, to finance their acquisition programme to address temporary accommodation pressures. The loan agreement allows for a maximum of £20m to be drawn down by Lewisham Homes, the additional £10m to be borrowed from the PWLB as required.

10.24 The Authority's Capital Financing Requirement (CFR) has increased by the amount of loan advanced. Under the terms of the contractual loan agreements these funds have been advanced on an interest only basis with the principal to be returned in full at the term of the loan and interest paid throughout the life of the loan in line with the terms on which the Council has borrowed the funds. Once funds are returned to the Authority they will be 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.

10.25 The risk is that at some point during the term of the loan the collateral held as security is not sufficient to meet the obligations recorded by the Council. Officers will monitor the ongoing acquisition programme to ensure the security held against the loan meets the MRP exemption criteria over the life of the loan. The outstanding loan/CFR position will 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.

Borrowing Strategy (Including Treasury Indicators)

10.26 The Council's external debt as at 31 March 2018, gross borrowing plus long term liabilities, is expected to be £453.6m. The Council's borrowing strategy is consistent with last year's strategy. The Council is currently maintaining an under-borrowed position in that the CFR is not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as an alternative funding measure. In the current economic climate, this strategy is considered prudent while investment returns are low and counterparty risk remains an issue to be considered.

10.27 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 long and short term 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.

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

Policy on Borrowing in Advance of Need

10.29 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

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

10.31 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.

10.32 Council is asked to approve the following Treasury indicators and limits:

Table D5: Treasury Indicators and Limits

Limits on Interest rate exposures	2018/19	2019/20	2020/21
	Upper	**Upper**	**Upper**
Limits on fixed interest rates:			
• **Debt only**	100%	100%	100%
• **Investments only:**			
When total portfolio >£400m	85%	85%	85%
When total portfolio <£400m	80%	80%	80%
Limits on variable interest rates			
• **Debt only**	15%	15%	15%
• **Investments only**	75%	75%	75%
Limits on Maturity structure of fixed interest rate borrowing 2018/19			
		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%
Limits on Maturity structure of variable interest rate borrowing 2018/19		
	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) loans defines the maturity date as being the next call date.

Long Term Investments Indicator

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

10.34 Council is asked to approve the following indicator and limit.

Table D6: Treasury Indicators and Limits

Maximum Principal Sums Invested > 365 days			
£m	**2018/19**	**2019/20**	**2020/21**
Principal sums invested > 365 days	50.0	50.0	50.0

Debt Rescheduling

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

10.36 In 2017/18 the Council undertook a debt restructuring exercise against one of its LOBO loans (Lender Option Borrower Option) which, after seeking the relevant advice and approvals, saw the drafting of a detailed restructuring solution which will deliver almost £24m of revenue savings to the Council over the remaining life of the loan, representing a present value benefit of approximately £5.4m as well as eliminating significant additional counterparty risk over the life of the loans.

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

10.38 The Council has £131m of LOBO loans of which £10m will mature and £30m will be in their call period in 2018/19. In the event that the lender exercises the option to change the rate or terms of the loans within their call period the Council will consider the terms being provided and also the option of repayment of the loan without penalty.

10.39 The Council continuously reviews its debt position to optimise its cash flow. Any consideration of debt rescheduling will be reported to Mayor & Cabinet and subsequently to Council at the earliest meeting possible.

Annual Investment Strategy

Investment Policy

10.40 The Council's investment policy has regard to the DCLG'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.

10.41 In accordance with the above guidance from the DCLG 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.

10.42 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings, as well as information on outlooks and watches. This is fully integrated into the credit methodology provided by the advisors in producing its colour codings which show the varying degrees of suggested institution creditworthiness. This has been set out in more detail at Appendix Z3.

10.43 Other information sources used will 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.

10.44 Investments will be made with reference to the core balances and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). In order to maintain sufficient liquidity, the Council will seek to utilise its notice accounts, 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 months to generate maximum return.

10.45 Investment returns are likely to remain low during 2018/19 but will be on a gently rising trend over the next few years. In light of these predictions for low returns the Council continues to assess, with support from its advisors, 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; any investments entered into will be on the advice of the Council's advisors and will continue to meet the objectives of security, liquidity and return.

10.46 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 2018/19 are presented to Council for approval in this same appendix.

Credit Worthiness Policy

10.47 The Council's Treasury team applies the creditworthiness service provided by its Treasury Management advisors Link 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.

10.48 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, 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

10.49 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.

Money Market Fund Reform

10.50 New Money Market Fund (MMF) regulations come into force on 21 July 2018 for existing funds, which give investors the option of investing in two types of funds, either Short-term MMF or Standard MMF. In addition, three structural options will be available:

Public Debt Constant Net Asset Value (CNAV), Low Volatility NAV (LVNAV) and Variable NAV (VNAV).

10.51 These regulatory changes introduce enhanced safety, higher liquidity requirements, greater and more formalised transparency to investors and regulators, and a requirement for more formalised stress testing of the funds by managers. In practice, investors should notice few differences to current investment procedures.

10.52 The Council currently invests in short-term MMF only, and Government and Prime CNAV fund structures. Under the new regulations Government CNAV funds will be classified as Public Debt CNAV funds, and Prime CNAV funds will be classified as Low Volatility NAV (LNAV) funds.

10.53 The credit worthiness policy and credit criteria outlined in Appendix Z3 reflect the updated MMF classifications and limits. Updated fund prospectuses and agreements are likely to be issued by managers further into 2018 ahead of the implementation deadline in 2019; Council officers will consider any changes to fund structures and make changes to the Strategy if and as appropriate.

Prospects for Investment Returns

10.54 The Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

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

- 2017/18 0.40%
- 2018/19 0.60%
- 2019/20 0.90%
- 2020/21 1.25%
- 2021/22 1.50%
- 2022/23 1.75%
- 2023/24 2.00%
- Later years 2.75%

10.56 The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

10.57 A more extensive table of interest rate forecasts for 2018/19, including Public Works Loan Board (PWLB) borrowing rate forecasts is set out in Appendix Z1.

Summary

10.58 This section, in accordance with statutory requirements, sets out the Council's Treasury Management Strategy for 2018/19. The approach remains broadly the same as last year.

10.59 At the end of the financial year, 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 undertaken via Housing Panel meetings. This provided tenant representatives of Lewisham Homes with an opportunity on 14th December 2017 at the joint Housing Panel meeting to consider the positions and to feedback any views to Mayor & Cabinet. Tenant representatives of Brockley convened their Brockley Residents' Board on 12th December 2017 to hear the proposals and fed back.

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

Business Ratepayers

11.4 Representatives of business ratepayers were consulted online on Council's outline budget between 16 January and 5 February 2018. There were no responses to the consultation.

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 2018/19.

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 2018/19 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 5 February 2018 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.

Treasury Strategy

13.18 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.

13.19 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.

13.20 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

13.21 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.

13.22 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).

13.23 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

13.24 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

13.25 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

13.26 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

13.27 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

13.28 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 6 December 2017. 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. 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.

16.8. 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.

16.9. 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 2018/19 budget. Updates were made to the version presented to Mayor and Cabinet on the 7 February, at Mayor & Cabinet on 14 February 2018 and these updates have been incorporated into this report and its appendices.

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 2018/19	6 December 2017	5th Floor Laurence House	David Austin
Setting the Council Tax Base & Discounts for Second Homes and Empty Properties	17 January 2018 (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 2017/18 to 2021/22 Capital Programme – Major Projects
W2 Proposed Capital Programme – Original to latest Budget

<u>Housing Revenue Account</u>

X1 Proposed Housing Revenue Account Savings 2018/19
X2 Leasehold and Tenants charges consultation 2018/19
X3 Leasehold and Tenants charges and Lewisham Homes Budget Strategy 2018/19
X4 Other associated housing charges for 2018/19
X5 Tenants' rent and service charge consultation 2018/19

<u>General Fund</u>

Y1 Summary of previously agreed budget savings for 2018/19
Y2 Summary of Proposed Revenue Budget savings 2018/19
Y3 Ready Reckoner for Council Tax 2018/19
Y4 Chief Financial Officer's Section 25 Statement
Y5 Council Tax and Statutory Calculations

<u>Treasury Management</u>

Z1 Interest Rate Forecasts 2017 – 2020
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