COUNCIL			
REPORT TITLE	2019/20 Budget Report		
KEY DECISION	Yes	**Item No.**	
WARD	All		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	**Date**	27 February 2019

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 2019/20. These include the following:

- The proposed Capital Programme (General Fund and Housing Revenue Account) budget for 2019/20 to 2021/22 of £344.7m, of which £142.2m is for 2019/20;

- The proposed rent decrease of 1.0% (an average of £0.96 per week) in respect of dwelling rents, 1.0% (average £0.36 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 £169.6m, including the capital and new build programme, for 2019/20;

- The provisional 2019/20 Dedicated Schools Grant allocation is £290.880m. The Department for Education has also confirmed that the Pupil Premium funding rates will remain the same as present, the final allocation will be advised following the 2019 January pupil census. For information, the total Pupil Premium allocation in 2018/19 is £16.4m. Potentially the Pupil Premium Figure could be lower for 2019/20 being a combination of overall reduction in pupil numbers and those eligible;

- In respect of the General Fund, the assumed net revenue expenditure budget of £243.012m. This is made up of provisional Settlement Funding from government of £121.175m (revenue support grant and business rates), forecast Council Tax receipts including an increase in Council Tax of 4.99%, a surplus from growth in the Council Tax base and on collection of Council Tax in previous years from the Collection Fund, and additional income from Business Rates including a share of the growth from the London Business Rates Pool;

- The changes to the prior year General Fund position to meet the 2019/20 net revenue budget of £243.012m are proposed on the basis of the following assumptions:
  - £7.963m of revenue budget cuts have been agreed for 2019/20;
  - £1.015m of revenue budget cuts are resubmitted in this report to be endorsed;
  - £0.292m of revenue budget cuts for 2019/20 are still to be re-presented to Mayor and Cabinet and will be covered from once off resources until this is done;

- £6.500m of corporate budget for risks and pressures in 2019/20, of which it is being recommended that the full £6.500m of specific identified budget pressures be funded from the start of the year;
- £5.0m use of the New Homes Bonus reserve for revenue purposes for one year with the position to be reviewed for 2020/21;
- Once-off reserves are used to fund the current budget cuts shortfall of £2.461m for 2019/20 to balance the budget, pending further proposals to make this up; and
- An assumed 4.99% increase in Band D Council Tax for Lewisham's services for 2019/20; including the 2.99% increase in the core Council Tax as announced in the Local Government Finance Settlement and 2% 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 2020/21, cuts required, and the continued work by officers to meet identified potential budget shortfalls in future years. These are estimated at circa £29m over the following two years, 2020/21 and 2021/22.

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 2018/19 and to set the Budget for 2019/20. This report allows for the Council Tax to be agreed and housing rents to be set for 2019/20. It sets the Capital Programme for the next three years and the Council's Treasury Strategy for 2019/20.

2.2 The report also provides summary information on the revenue budget cut proposals that were presented at Mayor & Cabinet on 21 November 2018 for implementation in 2019/20. The approval and successful delivery of these cuts is required in order to help balance the budget for 2019/20 and prepare to address the budget requirement for 2020/21.

3. RECOMMENDATIONS

3.1 That Council approves the recommendations shown below in respect of the 2019/20 Budget. That, having considered the views of those consulted on the budget, and subject to consideration of the outcome of consultation with business ratepayers and subject to proper process, as required,

Council is asked to:

Capital Programme

3.2 note the 2018/19 Quarter 3 Capital Programme monitoring position and the Capital Programme potential future schemes and resources as set out in section 5 of this report;

3.3 approve the 2019/20 to 2021/22 Capital Programme of £344.7m, as set out in section 5 of this report and attached at Appendices W1 and W2;

Housing Revenue Account

3.4 note the consultation report on service charges to tenants' and leaseholders in the Brockley area, presented to area panel members on 27 November 2018, as attached at Appendix X2;

3.5 note the consultation report on service charges to tenants' and leaseholders and the Lewisham Homes budget strategy presented to area panel members on 13 December 2018 as attached at Appendix X3;

3.6 set a decrease in dwelling rents of 1.0% (an average of £0.96 per week) – as per the requirements from government as presented in section 6 of this report;

3.7 set a decrease in the hostels accommodation charge by 1.0% (or £0.36 per week), in accordance with Government requirements;

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

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

- caretaking 4.30% (£0.22)
- grounds 4.30% (£0.09)
- communal lighting 4.30% (£0.07)
- bulk waste collection 4.30% (£0.06)
- window cleaning 4.30% (£0.01)
- tenants' levy 15.0% (£0.02)

3.10 service charges to Lewisham Homes managed dwellings:

- caretaking 3.27% (£0.19)
- grounds 3.63% (£0.07)
- window cleaning 11.11% (£0.01)
- communal lighting 0.88% (£0.01)
- block pest control 1.84% (£0.03)
- waste collection 8.33% (£0.04)
- heating & hot water 1.31% (£0.13)
- tenants' levy 15.38% (£0.02)
- bulk waste disposal 3.70% (£0.03)
- sheltered housing 1.00% (£0.24)

3.11 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

3.12 endorse the Mayor's approval of an increase in garage rents by 25% (£2.37 per week) for Brockley residents and 25% (£3.06 per week) for Lewisham Homes residents;

3.13 note that the budgeted expenditure for the Housing Revenue Account (HRA) for 2019/20 is £169.6m, split £99.9m revenue and £69.7m capital, which includes the decent homes and new build programmes;

3.14 agree the HRA budget strategy cut proposals in order to achieve a balanced budget in 2019/20, as attached at Appendix X1;

Dedicated Schools Grant and Pupil Premium

3.15 agree, subject to final confirmation of the allocation, that the provisional Dedicated Schools Grant allocation of £290.880m be the Schools' Budget for 2019/20;

3.16 note that the funding in respect of each of the blocks continues to be based on the National Funding Formula. A "soft formula" remains in place for the Schools Block, however Lewisham Council has agreed to mirror the principles of the National Funding Formula to distribute the Schools Budget Share;

3.17 agree that Minimum Funding Guarantee for the schools block be set at a plus 0.20% for 2019/20 as supported by Schools Forum;

3.18 note the continuing pressures facing the High Needs Block and endorse and ask Council to endorse the transfer of £1m from the Schools Block to the High Needs Block as agreed with Schools Forum;

3.19 note an overall increase in the High Needs Block of £2m of which £0.7m relates to the Secretary of States recent statement providing £300m to Local Authorities to support pressure in the High Needs Block, with the remaining increase arising from factors determining the High Needs Block methodology, and adding £1m on top of this funding;

3.20 recognise that despite the increase in High Needs Funding, there continues to remain upward pressure on costs, arising from a combination of increase in pupils with specialist need, more complex need, and associated costs;

3.21 note that the Early Years Block position is provisional pending January 2019 and 2020 pupil counts; and to further note that the supplementary funding for Nursery Schools (determined within the Early Years Block) will continue for 2019/20 and the provisional allocation suggests a minor increase of £7k;

3.22 note a small increase of £15k to the Central Services to Schools Block Component of the Dedicated Schools Grant;

3.23 note the Pupil Premium Funding rates for 2019/20 will remain at current levels thereby resulting in a real term reduction in spending. To furthermore note that the funding levels have not increased since 2017/18;

3.24 note that the 2019/20 pupil premium allocation will be confirmed pending the January 2019 census; and to note for information that 2018/19 pupil premium was £16.4m. The 2019/20 figure could potentially be lower as a result of reduction in overall pupil numbers coupled with overall reduction in Free School Meal Eligibility numbers;

3.25 note the latest financial position in schools and the likely future cost pressures on schools;

General Fund Revenue Budget

3.26 note the projected overall variance against the agreed 2018/19 revenue budget of £241.281m as set out in section 8 of this report and that any year-end overspend will have to be met from reserves;

3.27 endorse the budget cut proposals of £7.963m as per the Mayor and Cabinet meeting of the 21 November 2018, as set out in section 8 of the report and summarised in Appendix Y1;

3.28 in relation to budget cut proposals – Commercial Income (RES16) £140k, Main Grants (COM12) £600k, Local Assemblies Funding (COM14) £225k, and Small Grants (COM17) £50k - endorse the proposed budget cuts totalling £1.015m in 2019/20, as set out in section 8 and summarised in Appendix Y2 of this report;

3.29 note that budget cut proposals Park Events Income (CUS03) and Removal of Public Toilets (CUS08) totalling £0.292m in 2019/20 have yet to be re-presented to Mayor and Cabinet for approval but are assumed as part of the budget calculation for 2019/20, with any gap covered from once-off resources until formerly concluded;

3.30 agree the transfer of £5.0m in 2019/20 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 2020/21;

3.31 agree the use of £2.461m reserves to meet the budget gap in 2019/20;

3.32 agree the allocation of £6.500m in 2019/20 be set aside for corporate risks and pressures;

3.33 agree the allocation of the full £6.500m set aside for corporate risks and pressures in 2019/20 to fund quantified budget pressures;

3.34 approve a General Fund Budget Requirement of £243.012m for 2019/20;

3.35 agree to a 4.99% increase in Lewisham’s Council Tax element. This will result in a Band D equivalent Council Tax level of £1,263.94 for Lewisham’s services and £1,584.45 overall. This represents an overall increase in Council Tax for 2019/20 of 5.76% and is subject to the GLA precept for 2019/20 being increased by £26.28 (i.e. 8.9%) from £294.23 to £320.51**,** in line with the GLA’s budget proposal;

3.36 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;

3.37 ask that the Interim Chief Finance Officer issues cash limits to all Directorates once the 2019/20 Revenue Budget is agreed;

3.38 approve the Interim Chief Finance Officer's Section 25 Statement as attached at Appendix Y4;

3.39 agree the statutory calculations for 2019/20 as set out at Appendix Y5;

3.40 note that there were seven responses from Business Rate payers to the consultation on the draft Budget which took place from 14 January 2019 to 1 February 2019. These are detailed as received in Appendix Y6;

3.41 note the confirmation from the Lewisham and Greenwich Trust to manage the Health Visiting service at current levels within the available Public Health grant allocated to this service in 2019/20;

3.42 note the prospects for the revenue budget for 2020/21 and future years as set out in section 9;

3.43 note officers have been asked to continue to develop firm proposals and bring them forward for working towards a cuts round before the summer recess to help plan early and meet the future forecast budget shortfalls;

Other Grants (within the General Fund)

3.44 note the adjustments to and impact of various specific grants for 2019/20 on the General Fund as set out in section 8 of this report;

Treasury Management Strategy

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

3.46 approve the Annual Investment Strategy and Credit Worthiness Policy, set out in further detail at Appendix Z2;

3.47 approve the Capital Strategy 2019/20, set out in further detail at Appendix Z5;

3.48 approves 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 2019/20 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 Z2, the proposed countries for investment at Appendix Z3, and that it formally delegates responsibility for managing transactions with those institutions which meet the criteria to the Executive Director for Resources & Regeneration; and

3.51 approve a minimum sovereign rating of AA-.

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

4.1 The 2019/20 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 and Council Tax
Section 9	Other Grants and Future Years' Budget Strategy
Section 10	Treasury Management Strategy
Section 11	Consultation on the Budget
Section 12	Financial Implications
Section 13	Legal Implications
Section 14	Human Resources Implications
Section 15	Crime and Disorder Implications
Section 16	Equalities Implications
Section 17	Environmental Implications
Section 18	Conclusion
Section 19	Background Documents and Further Information
Section 20	Appendices

POLICY CONTEXT

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

<u>Sustainable Community Strategy</u>

- **Ambitious and achieving**: where people are inspired and supported to their potential.
- **Safer**: where people feel safe and live free from crime, antisocial behaviour, and abuse.

- **Empowered and responsible**: where people are actively involved in their local area and contribute to supportive communities.
- **Clean, green, and liveable**: where people live in high quality housing and can care for and enjoy their environment.
- **Healthy, active and enjoyable**: where people can actively participate in maintaining and improving their health and well-being.
- **Dynamic and prosperous**: where people are part of vibrant communities and town centres, well connected to London and beyond.

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

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

Values

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

- We put service to the public first.

- We respect all people and all communities.
- We invest in employees.
- We are open, honest, and fair in all we do.

4.3 The Council is currently reviewing a draft Corporate Strategy which is expected to be adopted for 2019/20. While certain priorities may be refined to focus on the commitments made in this administration's manifesto, these values and the work underway will align with the emerging seven Corporate Strategy priorities.

1. **Open Lewisham** - Lewisham is a welcoming place of safety for all where we celebrate the diversity that strengthens us.
2. **Tackling the housing crisis -** Everyone has a decent home that is secure and affordable.
3. **Giving children and young people the best start in life -** Every child has access to an outstanding and inspiring education and is given the support they need to keep them safe, well and able to achieve their full potential.
4. **Building an inclusive local economy -** Everyone can access high quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
5. **Delivering & defending: Health, Social Care and Support** - Ensuring everyone receives the health, mental health, social care and support services they need.
6. **Making Lewisham greener** - Everyone enjoys our green spaces and benefits from a healthy environment as we work to protect and improve our local environment.
7. **Building safer communities** - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

4.4 As noted in the 2018/19 budget, the Council's strong and resilient framework for prioritising action has served the organisation well in the face of austerity and on-going cuts to local government spending. This continues to mean, that even in the face of the most daunting financial challenges facing the Council and its partners, we continue to work alongside our communities to achieve more than we could by simply working alone.

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

4.6 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 cuts for 2019/20 and noting the continued outlook for austerity to at least 2021/22. This outlook is in the context that, while the government has stated an end to austerity, local government is not a protected area of public spend and funding continues to be cut. This is pending the Fair Funding Review (FFR) and Business Rates Retention (BRR) consultations leading into the Comprehensive Spending Review (CSR), due to conclude in the summer of 2019 and set the local authority funding and spending expectations for the coming years.

BACKGROUND

National

4.7 Following the financial crisis of 2008 to 2010, the government has chosen to manage the national finance pressures largely through public sector spending reductions and limited investment. The impact to date has been a falling deficit but with debt levels continuing to rise and a large productivity gap. As a result, the financial outlook for the Council, remains extremely challenging. Despite the government's announcement of the end of austerity in 2018, local government is not one of the protected areas of public spending (such as health, education, defence, or international development) and therefore significant real term reductions in local government resources are forecast to continue. There is also the short term (and possibly longer) uncertainty of the UK's leaving the EU which may distort public spending priorities in 2019.

4.8 The Office for Budget Responsibility (OBR) produced its Economic and Fiscal outlook in October 2018 to inform the Chancellors 2018 budget. Although there has been a significant improvement in the reduction of the deficit compared to predictions in March 2018, these improvements have been absorbed by the Prime Minister's promise of higher spending on the National Health Service (NHS) made in June. The remaining Budget policy measures were a range of near-term commitments that gradually diminish over the forecast, leaving the national deficit in 2022/23 little changed overall.

4.9 The OBR forecasts that the economy will grow more slowly than expected in March 2018 and has revised Gross Domestic Product (GDP) growth in 2018 down from 1.5% to 1.3%. On average, the economy is expected to grow at 1.6% in 2019, 1.4% in 2020 and 2021, before picking back up to 1.6% by 2023. Again, these forecasts may vary considerably depending on the form and timing of negotiations around the UK leaving the EU.

4.10 In December 2018, inflation, measured by the Consumer Price Index (CPI), is at 2.2%, 0.2% above the government's target. The Retail price Index (RPI) is at 2.7% significantly lower than this time last year (4.1%).

4.11 Inflation is expected to fall slightly, and remain steady at 2.1% in 2019. It is then expected to be in line with the target rate at around 2% from 2020 until 2022.

4.12 Latest ONS data shows the unemployment rate was at 4.1% between August and October 2018. This is forecast to fall again to 4% by March 201, against the backdrop of significant and prolonged wage growth pressures in the economy since the financial crash in 2008.

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

Local Government

4.14 The provisional Local Government Finance Settlement was announced on 13 December 2018, with the final settlement expected in early February 2019. Following the four year settlement offer in 2016, which 97% of councils accepted, (including Lewisham), the settlement for 2019/20 confirms the resource allocations consistent with the 2016 four year offer.

4.15 Along with the settlement announcement, the Government confirmed the continuation of the Adult Social Care (ASC) precept created 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%, and in 2018/19 by 1%. This means the Council is still able to increase its ASC precept by a total of 2% in 19/20. This 2% will generate an approximate extra £2.1m of revenue for the Council.

4.16 The Government also announced that the limit of 2.99% by which Councils can increase their core Council Tax (inclusive of levies) without a referendum, introduced in 2018/19, will continue in 2019/20. This is an extra 1% and will generate an approximately £3.3m of revenue for the Council.

4.17 More widely, the direction of travel for local government finance continues confirming Government's intention to phase out the Revenue Support Grant. Ahead of the Government's next CSR in the summer of 2019, the London Business Rates Pilot Pool will operate for another year, and will still include all London Boroughs and the Greater London Authority (GLA). The retention pilot has however changed from a 100% pool to a 75% pool. This means London Government will only retain 75% of rates collected, compared to the 50% authorities retain if not part of a pooling arrangement.

4.18 Under the 2019/20 system, the London Borough of Lewisham will retain 48% of all business rates collected within the borough, 27% is attributed to the Greater London Authority and the remaining 25%, known as the Central Share, is passed to the Government. Under the 100% London pilot scheme for 2018/19, there was no central share and rates collected were shared 63% and 37% between Lewisham and the GLA respectively. This change for 2019/20 effectively reduces the benefit of pooling by 50% for the Boroughs compared to 2018/19 with an impact for Lewisham of approx. £3m.

4.19 With 2019/20 the last year of the four year settlement, the Government is undertaking a fundamental review of the way Local Government is financed effective from 2020/21. The fair funding review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence. Sitting alongside this is a review of the Business Rates retention arrangements, which aims to reform the elements of the business rates retention system in England from 2020/21 onwards.

4.20 The Government is currently consulting on both these reviews and the Council is aiming to actively respond to both consultations, working with partners in London, by the 21 February 2019 when they close. These consultations will inform the allocation of funding available for local government as part of the Comprehensive Spending Review (CSR) expected in the summer of 2019.

4.21 For each of the past five years the Council has used reserves, New Homes Bonus and Earmarked reserves, to set a balanced budget as the ability to identify, agree, and implement further cuts to service budgets has become ever harder. Five years on, the continuing use of reserves to set the annual budget and urgency for the Council to further reduce its budget has not diminished the imperative for cuts. There still remains significant pressure on the Council's limited resources to meet the growing demands of the people it serves.

4.22 Over the past five years, the Lewisham Future Programme (LFP) has carried out fundamental reviews of services and driven organisational change in order to meet the required reductions in spending needed to set balanced budgets. The LFP was stopped in 2018/19 given the changes of administration in 2018. This was to enable a review of progress and ensure alignment to the new administration's priorities. The approach taken for cuts planned for 2019/20 and beyond recognised the need for a rigorous 'back to basics approach', focusing on the Directorates accountability for delivering services to budget.

4.23 The acting chief executive conducted internal reviews of all services against their business plans to assess performance and progress with 'invest to save' initiatives. The new chief executive then held officer STAR chamber sessions. Targets were not set by service area or work strand. Executive Directors and Heads of Service were asked to set out the full range of cuts that could potentially be made (including any investment required) for 2019/20 and 2020/21, setting out the risks and possible mitigations, up to their boundaries with statutory responsibilities. These officer proposals were then subject to Member scrutiny before being taken to Mayor and Cabinet in November 2018.

4.24 Budget cuts of £7.963m have so far been approved for 2019/20, and £8.494m for 2020/21. Further cuts of £1.307m in 2019/20 and £440k in 2020/21 are to be re-presented to Mayor and Cabinet for approval. Those for 2019/20, if approved, increase the total revenue budget cuts to be applied in 2019/20 to £9.270m. Any unapproved cuts or any delay in approval will result in an equivalent drawdown from once off resources to cover the gap in the budget this will create.

4.25 Assuming the measures proposed and the 2019/20 budget as set out in this report are agreed, it is expected that the Council will need to identify further cuts of circa £28.5m for the following two years, 2020/21 and 2021/22, after allowing for the £7.5m of cuts for 2019/20 not found so rolled forward and the £8.9m of cuts currently identified for 2020/21. This will bring the total cuts in cash terms made by the Council over twelve years 2010/11 to 2021/22 to over £200m, in addition to committing £21m of reserves to set a balanced budget in each of the six years from 2014/15 to 2019/20 to help facilitate and manage service changes and protect citizens.

4.26 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 2018/19 to 2022/23;
- Housing Revenue Account (HRA) and level of rents for 2019/20;
- Dedicated Schools Grant (DSG) for 2019/20;
- General Fund Revenue Budget for 2019/20;
- Other Grants for 2019/20;
- Council Tax level for 2019/20; and
- Treasury Management Strategy for 2019/20.

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 2019/20 to 2021/22 is proposed at £344.7m, of which £142.2m is for 2019/20.

5.2 This section of the report is structured as follows:

- Update on 2018/19 Capital Programme
- Proposed Capital Programme 2019/20 to 2021/22
- Future schemes and resources

Update on 2018/19 Capital Programme

5.3 Progress in delivering the 2018/19 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 £137.8m, and reported to Mayor & Cabinet on 21st November 2018, would be delivered this year. However, at this stage, the revised budget shows a decrease of £50.5m to the last reported budget figure, due to the re-profiling of mainly HRA budgets.

Current position on the major projects in the 2018/19 Capital Programme (i.e. over £1m in 2018/19)

2018/19 Capital Programme	Revised Budget (November 2018)	Revised Budget (February 2019)	Spend to 31 December 2019	Spent to Date (Revised Budget)
	£m	£m	£m	%
GENERAL FUND				
Schools - Pupil Places Programme	5.6	3.6	2.3	64
Schools - Other Capital Works	6.0	4.8	2.6	54
Highways & Bridges - LBL	3.1	3.1	2.6	84
Highways & Bridges - TfL	2.9	3.8	0.5	13
Highways & Bridges - Others	3.4	3.4	0.6	18
Catford town centre	4.7	1.0	0.9	90
Asset Management Programme	4.2	2.4	1.0	42
Heathside & Lethbridge Regeneration	1.1	1.1	0.1	9
Excalibur Regeneration	2.6	2.6	0.8	31
Lewisham Homes property purchase	8.0	8.0	8.0	100
Private Sector Grants and Loans	3.0	3.0	0.7	23
Fleet Replacement Programme	2.9	2.9	2.9	100
Beckenham Place Park	4.0	3.2	2.0	63
Smart Working Programme	2.1	1.9	0.8	42
Edward St. Development	2.5	0.1	0.0	0
Travellers Site Relocation	1.1	0.0	0.0	0
ICT – Tech Refresh	0.9	1.6	0.2	13
Other General Fund schemes	7.3	5.6	1.6	29

2018/19 Capital Programme	Revised Budget (November 2018)	Revised Budget (February 2019)	Spend to 31 December 2019	Spent to Date (Revised Budget)
TOTAL – GENERAL FUND	**65.4**	**52.1**	**27.6**	**53**
HOUSING REVENUE ACCOUNT				
Housing Matters Programme	28.0	5.1	2.5	49
Decent Homes Programme	43.6	29.0	14.5	50
Other HRA schemes	0.8	1.1	0.3	27
TOTAL – HOUSING REVENUE ACCOUNT	**72.4**	**35.2**	**17.3**	**49**
TOTAL – CAPITAL PROGRAMME	**137.8**	**87.3**	**44.9**	**51**

5.4 The capital programme for 2018/19 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. Further detail on major schemes is set out below.

Highways

5.5 During 2018/19, 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 completion of the Deptford High Street scheme, as part of TfL's major schemes programme, and builds on the continued regeneration of the town centre area. It also includes major works in Dartmouth Road (Forest Hill), Baring Road (Grove Park) and Sangley Road (Catford South) to provide improved pedestrian environments, support local businesses, and reduce traffic speeds.

5.6 Following the release of a new Mayor's 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. In September 2018, the new strategy was approved in draft by Mayor & Cabinet, and will focus on creating "Healthy Neighbourhoods" that reduce traffic flows, improve air quality, and create better environments for walking and cycling, as well as delivering speed reduction measures that support the Council's Borough-wide 20mph limit.

5.7 To offset the annual funding cuts from TfL, 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” - lengths of road in poor overall condition and in need of immediate further engineering assessment with a planned maintenance soon. In 2018, the council carried out resurfacing to 67 roads from the Council’s programme.

5.9 As a result of the resurfacing programme, it is now anticipated that the Council will have repaired all those roads with a Condition Index of “Red” category by early 2019. The focus will now move to works to roads classified with Condition Index of “Amber” (lengths of road where some deterioration is apparent, which should be investigated within one year to determine the optimum time for planned maintenance treatment). Without a planned early intervention within a year or two, could result into further severe defects and move the Condition Index to “Red”. Early intervention using appropriate design, based on carriageway coring information and other factors like bus routes, high volume of traffic, usage and environment will result in better value for money. There are still some 386 roads classified as Amber that require essential works and the Council’s long-term investment strategy in effect since 2013, has seen the number of annual insurance claims against the Council for carriageway defects reduced by half.

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 at least 10 roads each year.

Schools

Schools - School Places Programme

5.11 Since December 2015, the Regeneration and Place Division has been working with colleagues in the Children and Young People’s 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 development stages, two due for completion in 2019 and two 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 has been consistently delivered on budget.

Early Years Programme

5.13 Works have taken place at three nurseries within the borough since 2017, providing additional facilities to enable the delivery of 30 hours free childcare per week, in line with government policy.

Housing Regeneration

5.14 In the past year, 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 4 completed this year delivering 121 new social homes, and all of the remaining residents on the old estate have now been successfully re-housed. 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 social rents.

5.15 Across the housing delivery programme, there have been a number of achievements. As of December 2018, 429 of last administration's 500 social home programme are either complete, on-site or have received planning permission. All homes that make up this programme will have started on site in 2019. As well as the 500 new social homes, the Council has committed to delivering 1,000 additional new social homes over the next four years. A programme of sites, to fulfil the Council's share of this commitment, is expected to be prepared by spring 2019. More than 100 homes have now been purchased by Lewisham Homes to provide better and more financially viable accommodation for homeless households.

5.16 On Edward Street in Deptford, a new housing scheme that will provide 34 new homes for use as high-quality temporary accommodation for homeless families, using the next iteration of the precision manufacturing technology used to build PLACE/Ladywell received planning permission in November 2018. The development will also provide a community run nursery and commercial space on the ground floor. The build will generate rental income for the Council, as well as delivering significant savings by not having to house 34 families in expensive private temporary accommodation.

5.17 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, the Council has helped 72 households with disabled facilities grant funding to make homes safer and more suitable. The priority in the coming year will be to continue to respond to the lessons learnt from 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

<u>Catford Town Centre</u>

5.18 A masterplanner, Studio Egret West, has been appointed to develop a spatial plan or masterplan for Catford. The masterplan work which started in July this year will run for approximately one year. At the end the process, the Council is expected to have a comprehensive masterplan that delivers on the Council's strategic objectives for a viable Town centre and as well as on local aspirations of its residents. TfL continues to be a key partner in progressing the road realignment which forms part of the masterplan process. Work has also continued on the engagement, meanwhile use and place making initiatives started in 2016. These activities continue to reach out to thousands of people and have led to growing interest in the overall regeneration of the Town Centre. The challenge for 2019 is to complete the masterplan process and begin the process of developing a strategy for delivery the strategic outcomes it contains.

Beckenham Place Park

5.19 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 buildings commenced in April 2018. Work to the west side of the park will be complete by summer 2019. Works to the east side of the park led by the Environment Agency to create a flood storage scheme for the River Ravensbourne have been put on indefinite hold following a significant increase in the cost of delivering their proposals. Council officers are investigating alternative ways of bringing investment to the east side of the park.

Smart Working Programme

5.20 The Smarter Working programme seeks to consolidate offices and release sites for future redevelopment in Catford town centre, whilst refurbishing the Council's main office site, Laurence House, to ensure it is fit for purpose until new council offices can be built. The ground floor has been refurbished to provide a modern, welcoming and better functioning reception for the Council. It opened to staff and the public in October 2018. Work has commenced on refurbishing floors 1 to 5, improving and extending toilet provision, delivering new shared workspaces and meeting rooms, improving the heating and ventilation system, new energy efficient LED lighting, decoration and a layout and furniture which supports and encourages agile working. The programme of work will continue until the autumn of 2019.

Asset Management Programme

5.21 Over the past few years, the Asset Management Programme (AMP) has provided resources to fund much needed capital works across the operational corporate estate. These have been reactive works to building fabric such as roof replacement and mechanical works including boiler replacements and lift repairs across the estate of approximately 80 sites.

5.22 More recently, the programme has funded essential works to the Civic Suite, Laurence House reception as well as impending emergency repair works to the Broadway Theatre and other key sites and buildings.

5.23 Officers are in the process of commissioning a condition survey of the entire operational corporate estate of approximately 105 buildings across the circa 80 sites. The survey will help inform a future corporate capital works programme for the estate.

Proposed Capital Programme 2019/20 to 2021/22

5.24 The Council's proposed Capital Programme for 2019/20 to 2021/22 is currently £344.7m, as set out in Table A1:

Table A1: Proposed Capital Programme for 2019/20 to 2021/22

	18/19	19/20	20/21	21/22	3 Year Total
	£m	**£m**	**£m**	**£m**	**£m**
General Fund					
Smarter Working Programme	1.9	0.9	0.0	0.0	**0.9**

Schools – Pupil Places and other Capital Works	8.5	12.4	7.3	0.7	**20.4**
Highways, Footways and Bridges	10.3	3.5	3.5	3.5	**10.5**
Regeneration Schemes	5.8	13.5	0.0	1.1	**14.6**
Lewisham Homes Property Acquisition	8.0	6.0	0.0	0.0	**6.0**
Town Centres and High Street Improvements	0.5	2.1	0.8	0.0	**2.9**
Asset Management Programme	2.5	2.5	2.5	2.5	**7.5**
Fleet Replacement Programme	2.9	0.0	0.0	0.0	**0.0**
Beckenham Place Park	3.2	2.5	0.6	0.4	**3.5**
Other Schemes	8.5	3.6	1.5	1.3	**6.4**
	52.1	**47.0**	**16.2**	**9.5**	**72.7**
Housing Revenue Account	**35.2**	**95.2**	**113.4**	**63.4**	**272.0**
Total Programme	**87.3**	**142.2**	**129.6**	**72.9**	**344.7**

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

Table A2: Proposed Capital Programme Resources for 2019/20 to 2021/22

	18/19	19/20	20/21	21/22	3 Year Total
	£m	**£m**	**£m**	**£m**	**£m**
General Fund					
Prudential Borrowing	8.7	16.4	0.8	1.1	**18.3**
Grants and Contributions	20.1	20.2	8.0	0.7	**28.9**
Capital Receipts	6.4	1.6	0.0	0.0	**1.6**
Reserves / Revenue	16.9	8.8	7.4	7.7	**23.9**
	52.1	**47.0**	**16.2**	**9.5**	**72.7**
Housing Revenue Account					
Prudential Borrowing	0.0	0.0	18.9	25.0	**43.9**
Grants	0.0	18.0	10.9	7.1	**36.0**
Specific Capital Receipts	0.0	7.5	6.5	5.0	**19.0**
Reserves / Revenue	35.2	69.7	77.1	26.3	**173.1**
	35.2	**95.2**	**113.4**	**63.4**	**272.0**
Total Resources	**87.3**	**142.2**	**129.6**	**72.9**	**344.7**

5.26 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.

5.27 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.

5.28 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.

5.29 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 2019/20.

Future schemes and resources

5.30 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.

5.31 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 Customer Services.

5.32 The General Fund Capital Programme is financed by a number of sources, including capital receipts, central government grants, the revenue budget, S106 and Community Infrastructure Levy (CIL). As per table A2, General Fund resources totalling £72.7m have been committed towards financing the budgeted spend over the next three financial years.

5.33 In addition to the £72.7m of committed resource, there is an estimated £31.3m of uncommitted resource that is expected to become available over the next three years, mainly arising from forecast capital receipts and the Council's Community Infrastructure Levy. Therefore, the maximum possible capital programme budget over the next three years, aside from new Prudential Borrowing, would be a total of £104m.

5.34 During 2019/20, 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 new schemes onto the programme. These additions to the programme will be put forward for approval by members as part of the Capital Programme update reports.

Summary

5.35 The proposed 2019/20 to 2021/22 Capital Programme totals £344.7m (General Fund £72.7m and HRA £272.0m) 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 2019/20 is £169.6m, including the capital and new build programme.

6.2 It is structured as follows:

- Update on the HRA financial position for 2018/19;
- Update on the HRA Business Plan; and
- Future Years' Forecast.

Update on the HRA financial position for 2018/19

6.3 The HRA is budgeted to spend over £100m in 2018/19. The latest forecast on the HRA for 2018/19, 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 efficiencies 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 £12.9m in 2019/20 (£1.9m 2016/17, £2.6 2017/18, £7.6m 2018/19). 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, cuts, 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 the new build programme currently being implemented by the authority. 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. The HRA debt cap which was imposed when the self-financing regime was implemented (£127.3m) has now been abolished. The HRA will now be subject to prudential borrowing rules (as per General Fund and as described more fully in the Treasury Strategy at section 10 below).

Table B1: Update on the HRA Business Plan

HRA Income & Expenditure Estimates - 5 year Forecast	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Income					
Rental income	(68.1)	(69.4)	(73.8)	(76.1)	(79.1)
Tenants service charge income	(6.2)	(6.3)	(6.4)	(6.5)	(6.6)
Leasehold service charge income	(4.6)	(4.7)	(4.8)	(4.9)	(5.1)
Hostel charges and grant income	(1.3)	(1.4)	(1.4)	(1.4)	(1.4)
Major Works recoveries	(7.7)	(4.7)	(4.1)	(5.6)	(5.6)
Other income	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Interest earned on balances	(1.0)	(0.6)	(0.4)	(0.4)	(0.4)
Total Income	**(90.6)**	**(88.8)**	**(92.6)**	**(96.6)**	**(99.9)**
Expenditure					
Management costs	36.2	36.6	37.3	37.8	38.5
Repairs & maintenance	15.9	16.0	16.4	16.6	16.9
PFI Costs	6.6	7.1	7.7	8.1	8.4
Interest & other finance costs	2.9	3.5	4.5	5.9	7.2
Depreciation	23.3	23.6	24.0	24.4	24.8
Revenue Contribution to Capital	15.0	54.1	2.3	3.4	3.8
Total Expenditure	**99.9**	**140.9**	**92.2**	**96.2**	**99.6**
Surplus/(deficit)	**(9.3)**	**(52.1)**	**0.4**	**0.4**	**0.3**
Opening HRA reserves	69.0	59.7	7.6	8.0	8.4
Contribution to/(Drawdown) from reserves	(9.3)	(52.1)	0.4	0.4	0.3
Closing HRA Reserves	**59.7**	**7.6**	**8.0**	**8.4**	**8.7**
Forecast Capital Programme & Funding					
Capital programme (including decent Homes)	57.9	36.0	31.4	43.1	42.3
New Build construction & on-going costs (Net)	11.8	60.0	20.0	16.6	3.2
Total Capital Expenditure	**69.7**	**96.0**	**51.4**	**59.7**	**45.5**
Capital Programme Funded By:					
MRR Opening Balance	(30.8)	0.6	0.0	0.0	0.0
Revenue Contribution to Capital	(15.0)	(54.1)	(2.3)	(3.4)	(3.8)
Depreciation	(23.3)	(23.6)	(24.0)	(24.4)	(24.8)
Capital Receipts	0.0	0.0	0.0)	0.0	0.0
Borrowing	0.0	(18.9)	(25.1)	(31.9)	(16.9)
Total Capital Funding	**(69.1)**	**(96.0)**	**(51.4)**	**(59.7)**	**(45.5)**
Capital shortfall	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**
HRA Actual Debt Level (Forecast)	57.5	76.4	101.5	133.4	150.3
HRA Self-financing Settlement Debt Level (was £127.3m)	n/a	n/a	n/a	n/a	n/a

6.10 As can be seen from the above table, the expected total expenditure, before financing, for the HRA in 2019/20 is £169.6m, compromising £99.9m operational costs and £69.7m 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, a key priority for the current administration, delivery of new social homes in the borough.

6.13 There is an ongoing process to identify opportunities for efficiencies to deliver services for improved value for money and this is described in Appendix X1. Although no direct cuts have been identified so far for 2019/20, any cuts 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 cuts and 'target' management and maintenance costs per unit. For example, there is already an assumed reduction in the Lewisham Homes fee in 2019/20 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.

<u>Rental Income and allowances</u>

6.15 The average weekly rent is currently £96.39 in 2018/19.

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 2019/20 will equate to an average decrease of £0.96 over a 52 week period. This will reduce the full year average dwelling rent for the London Borough of Lewisham from £96.39 to £95.43 per week (pw). The proposed decrease will result in a loss of £0.700m of rental income to the HRA when compared to 2018/19 income levels.

6.18 Government has confirmed rents will return to the previous method of rent increase calculations once the rental contraction requirements have been completed. This is based on CPI + 1%. For the purpose of business and financial planning, it is assumed that that rental charges will be increased in line with 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 X2).

6.21 No comments were received from Lewisham Homes' residents concerning the proposals for rents. Few comments were received on the increase to service charges.

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 2019/20 will be presented to the Housing Select Committee on 31 January 2019 and feedback, if any, will be reported in the Budget Update report.

6.24 Having regard to the outcomes of the consultations held in November/December 2018 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 2019/20 is likely to be in the region of £95.43pw, a reduction of approximately £0.96pw from 2018/19 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 2019/20 are set out in detail in Appendix X4.

Summary

6.26 The gross budgeted expenditure for the HRA in 2019/20 is £169.6m, £99.9m revenue and £67.6m capital. Council is asked to approve a rent decrease having considered Government requirements and tenant's feedback following consultation held in November/December 2018. The current average weekly rent is £96.39 in 2018/19. This will reduce to £95.43pw in 2019/20.

7. DEDICATED SCHOOLS GRANT AND PUPIL PREMIUM

Update on 2018/19 Dedicated Schools Grant

7.1 The level of the Dedicated Schools' Grant (DSG) for 2018/19 is £290.785m. The Early Years Element will be revised later to take account of the pupil count which for early years children is undertaken in January 2019. The outcome will not be known until June 2019 and for this reason carries a risk.

7.2 Overall, the 2018/19 DSG outturn is currently expected to be within budget.

7.3 At the end of the 2017/18 financial year, there were 14 schools that had deficits. There is a risk that another 7 schools could go into deficit by the end of 2018/19. Changes in the legislation reflecting deficits in schools now means that Local Authorities will be required to provide a more hands on role to support schools finances. Whilst there continues to remain general expectation that schools are responsible for managing their budgets within their available resources as supported by Local Management in Schools, the reality is that the Local Authority is ultimately responsible for each school including outcomes and standards achieved.

Dedicated Schools' Grant and Pupil Premium for 2019/20

7.4 This section of the report considers the Dedicated Schools' Grant (DSG) and Pupil Premium Grant for 2019/20.

7.5 The Dedicated Schools Grant is the main source of funding for Schools and Early Year Providers. The grant is constituted of four parts being Schools Block Central Services to Schools Block, High Needs Block and the Early Years Block. There is a national funding formula which determines each of the blocks and collectively determines the overall DSG. The DSG for 2019/20 is provisionally advised as £290.88m. The 2018/19 DSG for comparison was £290.785m so overall the funding is broadly flat lined, although there is movement within the funding blocks. Table C1 below shows the detailed funding for each of the sub blocks:

Table C1: Detailed Funding

Year	Schools Block £m	Central Schools Services block allocation £m	High Needs Block Allocation £m	2019-20 Early Years Block £m	2019-20 total DSG allocation £m
2018/19	210.998	5.405	50.183	24.200	290.785
2019/20	209.649	5.420	51.606	24.205	290.880
Movement	-1.349	0.015	1.423	0.006	0.095

7.6 With regards to Schools Block the funding receivable for Primary age pupils has seen a small increase of £17.63 (2019/20 funding is £5,041.65) and Secondary age pupils has seen an increase of £45.99 (2019/20 funding is £6,722.65). This has been offset by an overall reduction in pupil numbers of approximately 400.

7.7 With regards to the High Needs Block, the Secretary of State for Education announced additional funding to support pressures in special needs which are funded by the High Needs Block. There was a national uplift of £300m, Lewisham has received £700k of this funding which has been applied as baseline increase to 2018/19.

7.8 Separately, the movement shown above of £1.4m is made up of £1.0m for High Needs Formula Funding and a £356k transfer from the post 16 grant to the DSG (intended to be a net neutral). We are expecting pressures on the High Needs Block for the foreseeable future which is not unique to Lewisham. It should be noted that Lewisham has remained within the funding available for many years whilst many London Boroughs have continuously overspent.

7.9 The Department for Education (DfE) has confirmed that the funding for Pupil premium will be at the 2018/19 unit values. In real terms, this is a reduction in funding. Pupil premium is determined based on a factor known as "free schools meals over 6". Essentially this means eligibility if a pupil has at any time over 6 consecutive census been eligible for free schools meals. The general trend in eligibility and consequently funding has seen a reduction in London. Lewisham saw a reduction between 2017/18 and 2018/19 of £600k, i.e. £3.5%. This trend is anticipated to continue partially due to reduction in overall numbers but also eligibility levels. Determination of this grant for 2019/20 is based on January 2019 so at the time of writing is not known. For information, the 2018/19 figure was £16.4m.

Dedicated Schools' Grant for 2019/20

7.10 The DSG for 2019/20 has provisionally been set by the DfE at £290.880m. The Early Years Block is provisional. The DSG is now approximately £50m (or 21%) larger than the Council's Net General Fund budget.

7.11 The DfE has converted the funding model to an amount per pupil basis (excluding premises factors). For Lewisham this results in Primary and Secondary age pupils receiving, £5,041.65 (increase of £17.63) and £6,722.65 (increase of £45.99) respectively. For Primary Schools this is the 12th highest (Tower Hamlets is highest at £5,922.81), and for Secondary Schools this is the 11th highest (Hackney is highest at £7,872.97) from a total of 149 local authorities in the country. The London average is for primary £4,739.82 and for secondary £6,247.26. The area cost adjustment for Lewisham remains at 21%.

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.

7.13 Schools continue to face pressures in their budgets, for example, salary increments, non-teaching pay increase, contract price increase including utilities, and Apprenticeship Levy. The DfE has made a commitment to support funding for teachers pay increase and pension for 2019/20 at a national level. The exact details and School by School impact will be known once the supporting grant information is known.

7.14 The total change in pupil numbers are as shown in table C2 below: Overall there is a reduction in numbers of 403 which while relatively small at present is a risk for the school concerned as funding for Schools is driven by pupil numbers and associated characteristics (e.g. Free School Meals). This reduction in numbers could potentially have implications for those schools affected.

Table C2: Pupil Numbers

	Oct-18	Oct-17	Change	
Primary	24,984	25,354	-370	-1.5%
Secondary	11,287	11,320	-33	-0.3%

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 Lewisham in agreement with Schools Forum continues to support the use of the National Funding Formula for determining the basis of the Schools budget share. The DfE has confirmed the extension of the soft formula for 2019/20 and now for 2020/21.

7.17 The DfE introduced a new formula for determining the growth fund for 2019/20. This has resulted in a reduction of approximately £300k in our funding. The 2019/20 allocation is £792k.

Minimum Funding Guarantee (MFG)

7.18 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.

7.19 The MFG must be set between a plus 0.5% to minus 1.5% per pupil. For 2019/20 in agreement with Schools Forum (17 January 2019), it has been agreed to set the MFG at plus 0.20%. This is a slight reduction on 2018/19 (which was set at 0.28%), but is necessary to support the pressure on the High Needs Block by facilitating the transfer of £1m from the Schools Block to the High Needs Block.

Pupil Premium

7.20 In 2019/20, 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. Funding for pupil premium will be known after the January 2019 pupil census. For information, the 2018/19 pupil premium figure was £16.4m.

High Needs Block Funding

7.21 Under the National Funding Formula the High Needs block is using a formula driven approach. Overall, there is an increase of £2.4m for the High Needs Block.

7.22 The factors include:

- Pupil element - 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. The Lewisham figure is therefore £4,822. 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. Lewisham currently gets funded for 749 pupils as part of this calculation £3.612m.

- Formula Driven Funding - 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.

7.23 Additional growth announced by the Secretary of State - On the 16 December 2018, the Secretary of State announced a recognition of pressures facing local authorities for Special Educational Needs (SEN). The value of this additional funding for Lewisham is £700k.

7.24 There is a new change streamlining funding from the post 16 grant to the DSG – this is £335k. This is anticipated to be a net neutral for 2019/20 but could potentially result in pressure going forward as this is a baseline adjustment.

DSG reporting changes

7.25 With effect from 2019/20, Local Authorities will be required to report the overall DSG positon on the various statutory returns. There will now be a requirement for LAs to submit a detailed recovery plan (in agreement with Schools Forum) should they be in a deficit, and where the deficit exceeds 1% of their budget. For Lewisham this is a £2.9m threshold. It should be noted that this covers overall cumulative positions.

7.26 Monitoring of this risk and any required recovery plan will be reported to the Schools Forum and to Members via the regular monitoring reports provided to both.

Potential Risks

7.27 Impact of any overspends, should they exceed £2.9m and the resultant requirement to establish a deficit recovery plan. Pressure could potentially fall on the Schools Block, General Fund or review of services within CYP.

7.28 Following the revision to the School Loans Policy, there is a risk that if a school coverts to an academy the deficit reverts to the Local Authority. The latest monitoring suggests £4m covering 14 Schools. This figure is for guidance only as circumstance in schools continue to change.

7.29 Schools continue to face pressures arising from changes in policy. Examples include teachers' pay awards, support staff pay award, pension's changes. This could have varying degree of implications for Schools.

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 2019/20, assuming a Council Tax increase of 4.99%, is £243.012m. Details of the cuts anticipated for 2019/20 are provided at Appendices Y1 and Y2.

8.2 It is structured as follows:

- Update on 2018/19 Revenue Budget;
- The Budget Model;
- Saving proposals;
- Council Tax for 2019/20; and
- Overall Budget Position for 2019/20
- Business Rate Payers Consultation on the Budget

Update on 2018/19 Revenue Budget

8.3 The Council's revenue budget for 2018/19 was agreed at Council on 21 February 2018. The general fund budget requirement was set at £241.281m.

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; 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. The Council operates a devolved system of financial accountability with clear delegations and responsibility set out in the financial and procurement regulations and schemes of delegation in the Constitution.

8.6 An initial projected overspend of £14.8m was reported at the end of May 2018, constructed in the absence of forecasting information from the introduction of a new finance system and budget monitoring tool. It was based on a combination of information from other systems, previous year outturn and budget changes. The forecast was increased to £17.4m in the July 2018 monitoring report, once the new finance system was fully operational.

8.7 In October 2018, Mayor & Cabinet agreed to commit £1.7m of 2018/19 unallocated risk & other budget pressures to Children's Social Care. In addition to this, £4.3m from reserves, in advance of a proposed commitment of £4.3m risk & pressures in the 2019/20 budget, increased the Children's Social Care base budget by £6m for 2018/19 onwards. Separate from these changes, the monitoring demonstrates that since the July position was first reported, the forecast overspend has decreased by £1m.

8.8 In spite of the continued management attention given to seek the containment of costs and, where possible, accelerating service changes to reduce costs, the significant overspending projection remains and stringent management action must continue for the remainder of this year to help bring the projected overspend down.

<u>Directorates</u>

8.9 Table C1 sets out the latest forecast budget variances on the General Fund by Directorate, after applying the sum for 'risks and other budget pressures' and reserves funding to Children & Young People, totalling £6.0m, as noted above.

Table D1: Forecast outturn for 2018/19 as at end of October 2018

Directorate	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/ (under) spend Nov 2018	% of over/ (under) spend to Net budget
	£m	£m	£m	£m	%
Children & Young People	71.3	(12.3)	59.0	9.6	16%
Community Services	172.2	(81.3)	90.9	(0.9)	-1%
Customer Services	99.4	(57.3)	42.1	1.8	4%
Resources & Regeneration	76.4	(51.2)	25.2	(0.1)	-
Directorate Totals	**419.3**	**(202.1)**	**217.2**	**10.4**	

Directorate	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/ (under) spend Nov 2018	% of over/ (under) spend to Net budget
Corporate Items	24.1	-	24.1	-	-
Net Revenue Budget	**443.4**	**(202.1)**	**241.3**	**10.4**	**4%**

Corporate Financial Provisions

8.10 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. Spend of the Corporate Financial Provisions is expected to be contained within budget by the year-end.

8.11 Consideration is now being given to employing the use of corporate measures to balance the budget at year end. It is proposed to meet the 2018/19 budget overspend from reserves.

The Budget Model

8.12 This section of the report sets out the construction of the 2019/20 base budget. This section is structured as follows:

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

8.13 The Council has made substantial reductions to its expenditure over the last ten years. Subject to the outcome of the CSR in 2019, the Council expects to continue to need to make further reductions for at least the next three to four years. This section of the report summarises a series of proposals that would enable the Council to set a balanced budget for 2019/20 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.

Council Tax

8.14 In the 2017/18 Settlement, and following its introduction at 2% in 2016/17, 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.

8.15 In 2017/18, the Council increased the precept by the maximum allowed, 3%, and then by a further 1% in 2018/19. This report proposes a further 2% increase in 2019/20, allowing the Council to obtain maximum benefit from the full 6% allowed.

8.16 The assumption used in the model for preparing the 2019/20 budget, subject to confirmation by Council, is for a total Council Tax increase (Lewisham element) of 4.99% (a 2% increase for the social care precept and a 2.99% increase in the core element under the revised referendum principle announced along with the Finance Settlement on 13 December 2018).

8.17 Should Council choose to set a different Council Tax increase, Members will need to be mindful that any increase below this recommendation will result in additional budget pressures, resulting in greater use of resources in the short term and a higher cuts 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.

8.18 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

8.19 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.

8.20 As context to the Council's inflationary planning; in October 2018, the OBR reported that the rate of Gross Domestic Product (GDP) growth in the economy was expected to be 1.9% in 2018, growing to 1.6% in 2019 before dipping thereafter and productivity rising by 0.8% in 2018 to 1.2% annually by 2023. The ONS are forecasting CPI inflation in the UK at 2.6% for 2018, falling to 2.0% for 2019 and the years thereafter. These expectations, at least for 2019 and linked to the value of the pound and trade, are likely to be volatile and may change depending on the conclusion of the negotiations with the EU for the UK to leave.

8.21 For financial planning purposes, the Council has previously assumed an average pay inflation of 1% per annum, which equates to approximately £1.1m. In April 2018, a final offer was made to and agreed by the unions of a minimum of 2% pay award for 2019/20 by the National Joint Council (NJC) for Local Government Services, with staff on very low pay being offered increases higher than 2% depending on current scale points.

8.22 The National Living Wage will rise to £8.21/hr from April 2019, whilst the London Living wage is currently £10.55 per hour. Lewisham's lowest pay band exceeds these amounts. A provision of 3% (£3.3m) has been made to cover 2019/20 pay inflation.

8.23 The Council budgets for a non-pay inflation rate budget of 2.5% per annum. This is slightly higher than the forecast CPI inflation rates for 2019 to reflect the underlying commitments in Council contracts. This equates to approximately £2.46m (net) in 2019/20.

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

New Homes Bonus

8.25 The New Homes Bonus (NHB) sits alongside the Council's planning system and is designed to create a fiscal incentive to encourage housing growth. The Ministry of Housing, Communities and Local Government (MHCLG) 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'.

8.26 In the provisional Local Government Finance Settlement statement, the Secretary of State announced that in 2019/20, the baseline level of growth will remain at 0.4%.

8.27 The provisional allocation for 2019/20 in Lewisham, including on-going payments, is £6.501m, with the years 1 to 5 allocations of £7.842m dropping out and with the allocation for Year 9 (2019/20) delivery being £0.989m.

8.28 The cumulative nature of the NHB is set out in summary in Table D2 below.

Table D2 – New Homes Bonus Allocation Profile

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Yr 1 – 6 yrs in full	0.706	0.706	0.706	-		
Yr 2 – 5 yrs in full	0.958	0.958	0.958	0		
Yr 3 – 5 yrs in full	2.150	2.150	2.150	2.150		
Yr 4 – 4 yrs	2.629	2.629	2.629	2.629		
Yr 5 – 4 yrs		1.399	1.399	1.399	1.399	
Yr 6 – 4 yrs			1.889	1.889	1.889	1.889
Yr 7 – 4 yrs				2.072	2.072	2.072
Yr 8 – 4 yrs					1.551	1.551
Yr 9 – 4 yrs						0.989
Total Allocation	6.443	7.842	9.731	10.139	6.911	6.501
Less: London LEP top slice	0	-2.218	0	0	0	0
Lewisham Total	**6.443**	**5.624**	**9.731**	**10.139**	**6.911**	**6.501**

8.29 The Council produces an Annual Monitoring Report (AMR) which assesses the level of development that has taken place in the Borough. Over the last few years, this shows a trend for falling numbers of new homes becoming available. It identifies the steps being undertaken to progress the regeneration of the borough including the development of strategic sites within the regeneration and growth areas, at Deptford, New Cross and Lewisham Town Centre and looking forward to the potential, the Catford town centre and New Bermondsey. The bringing forward of housing supply in London is a priority for the Council and the London Mayor. A significant amount of planned growth for the borough is yet to come and the AMR provides a housing trajectory that identifies the anticipated amount of residential development in the next 15 years. This is in the context of the draft London Plan, which proposes an increased annual target of 2,117 new homes for the Borough of Lewisham for the next ten 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.

8.31 Following the provisional LGFS, it maybe that 2019/20 is the last year of the New Homes Bonus scheme as currently constructed. In light of this, it is the Government's intention to explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need. Government will consult widely on any changes prior to implementation. Any changes and their impact for Lewisham will be reviewed once the funding model and allocations are confirmed in the CSR 2019.

8.32 Given the pressures on the overall budget, and consistent with previous years since 2015/16, 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 2019/20 only.

Budget Pressures to be funded

2018/19

8.33 In 2018/19, the funds set aside in the budget model to meet specific identified budget pressures and potential budget risks was £6.5m. In addition to this £6.5m, in the 2017/18 budget £2.130m was left unallocated and held corporately against identified risks. This £2.130m was added to the 2018/19 allocation to make available £8.63m in 2018/19. The total allocated was £6.915m leaving an unallocated amount of £1.715m. This was held corporately against unidentified risks.

8.34 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 has mainly been directed to adult provision.

8.35 During the year, £1.7m was allocated to Children's Social care from the unallocated amounts held, to reduce part of the pressure on Children's placements. An additional amount of £4.3m was also allocated to this service area from Reserves. In total, £6m was allocated in 2018/19 to the Children's Social Care Placement budget.

8.36 The money allocated from reserves acts as a cash injection and its effect is limited to one year only. In order to make a permanent reduction in the cost pressures of that budget, a £4.3m budget allocation is being recommended in 2019/20 as shown below.

2019/20

8.37 It is recommended that the 2019/20 allocation to meet specific identified budget pressures and potential budget risks remains at £6.5m.

8.38 The budget pressures anticipated in 2019/20 have been reviewed and it is recommended that the following identified pressures are now funded. In terms of accounting for these, it is proposed that the budgets are 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 2019/20.

8.39 Table D3 provides a summary of the corporate risk and pressures budget and those pressures and risks that are being recommended to be funded.

Table D3: Summary of 2019/20 budget pressures to be funded

Description	£'000	£'000
Risk & Pressures budget available in 2019/20		**6,500**
Previously committed Highways & Footways (year 5 of 10)	-350	
Demand pressures CYP Children's Social Care Placement Costs CYP Subject Access Request team COM Community Centres COM Youth Offending Service RES Banking contract CUS Housing Development team CUS Sustainability levy CUS Information Management team CUS Public Services	 -4,300 -300 -80 -150 -100 -250 -120 -500 -350	
Risks & Pressures recommended to be funded		**-6,500**
Risks & Pressures budget recommend to be held against possible overspends in 2019/20		**0**

Highways and Footways pressure – £0.35m

8.40 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.

8.41 Corporate funding of £0.3m for 2019/20 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.

8.42 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 2019/20, 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.

Children's Social Care Placements Budget – £4.3m

8.43 This is the injection of funding to the service base budget recognised and agreed during 2018/19 to be funded from reserves (10 October M&C financial monitoring report) pending the 2019/20 budget to put this funding into the base. This combined with the ongoing £1.7m budget added in 2018/19 has added £6m towards reducing the Children Social Care overspend.

8.44 There remains an expected £6.9m overspend for 2018/19 (after this adjustment) which is addressed separately below.

Subject Access Request team - £0.3m

8.45 During 2017/18 and 2018/19, along with many other public bodies, aiming to be more open and transparent and facing new regulations in respect of data, the Council has experienced a significant rise in the number of subject access requests, particularly in the Children's area. This caused a significant pressure and involved the Information Commissioners Office. Now the backlog has been addressed and the resources needed to maintain the ongoing service can be more easily identified, it is proposed to increase this team's budget by £0.3m. The team will work closely with the Corporate Customer Services team in terms of process and the monitoring of demand.

Community centres £0.08m

8.46 The rationalisation of community centres has taken place in recent years. While this has provided some savings on running costs, it has left Community Services with income targets that have become unachievable without the space from which to run the full range of possible activities previously available. This £80k will correct the service budget in line with the current service offer.

Youth Offending Service - £0.15m

8.47 This proposed budget increase follows recent growth in the demand for these services, noted across London, and positive feedback from an inspection in 2018 on the innovative, cost effective, preventative approach developed for the work being undertaken. This additional budget is therefore a form of 'invest to save' and will strengthen the sustainability of the new ways of working adopted by the team and help to reduce the level of future demand for these services.

Banking Contract - £0.1m

8.48 The Council was obliged to retender its banking contract three years ago when the Cooperative Bank withdrew from the local authority market. The first three years of the contract came with a discount of banking charges and the Council and the Bank (Barclays) worked on developing our relationship and operating requirements. The contract included an original discount for certain banking charges as part of the period which has now ended, giving rise to this ongoing budget pressure. Given the contractual nature of this pressure and the greater time and cost required to move banks, it is proposed to fund this pressure until the contract is next retendered.

Housing Development team - £0.25m

8.49 The Council has an ambitious housing development programme to complete work on the 500 new Council homes begun in the previous administration, identify and deliver 500 more new Council homes in this administration and work with the market to develop other opportunities as they arise to provide more affordable homes in the Borough. This work at pace requires additional capacity and new capabilities in the regeneration and place team to develop and manage the schemes necessary to meet these priorities. This £0.25m will enable help build the team to inject more momentum into these plans.

Sustainability Levy - £0.12m

8.50 This pressure has been considered for the past two years but not funded. The Council has discounts on energy contracts with partners subject to certain volume usage. As user needs have changed, these thresholds are not being met and so the levy is no longer achievable. This is a budget correction to anticipate the actual market costs as the Council retenders its contracts in a rising energy cost environment.

Information Management team - £0.5m

8.51 Following the on boarding of the London Borough of Southwark, changes in the risk profile for IT services, and the development of a more mature shared service with the London Borough of Brent, it has been recognised that the level of work required has grown and income opportunities reduced such that the original service cut of £1m for 2018/19 will not be delivered in full. This £0.5m reverses half the previous cut to reduce the budget gap for the service, currently overspending, to ensure the budget more realistically matches the expected cost of the work required for 2019/20.

Public Services team - £0.35m

8.52 Over recent years, the service has experienced a number of changes, not all planned, with the roll out of Universal Credit, changing grant and administration funding, and taking on more work to target the collection of income for the Council across a range of areas. These have been offset at different times by other budget underspends but these cannot be relied upon. It will be more effective to put the budgets right to enable the risks to be monitored where they arise, rather than through overspends in other parts of the service. This £0.35m will help the service do this.

Risks and other potential budget pressures to be managed

8.53 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.

8.54 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;
- Disruption costs from the UK leaving the EU; and

- Unachieved cuts.

Adult Social Care, including Transition demands

8.55 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 2019/20 through the Adult Social Care precept and improved Better Care Fund, and the changes arising from transformation cuts are not yet known or assessed so it is not possible to fully evaluate the risk at this time.

Child Sexual Exploitation

8.56 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 2019/20. Given these uncertainties, it is not possible to fully evaluate the risk at this time.

National / London Living Wage

8.57 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.

8.58 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

8.59 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

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

Disruption costs from the UK leaving the EU

8.61 There remains considerable uncertainty at the time of writing in respect of the form and timing of the UK's future relationships with the EU. At one end of the spectrum, a disorderly departure, could give rise to a number of eventualities that impact Council services directly through its supply chains and partners or via the population who may look to the Council for additional support. Scenario planning and coordination work to prepare is underway. However, while these impacts may come at a significant cost and disruption to the delivery of Council services, the likelihood is hard to predict and the scale and areas effected cannot be easily predicted at this time.

Unachieved Cuts

8.62 For those cuts 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. While management actions will continue to be taken to fully implement cuts for the coming year such pressures cannot be easily quantified at this stage, especially where possible 'invest to save' commitments or income generation work may be required to realise efficiencies and cuts.

8.63 Should these pressures arise in the year and are not be able to be contained with Directorate budgets, they may become an additional call on reserves.

Once-off funding for service budgets

8.64 In addition to the identified pressures to be funded now and those recognised but unfunded pressures above, it is proposed to use reserves to fund in advance some further pressures expected for 2019/20. This is a change of approach for 2019/20 as previously services were expected to manage within their budget with emerging pressures addressed in arrears. This change is a trial to forward fund specific expected pressures so the service can manage its budget on a fully funded basis in 2019/20, rather than reporting an overspend from the start of the year. The two areas concerned are Children Social Care and Corporate Services.

8.65 The Corporate Services funding of £1m is for the growth identified and prioritised in the financial monitoring report to M&C in October 2018. This was for:

- £0.3m for Technology to bring in more technical and procurement expertise to the team
- £0.2m for Communications to strengthen both the internal and external work as the Council continues to change
- £0.2m for Procurement, more specifically income generation and commercialisation, to recognise the value and success of the pilot underway and enable this to become permanent
- £0.3m for Human Resources to support culture change in the organisation through planned leadership development and additional support to managers and staff.

8.66 The Children Social Care investment is a combination of changes, starting by recognising that the service is expected to be overspent by £7.0m at the end of 2018/19. Therefore, unless this is addressed from once-off resources, as there is not the ongoing resource to do this beyond the £4.3m discussed above, the service will continue to report an overspend in 2019/20. Going into 2019/20, and in advance of seeing the 2018/19 final outturn position and the impact of the service improvement plan actions through the year, it is therefore proposed that this overspend be met for one year from:

- £1.6m of agreed service cuts in respect of placement costs
- £2.3m of social care grant taken to reserves and released to children services
- £3.1m (or the amount necessary based on the 2018/19 outturn) of Council reserves provided upfront to start the service in a balanced position for the financial year.

8.67 Careful monitoring of spend by the service and corporately against these commitments made in advance will be required through 2019/20.

Summary of Budget Pressures

8.68 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.

8.69 There are some pressures to be funded, which can be quantified within a reasonable range. These fully commit the available £6.5m allocation in the 2019/20 budget and draw £1.0m from reserves to forward fund growth against future year's risk and pressures budget and an expected £5.4m from reserves (part social care grant £2.3m and part earmarked reserves £3.1m) against existing and recognised Children Social Care pressures pending the impact of the service improvement plan actions.

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

2019/20 Budget Cut Proposals

8.71 On the 21 November 2018, the Mayor agreed and delegated £7.963m of budget cut proposals for 2019/20, with necessary consultations undertaken. A summary of these cuts is attached as Appendix Y1 to this report.

8.72 In addition, the Mayor agreed that £1.307m worth of budget cuts that were presented in November were to be re-presented for approval, after undergoing public consultation or additional work where necessary. £1.015m of these are represented here for endorsement, summarised at Appendix Y2. The remaining £0.292m of cuts for 2019/20 will be brought back to Mayor and Cabinet for approval as soon as possible. The proposed cuts are as summarised in table D4 below:

Table D4: Previously Presented Cuts Brought Back for Approval

		2019/20 £'000	2020/21 £'000	Total
Cuts for endorsement as part of this report				
COM12	Cut to main grants budget	600	0	600
COM14	Reduce Local Assembly funds	225	0	225

		2019/20 £'000	2020/21 £'000	Total
COM17	Reducing the small & faith fund	50	0	50
RES16	Commercial property investments	140	140	280
	Sub total	***1,015***	***140***	***280***
Yet To Be Brought Back				
CUS03	Income Generation – events in parks	200	300	500
CUS08	Close remaining automated public toilets	92	0	92
	Sub total	***292***	***300***	***592***
Summary of Cuts				
Agreed at M&C on 21 November 2018		7,963	8,494	16,457
Represented to M&C with budget report		1,015	140	1,155
Proposals pending future consideration at M&C*		292	300	592
	Total	**9,270**	**8,934**	**18,204**

* four further cuts proposals for 2020/21 were considered and are to be brought back as part of future budget considerations. They were in respect of; early years, libraries, street sweeping and school crossing patrols.

8.73 The cuts totalling £9.270m have been included in the 2019/20 budget calculation. They must be achieved in order to maintain a balanced budget. The final approval and delivery of these cuts will be monitored, any shortfall will have to be covered, in the short term pending services offering alternative proposals, through the use of reserves.

8.74 As anticipated in the Medium Term Financial Strategy (July 2018) and following the provisional Local Government Finance Settlement (December 2018), the Executive Director for Resources & Regeneration has been considering options to bridge a budget shortfall in order to balance the budget for 2019/20. It is proposed to use an amount of New Homes Bonus (£5.0m) and an amount of general reserves (£2.461m) in 2019/20.

8.75 No estimates for Revenue Support Grant in 2020/21 have been provided by the Government, as 2019/20 is the last year of the four year settlement which began in 2016/17. The prospects for future years' budgets are set out in more detail in section 9 of this report.

2019/20 Council Tax

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

Collection Fund

8.77 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.

8.78 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 2018/19 of £2.113m. This reflects the ongoing work of the Public Services team to carefully collect all monies owing to the Council.

8.79 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 £1.698m of the £2.113m 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 £415k will be allocated to the GLA.

Council Tax Reduction Scheme

8.80 Members should note that the Council agreed on the 23 January 2019 that no changes are to be made to the Council Tax Reduction Scheme (CTRS) for 2019/20 and that the Council should continue to pass on the government cuts in funding to working age claimants. Members agreed that the fixed percentage reduction in liability for the working age claimants of the scheme should remain at 25% for 2019/20. This means that everyone of working-age has to continue to pay a minimum of 25% of their council tax liability.

Council Tax Levels

8.81 In the 2019/20 Local Government Finance Settlement, the Government announced the continuation, in 2019/20, of the 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 2% in Lewisham, for the Social Care Precept in 2019/20. The government's assumptions in the local government finance settlement 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.

8.82 In 2019/20, the recommendation is that the Council approve a 2% Social Care precept which will provide additional funding of £2.1m, 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. At the same time an increase in core Council Tax of 2.99% (i.e. within the limit of the 3% referendum threshold) would provide additional funding of approximately £3.2m.

8.83 In considering cut proposals and the level of Council Tax, Members make political judgements, balancing these with their specific legal responsibilities to set a balanced budget for 2019/20 and their general responsibilities to steward the Council's finances over the medium term.

8.84 In 2018/19, the Band D Council Tax in Lewisham is £1,498.10 on a base of 86,456.6 Band D equivalent properties. Of this, £294.23 relates to the activities of the GLA which the Council pays over to them on collection, Lewisham's element is £1,203.87.

8.85 The GLA is consulting on a precept of £320.51 (Band D equivalent) for 2019/20, an increase of £26.28, or approximately 8.9% and a final decision is expected from them on or after the 25 February 2019. Of this increase, £24 will be applied for policing and the balance to fund the London Fire Brigade.

8.86 For 2019/20, the Band D Council Tax in Lewisham is recommended to be £1,584.45 on a base of 88,405.1 Band D equivalent properties (the base was approved at Council on the 23 January). Of this, £320.51 relates to the activities of the GLA which the Council will pay over to them on collection. Lewisham's element will therefore be £1,263.94, which includes a 2019/20 increase of £60.07 (4.99%).

8.87 Table D5 below shows, for illustrative purposes, the Council Tax payable by a Lewisham resident in a Band D property in 2019/20 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.

8.88 The starting point is for an assumed 4.99% increase in Lewisham's Council Tax for 2019/20, 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 2019/20 and the budget gap in future years.

Table D5 – Band D Council Tax Levels for 2019/20

Amounts payable by residents - Band D					
Change in Lewisham Council Tax	Lewisham element	GLA element	Total Council Tax	Increase in overall Council Tax	Lewisham Annual income forgone
	£	£	£	%	£m
4.99% increase	1,263.94	320.51	1,584.45	5.76	0
3.99% increase	1,251.90	320.51	1,572.41	4.96	-1.06
3.50% increase	1,246.01	320.51	1,566.52	4.57	-1.59
3.00% increase	1,239.99	320.51	1,560.50	4.17	-2.12
2.50% increase	1,233.97	320.51	1,554.48	3.76	-2.65
2.00% increase	1,227.95	320.51	1,548.46	3.36	-3.18
1.50% increase	1,221.93	320.51	1,542.44	2.96	-3.71
1.00% increase	1,215.91	320.51	1,536.42	2.56	-4.25
0.50% increase	1,209.89	320.51	1,530.40	2.16	-4.78
Council Tax Freeze	1,203.87	320.51	1,524.38	1.75	-5.31

8.89 In January 2019 at the Council meeting, Council set the Council Tax base for 2019/20 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 continue the Council Tax exemption for Care Leavers up to the age of 25 in the Borough.

Overall Budget Position for 2019/20

8.90 For 2019/20, the overall budget position for the Council is an assumed General Fund Budget Requirement of £243.012m, as set out in Table D6 below:

Table D6 - Overall Budget Position for 2019/20

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Settlement Funding Assessment (SFA) for 2019/20	(121.175)	
Council Tax 2019/20 at 4.99% increase	(111.739)	
Surplus on Collection Fund	(1.698)	

Detail	Expenditure/ (Income) £m	Expenditure/ (Income) £m
Business Rates Levy Surplus	(1.400)	
Business Rates S31 and Growth	(7.000)	
Assumed Budget Requirement for 2019/20		**(243.012)**
Total Resources available for 2019/20		
Base Budget for 2018/19	241.281	
Plus: Reversal of reserves drawn in 18/19 (once off)	8.570	
Plus: Additional Pay inflation	3.300	
Plus: Non-pay Inflation	2.463	
Plus: Single Persons Discount work	0.500	
Plus: Budget pressures to be funded from 19/20 fund	6.500	
Plus: Adult Social Care Precept	2.129	
Less: Reduction in Bad Debt Provision	(5.000)	
Less: November approved cuts for 2019/20	(9.270)	
Less: Use of New Homes Bonus reserve	(5.000)	
Less: Once-off use of reserves	(2.461)	
Total		**243.012**

8.91 The statutory calculation for the 2019/20 budget requirement is attached to this report at Appendix Y5.

Use of Provisions and Reserves

2019/20

8.92 Should all the above proposals be agreed, then this would leave a remaining gap of some £7.461m to be funded by the once off use of NHB and general reserves. This is set out in the Table D6 above.

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

Invest to Save

8.94 The Council agreed £5m for further transformation work in 2018/19, following on from the investment for the previous programme in 2016/17; directed to Digital Transformation, Oracle Cloud, and improvements to Laurence House. As reported in the financial monitoring, not all of this additional investment has been committed as a number of projects were paused to assess issues identified with governance and progress. This also provided the opportunity to re-evaluate the expected benefits and their alignment to the Council's operational needs and new Members priorities.

8.95 Looking forward to the challenges the Council continues to face as it cuts, restructures and reshapes services to best serve the community with the resources available, it is expected that the need for some services to need to continue to 'invest to save and improve' will remain. An assumption is therefore made in the reserves assessment below for £3m to be committed in 2019/20. Before being released any drawdown to fund this work will be the subject of a business case report to Mayor and Cabinet to agree the programme governance, objectives, budget and expected benefits and timeframes.

Reserves

8.96 One of the challenges going into 2018/19 was the significant overspend position from 2017/18, in particular for the rising spend on Childrens Social Care. This has put a strain on reserves. Work has been ongoing through the year to learn lessons from this, one of which has been to commit more of the Council's reserves to support the service while its improvement plan is developed and implemented. It is also proposed, as discussed in the pressures section above, to agree the use of some reserves at the start of the financial year to underpin selected service budgets, pending actions being taken to bring these budgets back in line on an ongoing basis.

8.97 From the opening position for 2018/19, against the Council's balances of £160.1m of earmarked revenue reserves, the following drawdowns from reserves are expected;

- 2018/19 - £20.3m
    - £3.6m 2017/18 cuts not achieved (not funded from NHB)
    - £10.4m forecast service overspend
    - £4.3m in-year funding for Children Social Care
    - £2.0m spend on transformation projects

- 2019/20 – £15.9m
    - £2.5m 2018/19 cuts not achieved (not funded from NHB)
    - £6.4m Children Social Care and Corporate services – planned forward funding from once-off resources, pending further work to reduce costs
    - £4.0m other services pending further work to reduce costs – to meet possible overspends
    - £3.0m expected requirement for investment to support change

8.98 In addition to the above, as part of the accounts closing process, the ability for the Council to replenish reserves for ongoing work planned for more than one year and the impact of any risks will be reviewed and assessed and reported on. These risks include:
- Agreed cuts are delayed or not delivered;
- Service pressures cause overspends;
- Transformation and change projects overrun;
- Capital programme overruns hit revenue;
- Service disruption costs arising from the UK leaving the EU; and
- Further cuts are not identified, putting strain on future budgets.

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

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 2019/20;
- Public Health Grant 2019/20;
- Social Care Grant;
- Adult Social Care Precept;
- Levies;
- Levy Account Adjustment;
- London Business Rates Pilot Pool; and
- Future Years' Budget Strategy 2020/21 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 2018/19 is £22.156m and the allocation for 2019/20 is expected to be similar. The local plan must be agreed with the CCG and will require the approval of NHS England.

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 2019/20.

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 2018/19 was £10.470m. In 2019/20, the iBCF increases to £13.1m. This is intended to fund adult social care activity. Plans for its use, which have not yet been finalised, will also require the agreement of local CCG. The grant is likely to be spent in substantially the same way as in 2018/19 with the increase being used to fund the balance in fee increases plus transition and other demographic pressures.

9.6 Two other grants were paid in 2018/19 to support adult social care: Adult Social Care Support Grant (£0.855m) and winter pressures (£1.4m). Winter Pressures funding will be paid again in 2019/20, at the same level as this year, and as in 2018/19 will be used to meet the extra costs incurred over the winter period from higher levels of hospital discharges as well as preventative work to reduce the need for hospital admissions. The Adult Social Care grant is being held to support transformation work in support of service changes as per the cuts agreed and ongoing integration work.

Public Health Grant

9.7 In 2018/19, the Council's allocation for Public Health Grant is £24.325m. National reductions of 2.6% annually have been announced for the next two financial years and the expected 2019/20 Lewisham allocation is £23.683m.

9.8 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.

9.9 The grant is being reduced by £642k in 2019/20. Proposals for this were agreed by M&C, except for £196k in respect of Health Visitors which was deferred for reconsideration of the impact on staffing resources for this service. The Lewisham and Greenwich Trust have agreed that at present the cut will be taken from the overall health visitor budget but not put against health visitor establishment. The Trust however are planning a discussion with the Save Lewisham Hospital campaign to give further consideration to health visitor ratios and the role of the health visitor assistant.

9.10 This reduction, and any future year changes to the public health budgets once announced, will need to be the subject of further officer proposals to ensure expenditure on services matches the available grant. The Trust also welcome an opportunity to contribute to the planned strategic early help review during the coming year.

Social Care Grant

9.11 The Chancellor's Autumn Budget committed £650 million more for social care for 2019 to 2020. This includes £240 million towards easing winter care pressures on adult social care (as explained in 9.6 above), with local authorities able to use the remaining £410 million on adults or children's social care. Lewisham's share of this £410m is £2.3m in 2019/20. This will be allocated to Children's Social Care to ease the pressure on the Placements budget during the year, as discussed in section 8 above.

Adult Social Care Precept

9.12 The 2% precept for adult social care (£2.2m in 2019/20) will be used to address the increase in fees paid to providers of care. Fees are expected to increase above the general rate of inflation and in line with LLW/NLW rates. An indicative increase of 3.5% would represent a cost pressure of over £2.7m.

Levies

9.13 The Council is required to levy monies totalling in the region of £1.7m for other bodies, in addition to the Council Tax collected on behalf of the GLA (see Collection Fund). These bodies are the London Pension Fund Agency, Lee Valley Regional Park, and Environment Agency. The 2019/20 levies are set out in Appendix Y5.

Levy Account Adjustment

9.14 In the 2019/20 provisional settlement, the Government announced a £180m surplus on the Business Rates Levy Account in 2018-19 (based on 2017-18 outturns). This is the account that collects all the levy payments from authorities and from which any safety net payments are made to those authorities who are below their safety net threshold. In previous years, this account has been in deficit and has been funded via a top-slice from SFA. The £180m surplus has been distributed pro rata to 2013-14 Settlement Funding Assessment (SFA). Lewisham's share of this will be £1.4m.

Crossrail Business Rate Supplement Policies for 2019/20

9.15 In line with the provisions of section 18 of the Business Rate Supplements Act 2009 (the "BRS Act") the Greater London Authority (GLA) has notified the Authority that it is levying a Business Rate Supplement for the 2019/20 financial year to finance its contribution to the Crossrail project (the "Crossrail BRS").

9.16 For 2019-20 the Mayor of London is maintaining the rateable value condition (or threshold) for the BRS at £70,000 – the same level as in 2018/19. In other words only hereditaments on the local rating list in London with a rateable value above £70,000 will be liable for the BRS in 2019/20 subject to eligible reliefs. This is the same level as applied in 2018/19 and this threshold is expected to be maintained until 1 April 2021 when a new rating list is expected to be introduced. The BRS multiplier also remains unchanged at 2p.

9.17 The GLA estimates that 353 hereditaments in Lewisham will be liable to pay the levy, which is approximately 5.8% of the total hereditaments in the borough and 0.7% of the total in London. This is expected to generate an income of £1.9m.

London Business Rates Pilot Pool

9.18 The Secretary of State announced the continuation of the London Pilot Pool, albeit at a reduced rate of 75%. This means that in 2019/20, the London Pool will get to keep 75% of Business Rates collected (67% in 2017/18 and 100% in 2018/19).

9.19 This means the tier split between the boroughs, the GLA and the MHCLG will be scaled back pro-rata, and will be 48%, 27%, and 25% respectively. For 2019/20 this is expected to result in a reduction of approx. £3m in levy received by the Council from the London pool.

Future Years' Budget Strategy 2020/21 onwards

<u>Revenue Budget</u>

9.20 Local government continues to face an extremely challenging financial outlook following a prolonged period of austerity and disproportionate growth in demand for services This has driven significant changes to services, that in turn bring additional risks and uncertainties.

9.21 2019/20 is the final year of the four year Spending Review period. Beyond 2019/20, the outlook for funding remains particularly uncertain due to a number of factors including: the wider performance of the economy as the UK leaves the EU; the outcome of the Spending Review (due in 2019); the conclusion of the Fair Funding Review – that will update the overall formula for distributing funding to local government; and the reset of the business rates retention system as part of the implementation of 75 per cent retention from April 2020.

9.22 Alongside the provisional settlement the Government issued two consultations which will both close late February 2019:

- Fair Funding Review of Local Authorities' relative needs and resources - This consultation seeks views on the approach to measuring the relative needs and resources of local authorities, which will determine new baseline funding allocations for all local authorities in England in 2020-21.
- Business Rates Retention Reform – This consultation seeks views on proposals for sharing risk and reward, managing volatility in income and setting up the reformed business rates retention system.

9.23 It is expected that the outcome of these consultations will contribute to shaping the future of Local Government Finance. It is also expected that further information on the 2020/21 provisional funding will be issued sometime between September and October 2019 to allow the Government to get feedback form authorities before the Provisional Settlement announcement is made in December 2019.

9.24 The Medium Term Financial Strategy was reported to Mayor & Cabinet in July 2018. This set out that an estimated £53m of cuts required from 2019/20 to 2022/23. This position has been superseded by the cuts proposals submitted to Mayor and Cabinet in November 2018, the provisional local government finance settlement announced in December 2018 and annual review of the statutory calculation for the Collection Fund.

9.25 The revised profile for cuts required is now broadly;

- £9.270 to be implemented in 2019/20;
- £7.461m gap remaining for 2019/20 to be met from New Homes Bonus and general reserves;
- £8.934m cuts pre-approved for 2020/21

9.26 If the budget for 2019/20, as set out in this report is agreed, the expected additional cuts required are circa £11.8m by 2020/21, (after applying the previously approved cuts of £8.9m).

9.27 In 2019/20, officers will update the MTFS and look to extend the planning horizon to 2023/24 to include the impact of moving to the 75% retention of business rates. However, forecasting this remains difficult pending the detail of the fair funding review and the government's CSR beyond 2019/20 as stated above.

10. TREASURY MANAGEMENT STRATEGY

Background

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

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

10.3 The contribution the Treasury Management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either for day-to-day revenue purposes or for larger capital projects. Treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

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

Treasury Management Strategy for 2019/20

10.5 The Strategy for 2019/20 covers three main areas:

i/ Capital Issues:
- Capital Investment Plans
- Prudential Indicators
- Minimum Revenue Provision (MRP) Policy

ii/ Treasury Management Issues:
- Borrowing Strategy & Treasury Indicators
- Debt Rescheduling
- Investment Strategy
- Credit Worthiness Policy
- Prospects for Investment Returns

iii/ Non-Treasury Investments

10.6 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Community and Local Government's (MHCLG) guidance on Minimum Revenue Provision (MRP) and Investments, and the CIPFA Treasury Management Code.

Capital Investment Plans

10.7 The Treasury Management Strategy for 2019/20 incorporates the capital plans of the Council, as set out in section 5 of the 2019/20 Budget Report, which are a key driver of Treasury Management activity.

10.8 The Treasury Management function ensures that the Council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This involves both the organisation of the cash flow and, where capital plans require, the arrangement of appropriate borrowing facilities.

Capital Strategy

10.9 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019/20, all local authorities to an additional report, a Capital Strategy, which will provide the following:

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

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

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

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

10.12 The first version of the report was appended to the 2018/19 Medium Term Financial Strategy for Member scrutiny, and the latest version is included in the 2019/20 Budget Report for full Council approval at Appendix Z5.

Prudential Indicators

10.13 The Council's forward projections for borrowing as at 31 March 2019 are summarised below. Table E1 shows the actual external debt from Treasury Management operations against the underlying capital borrowing need (the Capital Financing Requirement - CFR) which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, and its underlying borrowing need.

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

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

10.16 Changes in external debt represent upcoming loan maturities, projected prudential borrowing requirements, and from 2019/20 onwards an element of general fund borrowing to support the planned costs of new affordable housing.

10.17 The table below table illustrates over/(under) borrowing relative to the CFR.

Table E1: External Debt Projections

	2017/18 Actual £m	2018/19 Expected £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m
External Debt at 1 April	190.9	219.4	217.2	251.5	279.2
Expected Change in External Debt	28.5	(2.2)	34.3	27.7	39.6
Other Long-Term Liabilities	236.1	232.9	247.4	243.2	239.2
Gross Debt at 31 March	**455.5**	**450.1**	**498.9**	**522.4**	**558.0**
Capital Financing Requirement at 31 March*	**487.9**	**487.3**	**525.4**	**555.8**	**610.5**
Borrowing – over / (under)	**(32.4)**	**(37.2)**	**(26.5)**	**(33.4)**	**(52.5)**

***The Capital Financing Requirement includes the prudential borrowing figures shown in Table A2 of Section 5 - Capital Programme in the 2019/20 Budget Report.

10.18 Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. 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.

10.19 The Head of Corporate Resources reports that the Council has complied with this prudential indicator in the current year to date and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

Limits to Borrowing Activity

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

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

10.21 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 E2.

Table E2: Operational Boundary

	2018/19 Expected £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m
Maximum External Debt at 31 March	217.2	251.5	279.2	318.8
Other Long-Term Liabilities	232.9	247.4	243.2	239.2
Operational Boundary for Year	**450.1**	**498.9**	**522.4**	**558.0**

The Authorised Limit for External Debt

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

10.23 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.

10.24 The authorised limits are as set out in Table E3.

Table E3: Authorised Limits for External Debt

	2018/19 Expected £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m
Operational Boundary for Year	**450.1**	**498.9**	**522.4**	**558.0**
Provision for Non Receipt of Expected Income	56.0	56.0	56.0	56.0
Authorised Limit for Year	**506.1**	**554.9**	**578.4**	**614.0**

10.25 The Council in previous years has been limited to a maximum HRA CFR through the HRA self-financing regime. In October 2018, the Government announced a policy change in the abolition of the HRA debt cap as at 29 October 2018. As a result, the HRA is now free to borrow (under Prudential rules) what it requires in order to deliver its strategic priorities. Table E4 sets out the latest forecasts of the HRA CFR and predicted future borrowing.

Table E4: HRA CFR

	2018/19 Expected £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m
HRA Borrowing	0.0	0.0	18.9	25.0
HRA Debt (CFR) at 31 March	57.5	57.5	76.4	101.4

Minimum Revenue Provision (MRP) Policy Statement

10.26 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP). The MRP must be determined by the Council as being a prudent provision having regard to the CIPFA Prudential Code for Capital Finance.

10.27 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.

10.28 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).

10.29 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.

Borrowing Strategy

10.30 The Council's external debt as at 31 March 2019, gross borrowing plus long term liabilities, is expected to be £450.1m. 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.

10.31 The Head of Corporate Resources will continue to monitor interest rates in the financial markets and adopt a pragmatic and cautious approach to changing circumstances. For instance, if it was felt that there was a significant risk of a sharp fall in long and short term rates (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.

10.32 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 projected in future years. 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

10.33 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

10.34 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.

10.35 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.

10.36 The Treasury indicators and limits are set out in the following table:

Table E5: Treasury Indicators and Limits

<table>
<tr><th>Limits on interest rate exposures</th><th>2019/20</th><th>2020/21</th><th>2021/22</th></tr>
<tr><td></td><td>Upper</td><td>Upper</td><td>Upper</td></tr>
<tr><td>Limits on fixed interest rates:
• Debt only
• Investments only:
When total portfolio >£400m
When total portfolio <£400m</td><td>
100%

90%
85%</td><td>
100%

90%
85%</td><td>
100%

90%
85%</td></tr>
<tr><td>Limits on variable interest rates
• Debt only
• Investments only</td><td>
15%
75%</td><td>
15%
75%</td><td>
15%
75%</td></tr>
<tr><th colspan="4">Limits on maturity structure of fixed interest rate borrowing 2019/20</th></tr>
<tr><td colspan="2"></td><td>Lower</td><td>Upper</td></tr>
<tr><td colspan="2">Under 12 months</td><td>0%</td><td>10%</td></tr>
<tr><td colspan="2">12 months to 2 years</td><td>0%</td><td>10%</td></tr>
<tr><td colspan="2">2 years to 5 years</td><td>0%</td><td>10%</td></tr>
<tr><td colspan="2">5 years to 10 years</td><td>0%</td><td>25%</td></tr>
</table>

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 2019/20		
	Lower	**Upper**
30 years to 40 years	0%	60%
40 years to 50 years	0%	40%

Long Term Investments Indicator

10.37 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.

10.38 The indicator and limit is set out in the following table:

Table E6: Treasury Indicators and Limits

Maximum Principal Sums Invested > 365 days			
£m	**2019/20**	**2021/22**	**2022/23**
Principal sums invested > 365 days	50.0	50.0	50.0

Debt Rescheduling

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

10.40 The reasons for any rescheduling to take place will include:

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

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

10.42 The Council has £121m of LOBO loans as of 31 March 2019 of which £25m will be in their call period in 2019/20. 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.

10.43 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 – Management of Risk

10.44 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial instruments (as managed by the Strategic Finance – Treasury team); non-financial investments, essentially the purchase of income yielding assets, are covered in the separate Capital Strategy.

10.45 The Council's investment policy has regard to MHCLG's Guidance on Local Government Investments ("the Guidance"), the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"), and CIPFA's Treasury Management Guidance Notes 2018. The Council's investment priorities will be security first, liquidity second, then return.

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

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.

2. **Other information**; ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end, the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings, as well as information on outlooks and watches. This is fully integrated into the credit methodology provided by the advisors in producing its colour codings which show the varying degrees of suggested institution creditworthiness. This has been set out in more detail at Appendix Z2.

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

4. The Council has defined the list of **types of investment instruments** that the Treasury team are authorised to use in the financial year, and these are listed in Appendix Z2 under the categories of “specified” and “non-specified” investments

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investment** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

5. **Lending limits** (amounts and maturity) for each conterparty will be set through applying the credit criteria provded by the advisors, and are set out in Appendix Z2.

6. **Interest rate limits** are set out in paragraph 10.36 and place restrictions on the exposure to variable and fixed rate investments.
7. The Council has placed a limit on the amount of its investments which are invested for **longer than 365 days** (see paragraph 10.38).

8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 10.52).

9. All investments wil be denominated in **sterling**.

10. As a result of the change in accounting standards for 2018/19 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant changes at the end of the year to the General Fund. In November 2018, MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years from 1 April 2018. The Council does not at present have any pooled investments, although is seeking advice on the intitial steps required to make such investments.

10.48 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 greater returns.

10.49 Investment returns are likely to remain low during 2019/20 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.

Credit Worthiness Policy

10.50 The Council's Treasury team applies the creditworthiness service provided by its 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.

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

- Yellow 5 years*
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour Not to be used

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

The Council's creditworthiness policy has been set out at Appendix Z2.

Country limits

10.52 The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix Z3. This list will be added to, or deducted from, by officers should country ratings change in accordance with this policy.

Prospects for Investment Returns

10.53 Link Asset Services assist the Council to formulate a view on interest rates. On the assumption that the UK and EU agree a Brexit deal in Spring 2019, the Bank Rate is forecast to stay flat at 0.75% until quarter 2 2019 when it is expected to rise to 1.00%, and will increase again to 1.25% by the end of financial year 2019/20. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

10.54 The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year are as follows (on the assumption that the UK and EU agree a Brexit deal in Spring 2019):

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.50%
- 2021/22 1.75%
- 2022/23 1.75%
- 2023/24 2.00%
- Later years 2.50%

10.55 The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in the Bank Rate is also probaby even, and is dependent on how strong GDP growth turns out, how slowly inflation pressures susbside, and the result of the Brexit negotiations.

10.56 A more extensive table of interest rate forecasts for 2019/20 onwards, including Public Works Loan Board (PWLB) borrowing rate forecasts, is set out in Appendix Z1.

Non-Treasury Investments

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

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

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

Subsidiary Companies

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

Lewisham Homes Limited

10.60 Lewisham Homes is an arms-length management organisation (ALMO) set up in 2007 as part of the Council's initiative to deliver better housing services and achieve the Decent Homes Standard. The company manages approximately 18,000 homes.

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

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

10.63 As at 31 March 2019 the Council expects to have advanced £14m of the available £20m commercial loan facility, and all £20m of the agreed facility financed from PWLB debt.

Catford Regeneration Partnership Limited (CRPL)

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

10.65 The Council has exisiting loan agreements in place with the CRPL, currently on an interest plus principal repaymant basis. As at 31 March 2019 the Council expects the outstanding loan principal to be approximately £13.2m.

10.66 The state aid compliant loans were advanced as part of the company's initial establishment and to finance new acquisitions as the company grew, approved through reports presented to Mayor & Cabinet.

Other Non-Treasury Investments

10.67 In 2017/18 the Council provided a loan of £700,000 to Wide Horizons, an adventure learning charity providing outdoor adventure experiences and outreach services across several London boroughs including Lewisham. An equal and corresponding loan was also advanced by the London Borough of Greenwich, providing Wide Horizons with £1.4m to repay an existing social investment business loan ahead of time.

10.68 The appropriate approval was sought from Mayor and Cabinet to proceed with the loan, with authority to finalise the loan terms delegated to the Executive Director for Resources and Regeneration. An appropriate financial review of Wide Horizons was undertaken, highlighting possible risks from insufficient cash flows or income generation to meet loan repayments, although mitigating circumstances were outlined accordingly.

10.69 In July 2018 Wide Horizons ceased trading, unable to obtain additional loan financing to meet its financial obligations. The Council has not received any repayments against the

£700,000 advanced to the charity in 2017/18.

10.70 The loss to the Council will be recognised in the 2018/19 financial statements.

10.71 The Council also holds minority stakes in the following:

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

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 13 December 2018 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 27 November 2018 to hear the proposals and fed back.

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

Business Ratepayers

11.4 The Council is required under the Local Government Finance Act 1992 to ensure that Business Ratepayers are consulted on the proposed budget. This is to allow businesses to review the changes in the budget for 2019/20 and respond with any comments that they may have.

11.5 The consultation ran from the 14 January to the 1st February 2019. There were seven responses in total and these are set out as received in Appendix Y6. Each of the responses covered a different view on the Council services with, in summary, concern for:

- protecting services, in particular for the vulnerable and community groups;
- improving the environment and place to encourage more businesses to move to Lewisham;
- reducing costs, in particular public sector pension costs; and
- communicate plans more clearly and raise Council Tax if necessary to support the above.

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 Ministry of Housing, Communities and 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 cuts or other measures to bring the budget under control. If the Capital Programme is overspending, this may be brought back into line through cuts, slippage, or contributions from revenue. The proposals in this report are designed to produce a balanced budget in 2019/20.

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 cuts proposals for 2019/20 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 endorse those budget cuts for this year. This report is predicated on taking all of the agreed and proposed budget cuts. 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.

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 2% on the Council Tax, ring-fenced for social care provision, and may impose an additional increase of less than 3% 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 s31 of the Local Government Finance Act 1992, the Chief Finance Officer to report to it on:-
(a) the robustness of the estimates made for the purposes of the Calculations; and
(b) the adequacy of the proposed financial reserves.

13.18 The Chief Financial Officer’s section 25 statement is appended to this Budget Report as Appendix Y4.

Treasury Strategy

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

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

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

Constitutional provisions

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

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

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

Statutory duties and powers

13.25 The Council has a number of statutory duties which it must fulfil by law. It cannot lawfully decide not to carry out those duties. However, even where there is a statutory duty, the Council often has discretion about the level of service provision. Where a service is provided by virtue of a Council power rather than a duty, the Council is not bound to carry out those activities, though decisions about them must be taken in accordance with the decision making requirements of administrative law.

Reasonableness and proper process

13.26 Decisions must be made reasonably taking into account all relevant considerations and ignoring irrelevancies. If the Mayor decides that the budget for that service must be reduced, the Council's reorganisation procedure applies if staffing numbers would reduce. Staff consultation in accordance with that procedure will be conducted and in accordance with normal Council practice, the final decision would be made by the relevant Executive Director under delegated authority.

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

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

Staff consultation

13.29 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

13.30 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

13.31 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 cut proposals presented to Mayor & Cabinet on 21 November 2018 and 6 February 2019. A summary of those cuts proposals are attached at Appendix Y1 and Y2 to this report.

15. CRIME AND DISORDER

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

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

16. EQUALITIES

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

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

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

- foster good relations between people who share a protected characteristic and those who do not.

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

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

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

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

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

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

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

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

16.10. It is also important to note that the Council is subject to the Human Rights Act, and should therefore, also consider the potential impact their particular decisions could have on human rights. Where particular cuts 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 2019/20 budget.

19. BACKGROUND DOCUMENTS AND FURTHER INFORMATION

Short Title of	Date	Location	Contact
Medium Term Financial Strategy	11 July 2018 (M&C)	5th Floor Laurence House	David Austin
2019/20 Revenue Budget Cuts	21 November 2018	5th Floor Laurence House	David Austin
Setting the Council Tax Base & Discounts for Second Homes and Empty Properties	23 January 2019 (Council)	5th Floor Laurence House	David Austin

For further information on this report, please contact:

David Austin
Head of Corporate Resources and Acting Chief Finance Officer on 020 8314 9114

Shola Ojo
Principal Accountant, Strategic Finance on 020 8314 7778

20. APPENDICES

Capital Programme

W1 2018/19 to 2021/22 Capital Programme – Major Projects
W2 Proposed Capital Programme – Original to latest Budget

Housing Revenue Account

X1 Proposed Housing Revenue Account Cuts 2019/20
X2 Leasehold and Tenants charges consultation 2019/20

X3 Leasehold and Tenants Charges 2019/20 Lewisham Homes
X4 Other Associated Housing Charges for 2019/20
X5 Garage Rent Increase Report 2019/20
X6 Tenants' rent consultation 2019/20

General Fund

Y1 Summary of previously agreed budget cuts for 2019/20
Y2 Previously presented cuts to be re-presented for approval
Y3 Ready Reckoner for Council Tax 2019/20
Y4 Chief Financial Officer's Section 25 Statement
Y5 Council Tax and Statutory Calculations
Y6 Business Rate Payers Consultation on the Budget

Treasury Management

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