



Council

Report title: 2021/22 Budget Report

Date: 03 March 2021

Key decision: No

Class: Part 1

Ward(s) affected: All

Contributors: Executive Director for Corporate Resources

Outline and recommendations

The purpose of this report is to set out the overall financial position of the Council in relation to 2020/21 and to set the Budget for 2021/22. This report allows the Council Tax to be agreed and housing rents to be set for 2021/22. It sets the Capital Programme for the next three years and the Council's Treasury Strategy for 2021/22.

The report also provides summary information on the revenue budget cut proposals that were presented at Mayor & Cabinet on the 9 December 2020 and the 3 February 2021. The approval and successful delivery of these cuts is required in order to help balance the budget for 2021/22 and prepare to address the budget requirement for 2022/23.

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

Timeline of engagement and decision-making

The 2021/22 Budget Report was presented to Mayor and Cabinet on the 3 February 2021 and the Budget Update Report on the 10 February.

The first round of 2021/22 Revenue Budget cuts were approved by Mayor and Cabinet on the 9 December 2020.

The second round of 2021/22 Revenue Budget cuts were presented to Mayor and Cabinet on the 3 February 2021.

The Council Tax Base was approved by Council on the 20 January 2021,

1. Summary

1.1 This report sets out the context and range of budget assumptions which Council is required to agree to enable it set a balanced budget for 2021/22. These include the following:

1.2 General Fund

- In respect of the General Fund, the assumed net revenue expenditure budget is £243.100m. This is made up of provisional Settlement Funding from government of £123.304m (revenue support grant and business rates), forecast Council Tax receipts including an increase in Council Tax of 4.99%, an estimated deficit in the Collection Fund from a reduction in the eligible Council Tax base and lower collection rates (both due to the impacts of Covid-19), and similar deficits in business rates collection offset by including a share of the growth from the pilot London Business Rates Pool retained in prior years.
- The changes to the prior year General Fund position to meet the 2021/22 net revenue budget of £243.100m are proposed on the basis of the following assumptions:
 - £28.016m of revenue budget cuts have been agreed for 2021/22, of which £10.000m are to address persistent service overspending pressures and £18.016m will be a reduction in Directorate cash limits;
 - £6.500m of corporate budget for risks and pressures in 2020/21 and the £1.500 gain from the reduced cost of concessionary fares, of which it is being recommended that the full £8.000m of specific identified budget pressures be funded from the start of the year;
 - An assumed 4.99% increase in Band D Council Tax for Lewisham's services for 2021/22; including the 1.99% increase in the core Council Tax as announced in the provisional Local Government Finance Settlement and 3% increase for the Social Care precept.

1.3 Grants

- In addition to the Public Health grant, the Council will continue to receive the other main grants - New Homes Bonus, Better Care Fund, improved Better Care Fund (including winter pressures), and Social Care Grant as part of the one year settlement for 2021/22. In respect of the £2.4m of additional social care grant it is proposed this is put towards the recognised risks and pressures for 2021/22 in Children Social Care.

1.4 Medium Term Financial Outlook

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- The report looks to the medium term financial outlook and notes the prospects for the budget in 2021/22, cuts required, and the continued work by officers to meet identified potential budget shortfalls in future years. These are estimated at circa £26m over the following three years, 2022/23 to 2024/25. Against this target £13m of cuts have been identified as part of the cuts being considered for this budget. The report provides an update on the Government's review of relative needs and resources which now has the revised later implementation date of 1 April 2022.

1.5 Schools

- Schools Funding - The provisional 2021/22 Dedicated Schools Grant (DSG) allocation is £313.60m, an increase of £17.32m on the 2020/21 budget. However, circa £9.06m of this increase relates to the Teachers' Pension and Pay Award grant (TPPG), which has been streamlined into the DSG, and is not additional funding, meaning that the net growth is £8.26m or 2.8%.
- Special Needs Funding - Net increase in High Needs Block of £5.99m for 2021/22 following additional funding from government, but that this remains under extreme pressure and a £1.068m transfer from the DSG was agreed by Schools Forum.
- Early Years Funding - Increase of 6p per hour for 3 and 4 year olds, and 8p per hours for 2 year olds, and supplementary funding to support the two Lewisham nursery schools for September 2021 to March 2022 is subject to change and has not yet been finalised.
- Pupil Premium - funding rates will remain the same as at present and the final allocation will be advised following the 2020 January Census. For reference the allocation for 2020/21 was £14.624m

1.6 Housing

- A proposed rent increase of 1.5% (an average of £1.46 per week) in respect of dwelling rents, 1.5% (average £0.53 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 £269.9m, including the capital and new build programme, for 2021/22;

1.7 Treasury

- The report updates the Council's Treasury Management Strategy for both borrowing and investments. The proposed approach and levels of risk the Council takes in its Treasury functions remain prudent in line with last year, and officers continue to explore alternative investment options and further opportunities to undertake debt restructuring in order to reduce balance sheet risk and best fund the capital plans set out. As noted in the capital plans, these are being reviewed in light of the Council's recovery planning from Covid-19 and the treasury requirements will be updated in-line with any revisions to the capital programme.

1.8 Capital

- The proposed Capital Programme (General Fund and Housing Revenue Account) budget for 2021/22 to 2023/24 of £556.3m, of which £223.0m is for 2021/22;

2. Recommendations

- 2.1 It is recommended that Council approves the recommendations shown below in respect of the 2021/22 Budget;
- 2.2 That, having considered the views of those consulted on the budget, and subject to proper process, as required, Council:

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- 2.3 note the projected overall variance of £3.2m (or 1.3%) against the agreed 2020/21 revenue budget of £248.714m as set out in section 6 of this report and that any year-end overspend will be met from corporate reserves and provisions;
- 2.4 endorse the budget cut proposals of £28.016m as per the Mayor and Cabinet meetings of the 9 December 2020 and 3 February 2020, as set out in section 6 of the report and summarised in Appendix Y1 and Y2;
- 2.5 agree the allocation of £6.500m in 2021/22 be set aside and use of £1.500m reduced contribution for concessionary fares for corporate risks and pressures;
- 2.6 agree the allocation of £19.685m of corporate risks and pressures, social care precept, new homes bonus, social care grant, lower tier grant and legacy s31 monies in 2021/22 to be invested in funding quantified budget pressures and opportunities, both recurring and once-off as set out in section 6;
- 2.7 agrees a General Fund Budget Requirement of £243.100m for 2021/22 be approved;
- 2.8 agree to a 4.99% increase in Lewisham's Council Tax element. This will result in a Band D equivalent Council Tax level of £1,379.96 for Lewisham's services and £1,743.62 overall. This represents an overall increase in Council Tax for 2021/22 of 5.91% and is subject to the GLA precept for 2021/22 being increased by £31.59 (i.e. 9.5%) from £332.07 to £363.66, in line with the GLA's draft budget proposals;
- 2.9 note the Council Tax Ready Reckoner which for illustrative purposes sets out the Band D equivalent Council Tax at various levels of increase. This is explained in section 6 of the report and is set out in more detail in Appendix Y4;
- 2.10 approve the Executive Director for Corporate Resources Section 25 Statement at Appendix Y5;
- 2.11 agree the draft statutory calculations for 2021/22 as set out at Appendix Y6;
- 2.12 note the prospects for the revenue budget for 2021/22 and future years as set out in section 6;

Other Grants (within the General Fund)

- 2.13 note the adjustments to and impact of various specific grants for 2021/22 on the General Fund as set out in section 7 of this report;

Dedicated Schools Grant and Pupil Premium

Schools Block

- 2.14 notes that the provisional Dedicated Schools Grant allocation of £222.769m be the Schools' Budget (Schools Block) for 2021/22;
- 2.15 agrees, (as recommended by Schools Forum) the once-off transfer £1.068m of Dedicated Schools Grant to the High Needs Block and the set aside of £1.24m to support schools through measures such as the growth fund and the falling rolls fund;

Central Schools Services Block (CSSB)

- 2.16 note the construct and allocation of £4.261m for the CSSB block allocation for 2021/22;

High Needs Block (HNB)

- 2.17 note the provisional High Needs Block £62.4m to support the Council's statutory duty with regards Special Education Needs. This is a net increase of £5.99m relative to 2020/21;

Early Years Block (EYB)

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- 2.18 notes the provisional Dedicated Schools Grant allocation of £24.17m to the block;
Pupil Premium
- 2.19 notes that the pupil premium will continue in the 2021/22 financial year. The funding rates in the year will be same as 2020/21 but the census date has changed to January.

Housing Revenue Account

- 2.20 notes the consultation report on service charges to tenants' and leaseholders in the Brockley area, presented to area panel members on 16 December 2020, as attached at Appendix X2;
- 2.21 notes the consultation report on service charges to tenants' and leaseholders and the Lewisham Homes budget strategy presented to area panel members on 17 December 2020 as attached at Appendix X3;
- 2.22 sets an increase in dwelling rents of 1.5% (an average of £1.46 per week) – as per the formula rent calculations outlined in section 9 of this report;
- 2.23 sets an increase in the hostels accommodation charge by 1.5% (or £0.53 per week), in accordance with formula rent calculations;
- 2.24 approves the following average weekly increases/decreases for dwellings for:
- 2.24.1 service charges to non-Lewisham Homes managed dwellings (Brockley) to ensure full cost recovery and 2.1% inflationary uplift for 2021/22;
- | | | |
|-------------------------|-------|---------|
| • caretaking | 2.10% | (£0.66) |
| • grounds | 2.10% | (£0.80) |
| • communal lighting | 2.10% | (£0.06) |
| • bulk waste collection | 2.10% | (£0.03) |
| • window cleaning | 2.10% | (£0.00) |
| • tenants' levy | 0% | (£0.00) |
- 2.24.2 service charges to Lewisham Homes managed dwellings:
- | | | |
|-----------------------|--------|---------|
| • caretaking | 1.99% | (£0.13) |
| • grounds | 1.94% | (£0.04) |
| • window cleaning | 26.00% | (£0.02) |
| • communal lighting | 2.55% | (£0.03) |
| • block pest control | 2.20% | (£0.04) |
| • waste collection | 23.20% | (£0.11) |
| • heating & hot water | 1.62% | (£0.17) |
| • tenants' levy | 0% | (£0.00) |
| • bulk waste disposal | 0.00% | (£0.00) |
| • sheltered housing | 0.00% | (£0.00) |
- 2.25 approves the following average weekly percentage changes for hostels and shared temporary units for;
- service charges (hostels) – caretaking etc.; no change

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- energy cost increases for heat, light & power; no change
 - water charges increase; no change
- 2.26 approves an increase in garage rents by 1.1% (£0.17 per week) for Brockley and Lewisham Homes residents;
- 2.27 notes that the budgeted expenditure for the Housing Revenue Account (HRA) for 2021/22 is £269.9m, split £117.1m revenue and £152.8m capital, which includes the decent homes and new build programmes;
- 2.28 agrees the HRA budget strategy cut proposals in order to achieve a balanced budget in 2021/21, as attached at Appendix X1;

Treasury Management Strategy

- 2.29 approves the prudential indicators and treasury indicators, as set out in section 10 of this report;
- 2.30 approves the Annual Investment Strategy and Creditworthiness Policy, set out in further detail at Appendix Z2;
- 2.31 approves the update to the Investment Strategy as set out in section 10 of this report, namely to allow investment in UK building societies with a minimum credit rating of BBB- from Fitch (or equivalent) for up to 3 months, and no more than £10m per institution;
- 2.32 note that the Capital Strategy 2021/22 will be brought forward during the year;
- 2.33 approves the Minimum Revenue Provision (MRP) policy as set out in section 10 of this report;
- 2.34 agrees to delegate to the Executive Director of Corporate Resources authority during 2021/22 to make amendments to borrowing and investment limits provided they are consistent with the strategy and there is no change to the Council's authorised limit for borrowing;
- 2.35 approves the overall credit and counterparty risk management criteria, as set out at Appendix Z2, the proposed countries for investment at Appendix Z3, and that it formally delegates responsibility for managing transactions with those institutions which meet the criteria to the Executive Director for Corporate Resources;
- 2.36 approves a minimum sovereign rating of AA- for non-UK investments;

Capital Programme

- 2.37 notes the 2020/21 Quarter 3 Capital Programme monitoring position and the Capital Programme potential future schemes and resources as set out in section 11 of this report;
- 2.38 notes the significant proposed rise in prudential borrowing of more than £308m by 2023/24, primarily to fund the Building for Lewisham programme capital plans;
- 2.39 approves the 2021/22 to 2023/24 Capital Programme of £556.3m, as set out in section 11 of this report and attached at Appendices W1 and W2.

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3. Policy Context

3.1 The Council's strategy and priorities drive the Budget with changes in resource allocation determined in accordance with policies and strategy. The Council launched its new Corporate Strategy in 2019, with seven corporate priorities as stated below:

Corporate Priorities

- **Open Lewisham** - Lewisham will be a place where diversity and cultural heritage is recognised as a strength and is celebrated.
- **Tackling the housing crisis** - Everyone has a decent home that is secure and affordable.
- **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.
- **Building and inclusive local economy** - Everyone can access high-quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
- **Delivering and defending health, social care and support** - Ensuring everyone receives the health, mental health, social care and support services they need.
- **Making Lewisham greener** - Everyone enjoys our green spaces, and benefits from a healthy environment as we work to protect and improve our local environment.
- **Building safer communities** - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

Values

3.2 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.

3.3 As noted in the 2020/21 budget, the Council's strong and resilient framework for prioritising action has served the organisation well in the face of austerity and on-going cuts to local government spending. This continues to mean, that even in the face of the most daunting financial challenges facing the Council and its partners, we continue to work alongside our communities to achieve more than we could by simply working alone.

3.4 This joint endeavour helps work through complex challenges, such as the pressures faced by health and social care services, and to secure investment in the borough, for new homes, school improvements, regenerating town centres, 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

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course, there is still much more that can be done to realise our ambitions for the future of the borough; ranging from our work to support housing supply and business growth, through to our programmes of care and support to some of our most vulnerable and troubled families.

- 3.5 It remains clear that the Council cannot do all that it once did, nor meet all those expectations that might once have been met, for we are in a very different financial position than just a decade ago. Severe financial constraints have been imposed on Council services with cuts to be made year on year on year, and this on-going pressure is addressed in this report, incorporating further budget cuts for 2021/22 and noting the continued outlook for austerity to at least 2023/24. This is pending the Fair Funding Review (FFR) and Business Rates Retention (BRR) consultations now due to conclude for 2022/23 at the earliest.
- 3.6 Over the past eleven months, the Council's business, and the day to day lives of Lewisham's residents, has been turned on its head. In March 2020, Council activity simultaneously ground to a halt and ramped up in equal measure. With "non-critical" services wound down almost overnight and a new, urgent focus on "critical services", the Council's leadership team, members and vast range of services faced new demands, challenges, pressures and opportunities.
- 3.7 The pace, scope and scale of change has been immense: the pandemic has demanded agility, creativity, pace, leadership, organisational and personal resilience, strong communications and an unerring focus on the right priorities. Within the Council, the impact of the COVID-19 pandemic is felt acutely across all of our service areas and we are grappling with real challenges in how we keep services running for our residents and how we protect the most vulnerable. Across the borough, residents are looking afresh at our borough, their neighbourhoods, and seeing where they live through new eyes.
- 3.8 While we do not yet fully understand what all of the long-term implications of COVID-19 will mean for the borough, there have been many clear and visible impacts of the pandemic on our residents, Lewisham the place and also the Council. We know that coronavirus has disproportionately affected certain population groups in Lewisham, matching patterns that have been identified nationally and internationally: older residents, residents born in the Americas & the Caribbean, Africa or the Middle East & Asia, and residents in the most deprived areas of the borough have considerably higher death rates. We know that more Lewisham residents are claiming unemployment benefits compared to the beginning of this year and that food insecurity has increased in the borough.
- 3.9 The Council's finances have also been severely affected by the ongoing pandemic. The cost of coronavirus for Lewisham is estimated to be over £60m this year and rising. Despite government promises early in the pandemic, up to £20m remains unfunded in this financial year with further budget pressures for future years. Officers have taken management action to make in-year savings of £5.4m as well as introducing additional spending controls. During the latter half of the year we began the long, difficult process of identifying cuts of over £40m for the next three years (to April 2024) with £28m identified to be cut in 2021/22, which includes identified action to address the persistent overspend estimated at £10m.
- 3.10 At the same time, as set out at section 6 of the report, the use of resources to address risks and pressures through positive investments is an opportunity. These investments are also supported via the capital programme at section 11. This spending deals with existing pressures and supports the Council in refocusing and changing services where new opportunities and expectations for how the Council can better deliver them to support the community are identified. Being forward looking will support Lewisham's recovery from the Covid-19 pandemic and help the Borough thrive again.

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- 3.11 Infection rates continue to remain high (in our borough, across London and the UK as a whole) and the whole country is again enduring severe restrictions with new national lockdown measures now in place and possibly to remain so until at least the 31 March 2021, subject to review. We now face the challenge of needing to simultaneously respond to the pandemic, plan for the long-term recovery of the place, set a balanced budget for next year, and set the financial basis for the internal recovery of the Council in the coming years.

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

- 4.1 The 2020/21 Budget Report is structured as follows:

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

5. Background

- 5.1 This section sets out the main national macro-economic and public spending position, the current position in respect of local government finance, the impact of Covid-19 on the Council and its recovery plans, and some of the key Council services as context for the Budget spending details.

National Context

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- 5.2 This year all underlying assumptions have been put on hold due to the impact of the Covid-19 pandemic that has hit the global and UK economy hard. The government has had to borrow extensively to meet the costs of supporting businesses and individuals through the pandemic.
- 5.3 Looking forward this backdrop will be carried into and continue deep into 2021/22 and beyond from the current position of economic recession. The recovery plan for how the public finances will be stabilised and debt repaid is yet to be set out by the Chancellor. These decisions will impact how local government is financed in the future but for now planned funding changes have been deferred until at least 2022/23. This uncertainty makes it very difficult for the Council to plan effectively for the medium term.
- 5.4 The Bank of England December 2020 figures confirmed interest rates at 0.1%, quantitative easing totalling £895bn, and inflation at 0.6%. The office of budget responsibility forecasts were for £280bn of borrowing, but this was before the current lockdown was announced. The UK Gross Domestic Product (GDP) fell by 25% in the first months of the pandemic and, while this position has improved since, is now expected to be 11% lower for the year 2020/21. In this period and despite considerable support to businesses, including via the furlough scheme which is currently in place until April 2021, there are now over 700,000 fewer people in employment than at the start of the year.
- 5.5 The UK has now left the European Union. In the face of global economic uncertainty and as the understanding of the new economic relations between the UK and Europe emerge there remain further challenges to the UK economic outlook.

Local Government

- 5.6 The provisional Local Government Finance Settlement was announced on 17 December 2020, with the final settlement expected around the 11 February 2021. This is another one year settlement only pending with the fair funding review, business rates reset and other local government finance changes pushed back again until at least 2022/23.
- 5.7 Along with the settlement announcement, the Government confirmed the continuation and an increase to 3% of the Social Care (SC) precept on Council Tax in 2021/22, created to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on Adult Social Care. In 2020/21, the Council applied a SC precept of 2%. In 2021/22, the Council is permitted to apply a maximum precept of 3% which will generate an extra £3.5m of revenue for Adult Social Care.
- 5.8 The Government also announced that the limit by which Councils can increase their core Council Tax (inclusive of levies) without a referendum, remains at the maximum level of 2%. This will generate approximately £2.3m of revenue for the Council.
- 5.9 The Government decided not to continue with the 75% Business Rates Pilot Pools, including the London pool for 2020/21. London Government through decisions made collectively by the London Councils Leaders Committee and the London Mayor agreed to extend its business rates retention pool in 2020/21 covering the GLA and the 33 London billing authorities. However, with the current uncertainties in the business rates base across London and without any 'no detriment' guarantees from government, London Government has confirmed it will stop the pooling arrangement for 2021/22.
- 5.10 The Mayor is asked to note that Lewisham will not continue its involvement in the London pool for 2021/22 and ask Council to endorse this.
- 5.11 With 2021/22 effectively being another roll forward year, the Government has deferred the fundamental review of the way local government is financed until at least 2022/23.

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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.

- 5.12 Last year the Council was able to set its budget without needing to use reserves. This year again, the Council has identified the £18m of cuts necessary to set a balanced budget and reduce the £10m of persistent service overspending witnessed in some areas over recent years. This is on top of the £7m of cuts agreed for 2020/21 the delivery of which has been pushed back to 2021/22 due to the need to address Covid-19 priorities this year.
- 5.13 While this position is confirmed for one year only, officer's medium term assumptions are that this recognises this higher funding baseline, including the housing, health and social care grants, as the starting point for the fair funding review. Nonetheless, due to the uncertainty surrounding the public finances overall and the local government fair funding review in particular, combined with the expectation that there still remains significant pressure in future years on the Council's limited resources to meet the growing demands of the people it serves; the Council fully expected to have to continue to seek further cuts for future year's budgets. The use of reserves will need to be considered in 2021/22 to meet any cost of recovery from Covid-19 and from 2022/23 if sufficient measures are not found to set a balanced budget each year.
- 5.14 Budget cuts of £28m have so far been identified for 2021/22 under a thematic approach sponsored by Members and led by the Executive Management Team. Assuming the measures proposed and the 2021/22 budget as set out in this report are agreed, the Council can set a balanced budget for the next financial year.

Covid-19 and the Council

- 5.15 With the third wave lockdown restrictions in place in Lewisham, realistically expected to extend into 2021/22 in some form, the Council is now acting once again to protect critical services and support vulnerable residents through another very challenging period. This in addition to supporting the scaling up of the national vaccination and track and trace programmes. While the Council may have to rely on its reserves for some of the impact of COVID-19, reserves by their nature once used are gone. They cannot therefore also be relied on to delay or avoid the difficult budget task of bringing spending into line with available resources.
- 5.16 Lewisham's recovery from coronavirus will be underpinned by the following anchoring principles which will continue to be at the heart of all decision-making, planning and action over the coming months:
- Tackling widening social, economic and health inequalities;
 - Protecting and empowering our most vulnerable residents;
 - Ensuring the Council's continued resilience, stability and sustainability;
 - Enabling residents to make the most of Lewisham the place; and
 - Collaborating and working together with our communities and partnership across the borough.
- 5.17 Recovery will mirror the Council's successful response structure, with two perspectives: internal (the Council's recovery) and external (the Borough's recovery).
- 5.18 The Council's internal recovery is to be driven by the lessons learned from responding to COVID-19, the known and emerging impacts on our communities and the need to

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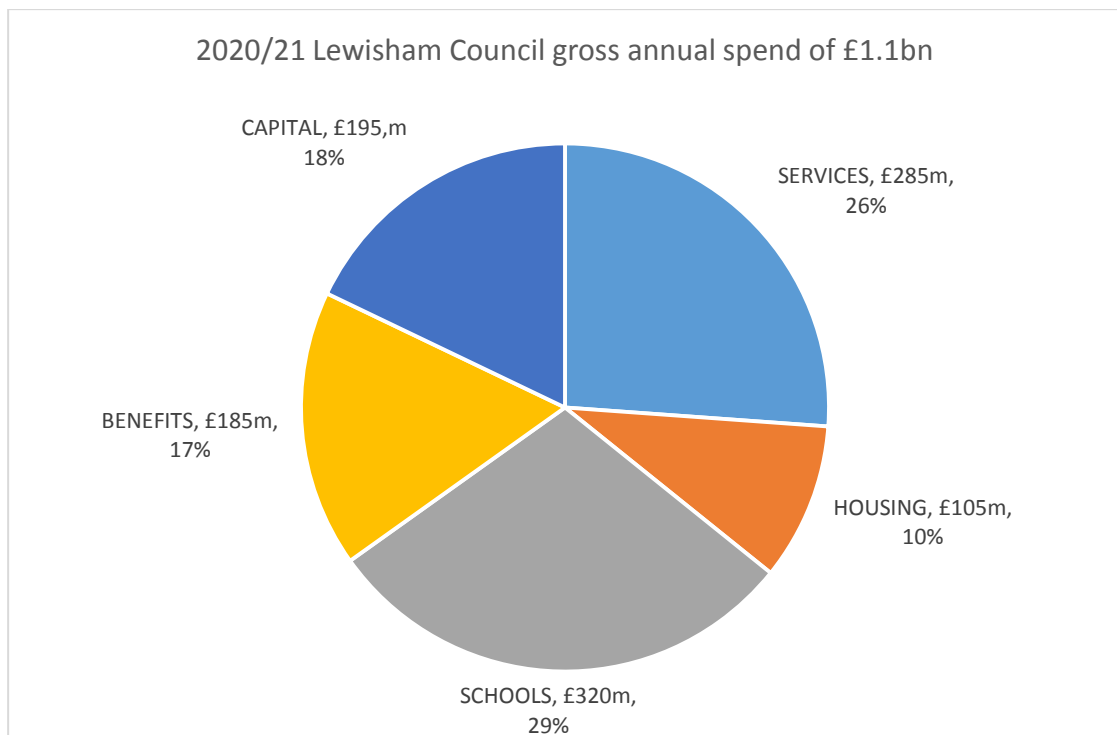
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deliver transformation at the scale needed to meet the current financial challenge. The 2021/22 budget-setting process is the first step in a three-year internal transformation programme to deliver cuts as set out on the Medium Term Financial Strategy (MTFS).

- 5.19 Officers will be applying a programme management approach to deliver the strategic budget proposals as set out in this report and the accompanying cuts reports, if agreed. Officers will be supported to ensure that the proposals identified are realistic and taken through the new Programme Management Office (PMO) assurance and governance processes, giving rigour to the structure and delivery of the individual projects including the important financial, legal, equalities and other implications.
- 5.20 This internal recovery approach is inherently linked to the 'external' recovery of the borough, the recovery of Lewisham the place. For Lewisham, a post-pandemic future could bring opportunities and it is vital our communities are able to make the most of what's on their doorstep. We look ahead to a huge opportunity to recover positively in partnership with our communities and partners and neighbours, to support community development and resilience, to nurture and develop Lewisham's vibrant cultural scene using the platform of Borough of Culture, to promote a sustainable and thriving local economy, to tackle health inequalities, to achieve a fairer zero-carbon future, and to support our borough's children and young people. The borough's long-term recovery will be led by the Mayor along with Councillors, as the borough's community leaders, who will shape and drive priorities for recovery across Lewisham.

Budget context

- 5.21 The Council spends over £1.1bn annually on services for residents. In broad terms this splits as follows:

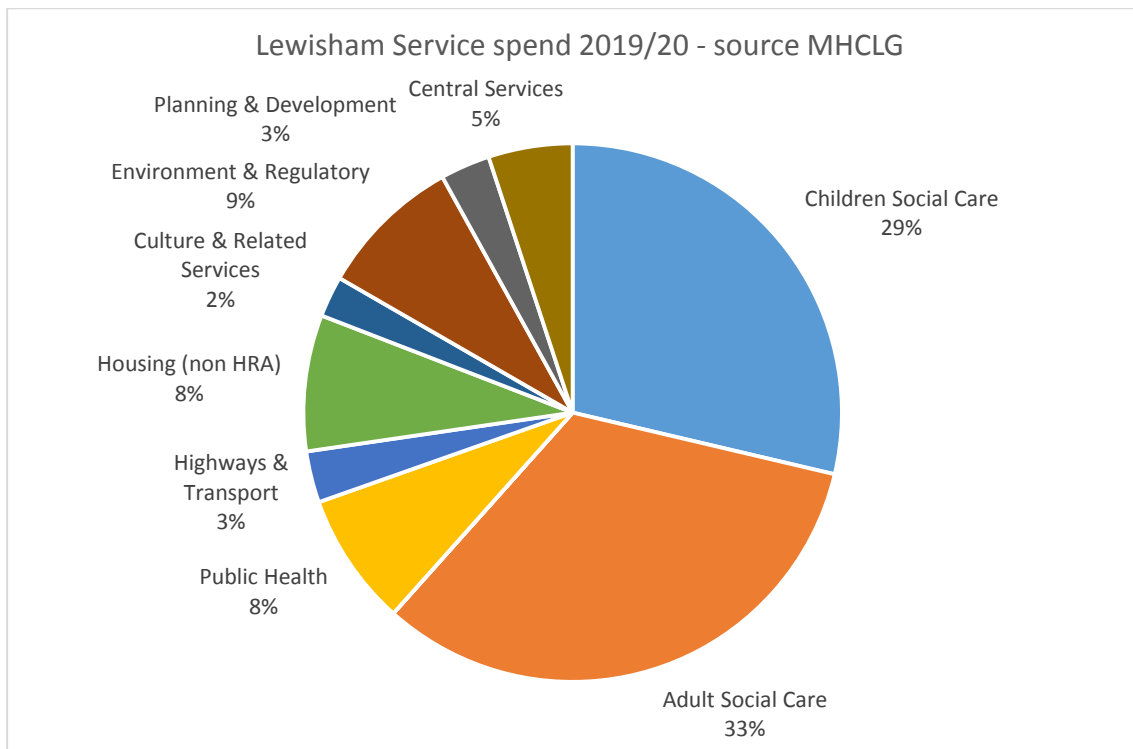


- 5.22 In respect of the £285m Services element of this annual spend, this is the gross spend built from the £248m general fund budget and income from grants, fees and charges, the money is directed as follows:

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- 5.23 The Council serves an estimated population of 305,000 people who live in 130,000 households. Residents of Lewisham are diverse, with people of more than 70 nationalities speaking over 170 languages. The number of residents is also growing; over 12% since the last census in 2011 and growth is forecast to continue with the population rising by 55,000 to 360,000 (or 18%) by 2041. These numbers will be reassessed with the 2021 census being undertaken this calendar year.
- 5.24 The Council works hard to be available for residents when they need it. Through the Customer Services access point, the Council responds to over 500,000 items of correspondence and receives over 18,000 visits a year. In addition, through the registry office, the Council processes over 7,500 births, deaths and marriages. While these activities have had to move on-line for 2020/21 due to the Covid-19 pandemic the Council has continued to support residents with these core services while also handling a significant rise in other customer services needs for businesses and residents in these challenging times.
- 5.25 In addition to supporting a diverse and growing population, the budget contributes to the Council's commitment to extend local democracy. With the Covid-19 pandemic the Council is jointly sponsoring research with the University of Birmingham into the impact on BAME communities alongside wider socio-economic factors. While the resettlement of refugees was paused due to the pandemic in 2020/21, in line with the corporate strategy Lewisham remains committed to resuming this work and welcoming more of those seeking asylum in the UK.
- 5.26 The budget supports a wide range of age groups across more than 600 individual services.
- 5.27 For young people, the schools' budget provides for 77 maintained schools from nursery level through to secondary. This means 85% (30,500) of all school age children attend one of our maintained schools.
- 5.28 Our Strategic Housing service benefits a large number of residents. The work done with partners to deliver Social Housing and Temporary Accommodation helps provide for the accommodation needs of a quarter of our households with 30,800 households

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in social housing and 2,500 in temporary accommodation. The numbers in temporary accommodation has been supplemented in 2020/21 through the pandemic to ensure everyone on the street was offered a place to stay.

- 5.29 The Borough has over 9,000 businesses registered and, in line with our corporate priority to assist with access to high-quality job opportunities, the budget funds adult education and apprenticeships. During 2020/21 over £50m of grants have been administered by the Council and passed to businesses along with a further £34m of business rates relief. At the same time the Council established a Business Taskforce with Member, partner, and senior officer representation to lead on improving and planning for economic recovery and employment as the Borough recovers from the Covid-19 pandemic. This includes support for kick start programmes and extending the opportunities for local apprenticeships.
- 5.30 The Adult Social Care service provides a range of support to vulnerable users that helps them remain active and independent: 2,350 (or 8%) of those over 65 and 1,265 (or 1%) of the 18-64 population received a service from Lewisham in 2019/20. As well as physical care needs, these services provide support to those with mental health or disability needs. The work of these services has been under particular scrutiny with the Covid-19 pandemic and the Council has worked closely with the NHS to help manage pressures in the system (in particular hospital discharges), as well as working with care providers in the Borough to support the safety of patients and workers, provision of protective equipment, guidance on infection control, and financially where needed to ensure the stability of the market.
- 5.31 The budget also maintains key universal services such as libraries; arts and entertainment centres and sports and recreation facilities. For much of 2020/21 these services have been closed or had their services reduced due to the pandemic. In these cases staff have redeployed to support the critical services response. At the same time recovery planning is being undertaken. For example, the Council moved its large leisure contract to GLL during the year, has maintained a click and collect library service, and agreed investment of £7m in the theatre as the Council looks forward to being the Borough of Culture next year.
- 5.32 Maintaining a clean and green environment is beneficial for all. The amount of waste recycled, composted or re-used is growing year on year. Each week Lewisham waste services collect 2,500 tonnes of waste from households. And thanks to the efforts of residents, the Council are currently able to keep 25% of that waste from being incinerated. These efforts have also resulted in over 18,000 tonnes of waste to be recycled this year. The level of waste collected in the Borough has risen in 2020/21 with lockdown and more working from home with the service responding and continuing despite the pandemic.
- 5.33 The Council is also responsible for maintaining 397km of roads and 12km of footpaths. The Environment service sweeps the town centres daily and main residential streets weekly. The Council also manages the parking service, including permits and enforcement. These are service areas which will play a significant part in supporting the delivery of a zero-carbon borough. Through the Covid-19 pandemic the Council has continued to support key workers by offering parking permits in response to health needs.
- 5.34 Residents enjoy the Borough's green spaces and the budget supports the work that the Green Scene service does to maintain the high standard of Lewisham's parks. There are 47 parks in the borough and 15 of these have the coveted 'Green Flag' rating. Our achievements in this service area have been recognised by our residents with 74% of residents who responded to the 2018 'Parks and Open Spaces survey' felt the standard of the parks in Lewisham has been maintained at a good or fair level. The Council also ranked first in the recent "Good Parks for London" group. These outdoor

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spaces have proved a valued lifeline for exercise and wellbeing activities for residents through the Covid-19 pandemic in 2020/21.

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

- General Fund Revenue Budget for 2020/21;
- Council Tax level for 2020/21;
- Other Grants for 2020/21;
- Dedicated Schools Grant (DSG) for 2020/21;
- Housing Revenue Account (HRA) and level of rents for 2020/21;
- Treasury Management Strategy for 2020/21; and
- Capital Programme for 2019/20 to 2022/23.

6. General Fund Revenue Budget And Council Tax

6.1. This section considers the General Fund revenue budget and Council Tax. The General Fund budget for 2021/22, assuming a Council Tax increase of 4.99%, is £243.100m. Details of the cuts approved for 2021/22 are provided at Appendices Y1 and Y2.

6.2. It is structured as follows:

- Update on 2020/21 Revenue Budget;
- The Budget Model;
- Budget Cuts;
- Council Tax for 2021/22; and
- Overall Budget Position for 2021/22.

Update on 2020/21 Revenue Budget

6.3. The Council's revenue budget for 2020/21 was agreed at Council on 26 February 2020. The general fund budget requirement was set at £248.714m.

6.4. 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. They include, for example: Looked After Children; Nightly Paid Accommodation; and Children's Social Care. Continuing pressures also exist in Environment Services, magnified since the inception of the new service model in 2016/17, and is subject to ongoing scrutiny and management action.

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

6.6. An initial projected overspend was reported at the end of May 2020, post the application of the monies received to date from government to support the Council's

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response to Covid. Officers undertook management action to make in-year savings of £5.4m as well as introducing additional spending controls, and in the August monitoring report this overspend had reduced to £10.4m. The forecast non-Covid overspend had again further reduced to £3.6m in the October 2020 monitoring report.

- 6.7. In spite of the continued management action and temporary spending controls in place the persistent overspending projection and underlying service demands remain and therefore £10m has been included as part of the budget cuts proposals for 2021/22 to ensure that the Council can set a balanced budget for 2021/22.

Directorates

- 6.8. Table A1 sets out the latest forecast budget variances on the General Fund by Directorate, separately identifying the Covid pressures from the non Covid directorate pressures, totalling £3.6m.

Table A1: Forecast outturn for 2020/21 as at end of October 2020

| Directorate | Net budget 2020/21 | Forecast Outturn 2020/21 As at end of October 2020 | Forecast Variance Over/ (Under) Spend October 2020 | Covid-19 Related Variance October 2020 | Non Covid-19 Service Variance October 2020 |
|--------------------------------|--------------------|--|--|--|--|
| | £m | £m | £m | £m | |
| Children & Young People (1) | 60.3 | 71.7 | 11.4 | 4.5 | 6.9 |
| Community Services | 89.3 | 102.6 | 13.3 | 16.8 | (3.5) |
| Housing, Regen' & Public Realm | 23.2 | 32.7 | 9.5 | 9.7 | (0.2) |
| Corporate Resources (2) | 35.3 | 39.4 | 4.1 | 3.4 | 0.7 |
| Chief Executive | 12.2 | 12.3 | 0.1 | 0.4 | (0.3) |
| Directorate Totals | 220.3 | 258.7 | 38.4 | 34.8 | 3.6 |
| Covid Grant Funding | N/A | N/A | (36.6) | (36.6) | 0.0 |
| Corporate Items | 28.3 | 28.3 | 1.4 | 1.4 | 0.0 |
| Net Revenue Budget | 248.6 | 287.0 | 3.2 | (0.4) | 3.6 |

(1) – gross figures exclude £180m Dedicated Schools' Grant expenditure and matching grant income

(2) – gross figures exclude approximately £213m of matching income and expenditure for housing benefits.

Corporate Financial Provisions

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- 6.9. Corporate Financial Provisions are budgets that are held centrally for corporate purposes and which do not form part of the controllable expenditure of the service directorates. They include Capital Expenditure charged to the Revenue Account (CERA), Treasury Management budgets such as Interest on Revenue Balances (IRB) and Debt Charges, Corporate Working Balances and various provisions for items such as early retirement and voluntary severance. Spend of the Corporate Financial Provisions is expected to be contained within budget by the year-end.
- 6.10. Consideration is now being given to employing the use of corporate measures to balance the budget at year end. This will be to address any shortfall in support for Covid-19 costs as well as underlying service overspending. It is proposed to meet the 2020/21 budget overspend from provisions and reserves, with the final position declared in the outturn report to Members.

The Budget Model

- 6.11. This section of the report sets out the construction of the 2021/22 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

- 6.12. The Council has made substantial reductions to its expenditure over the last ten years. Subject to the outcome of the multi-year Comprehensive Spending Review (CSR) now expected in 2021 for 2021/22 and the outcome of the government's fair funding review, 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 2021/22 as part of a sustainable financial strategy to 2024/25.

Council Tax

- 6.13. Since 2016/17, the government has allowed councils with social care responsibilities to apply a percentage increase on council tax (the Social Care precept), the funds of which are ring-fenced to Adult Social Care (ASC) services. To date, Lewisham has applied a 10% increase over the five year period. The government is once again allowing councils to apply a precept for 2021/22, up to a maximum of 3%. For 2021/22 this will generate £3.494m of additional income for ASC services. This report proposes that the Mayor recommends that Council approve the 3% ASC precept for 2021/22 to obtain the maximum benefit permitted.
- 6.14. The assumption used in the model for preparing the 2021/22 budget, subject to confirmation by Council, is for a total Council Tax increase (Lewisham element) of 4.99%. A 3% increase for the social care precept and a 1.99% increase in the core element under the revised referendum principle announced along with the provisional Finance Settlement on 17 December 2020.
- 6.15. 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

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recommendation would require support in a local referendum due to the limit set by the Secretary of State.

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

Inflation

- 6.17. The Government's inflation target for the United Kingdom is defined in terms of the Consumer Price Index (CPI) measure of inflation which excludes mortgage interest payments. Since April 2011, the CPI has also been used for the indexation of benefits, tax credits, and public service pensions.
- 6.18. For financial planning purposes, the Council has previously assumed an average pay inflation of 2% per annum, which equates to approximately £2.5m. 2020/21 is the last year of the current pay settlement via the National Joint Council (NJC) for Local Government which saw an increase of 2.75%. The government has frozen public sector wages other than for health services for 2021/22.
- 6.19. Lewisham's lowest pay band exceeds the national and London living wage amounts. A provision of 2% (£2.6m) had been made to cover 2021/22 pay inflation in the MTFS which, due to the pay freeze, now forms part of the productivity cuts for the budget.
- 6.20. The Council budgets for a non-pay inflation rate budget of 1.5% per annum. This is higher than the forecast CPI inflation rates for 2021 to reflect the underlying commitments in Council contracts. This equates to approximately £1.3m (net) in 2020/21.
- 6.21. Unless pre-defined by statute or otherwise agreed, all services are expected to uplift their fees and charges annually in line with the Council's inflation assumptions, or for full cost recovery if this is higher, to allow for stability in real terms.

New Homes Bonus

- 6.22. The New Homes Bonus (NHB) sits alongside the Council's planning system and is designed to create a fiscal incentive to encourage housing growth. The Ministry of Housing, Communities and Local Government (MHCLG) has been paying the NHB as un-ringfenced grant to enable local authorities to decide how to spend the funding. The scheme design sets some guidance about the priorities that spend should be focused on, in that it is being provided to 'help deliver the vision and objectives of the community and the spatial strategy for the area and in line with local community wishes'.
- 6.23. In the provisional Local Government Finance Settlement statement, the Secretary of State announced that for 2021/22 the NHB would 'roll forward' for one more year but without legacy payments.
- 6.24. The provisional allocation for 2021/22 in Lewisham is £2.652m. This is a reduction on the £6.176m received in 2020/21 as a result of the loss of legacy payments. Given the reducing and uncertain nature of this funding the NHB is being treated as one off monies to be used to support 'task and finish' activities, not recurring spend. For 2021/22 this will be for supporting Covid recovery work to make the most of the opportunities to deliver the place and community support needed in the Borough.

Budget Pressures to be funded

2020/21

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- 6.25. In 2020/21, the funds set aside in the budget model to meet specific identified budget pressures and potential budget risks was £6.5m. This was allocated in full to identified risks and pressures.

2021/22

- 6.26. The MTFs for 2021/22 sets aside a further £6.5m for budget pressures and risks. To this it is recommended the saving of £1.5m is added from reduced contributions required to the London concessionary fares scheme as a result of reduced demand through 2020/21. In addition, it is recommended that the £2.339m of additional social care grant (on top of the £8.434m received in 2020/21 and continuing for 2021/22) be used to address current pressures. These actions will provide £10.339m to be allocated to selected budget pressure and growth areas that will present as challenges in future budgets if not corrected.
- 6.27. In terms of accounting for these, it is proposed that these investments and pressures are allocated in line with the decisions of this budget from the corporate risk and pressures monies and £3.5m from the Social Care precept to the relevant Directorates when determining their cash limits for 2020/21.
- 6.28. To the funding of these pressures can be added the NHB of £2.652m, lower tier baseline grant of £0.700m, and corporate items to support one-off pressures identified as needing funding in 2021/22.
- 6.29. Using cash budgets (in particular grants such as the Social Care Grant) presents a risk for future years although the medium planning assumptions are that this level of funding for 2021/22 from government is in recognition of the pressures faced by local authorities and will effectively form the baseline pending fair funding review.
- 6.30. The budget pressures anticipated in 2021/22 have been reviewed and it is recommended that the following identified pressures are funded now, set against the Corporate Strategy priorities. These exclude pressures associated with services experiencing persistent overspends as these have been addressed via the cuts process.
- 6.31. Table A2 provides a summary of the corporate risk and pressures budget and those pressures and risks that are being recommended to be funded.

Table A2: Summary of 2021/22 budget pressures to be funded

| Description | £'000 | £'000 |
|---|-------|---------------|
| Social Care precept | 3,494 | 3,494 |
| <u>Ongoing</u> | | |
| Risk & Pressures budget available in 2021/22 | 6,500 | |
| Reduction in Concessionary Fares budget | 1,500 | |
| Social care grant (additional) | 2,339 | 10,339 |
| <u>Once-off</u> | | |
| New Homes Bonus | 2,652 | |
| Lower tier grant | 700 | |
| Corporate items (legacy s31 grant) | 2,500 | 5,852 |
| Total Resources Available for Risks and Pressures in 2021/22 | | 19,685 |
| Recommended Allocations | | |

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| Description | £'000 | £'000 |
|---|--------|----------------|
| Corporate Strategy priorities | | |
| <i>Open Lewisham</i> | -1,870 | |
| Leisure | | |
| Planning | | |
| <i>Tackling the Housing Crisis</i> | -200 | |
| Review of strategic housing | | |
| <i>Giving Children the best start</i> | -4,040 | |
| Children Social Care | | |
| School Transport | | |
| School catering contract | | |
| Troubled Families | | |
| <i>Building an inclusive economy</i> | -50 | |
| Economy and partnerships | | |
| <i>Defending health & social care</i> | -3,494 | |
| Social Care precept from Council Tax | | |
| <i>Making Lewisham greener</i> | -2,632 | |
| Environment Services - waste | | |
| Tree safety | | |
| Energy | | |
| Fleet replacement (build capital fund) | | |
| <i>Building a safer community</i> | -82 | |
| Bereavement | | |
| Total Corporate Strategy priorities | | -12,368 |
| Organisational value for money | | -3,220 |
| Corporate Services | | |
| Technology and Digital | | |
| Estate compliance | | |
| Transformation investment and potential unachieved savings | | 4,097 |
| Grand Total Funded Pressures | | -19,685 |

Open Lewisham – £1,870m

- 6.32. The commitments to this priority include additional resource to support the new leisure contract for the initial two years of operation to ensure that the Council can provide a leisure offering that supports its residents' health and wellbeing. Linked to the emerging leisure strategy this will enable Lewisham's residents to access quality leisure facilities. There is also resources to support the Council in the preparation of neighbourhood plans to ensure that these come forward and best meet local needs.

Tackling the housing crisis – £0.200m

- 6.33. This is directed to an emerging pressure on the housing service budget, to enable a review of the delivery of strategic housing within the borough.

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Giving Children the best start - £4,040m

- 6.34. There is a statutory requirement to provide home to school transport for children with Educational Health & Care Plan where the plan specifies a transport service. From 2015 to 2019 the number of EHCPs in Lewisham increased by 65.5% from 1,408 to 2,344. The number of ECHPs in Lewisham now stands at 2,873, representing a further 22.5% increase since the January 2020 SEN2 census date. The service has committed to reduce the persistent overspend in this service, but it is proposed that this is part funded to enable a base budget that better reflects the increased level of need. In addition, new proposals for the schools catering contract and the reversal of a previous saving not achieved in the work with Troubled Families are proposed to be funded to enable these services to start the year with the correct budget and focus on changes for the future.

Building an inclusive economy - £0.005m

- 6.35. The long term impact of Covid on the economy and its residents and businesses has meant that it's vital that we increase the investment in the economy and partnerships team to promote employment and take up of the Kickstart scheme as part of the Council's inclusive growth strategy in 2021/22. This work, with the support of the Business Taskforce established in 2020, will be over seen by the expanded economy and partnerships team with £0.5m of Covid grant funding their work in 2021/22 and subject to review of the outcomes and ability to support this investment for future years.

Defending Health & Social Care - £3.494m

- 6.36. This proposed budget increase applies the Social Care precept to support the work of Adult Social Care services. This will enable the service to continue to work constructively with the health sector and private care market given the continued demand and cost pressures faced with a growing elderly population, work on earlier discharges from hospital into care, and rising costs in a fragile market for care services.

Making Lewisham Greener - £2.632m

- 6.37. The risk and pressures to be invested against this priority aim to support the Council's commitment to be carbon neutral by 2030 in line with the declared climate emergency. This includes investing in the Council's infrastructure, in particular its vehicles, to be compliant with low emission requirements, address the additional costs arising from separating waste to compost, re-use, and recycle more waste with less to land fill, and ensuring that the boroughs trees remain safe for residents and continue to contribute to residents' health and wellbeing.

Building a Safer Community - £0.008m

- 6.38. This funding for 2021/22 will be invested in our bereavement services to ensure that we not only meet our statutory duties but provide quality services that meet the needs of our communities.

Organisational value for money - £3.220m

- 6.39. In addition to the corporate strategy the Council is a large and complex organisation. Through the decade of austerity to 2021 the Council's support services have borne a

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significant proportion of the budget cuts. This was recognised in the 2019/20 budget round and this investment is to reverse some previously agreed cuts and enhance the resourcing for some of these services. In particular; finance and technology – which has underpinned the Council’s ability to continue to work effectively during the pandemic. In addition work as part of the capital strategy (section 11) is underway to assess the level of capital investment required to sustain the Council’s technology infrastructure in a secure, resilient, and optimal state. There is also the need to permanently fund the additional salary inflation as 2.0% was budgeted for in 2020/21 but 2.75% awarded.

Transformation investment - £4,097m

- 6.40. Lewisham’s recovery from coronavirus will be underpinned by the following anchoring principles which will be at the heart of all decision-making, planning and action over the coming months:
- Tackling widening social, economic and health inequalities;
 - Protecting and empowering our most vulnerable residents;
 - Ensuring the Council’s continued resilience, stability and sustainability;
 - Enabling residents to make the most of Lewisham the place; and
 - Collaborating and working together with our communities and partnership across the borough.
- 6.41. Recovery will mirror the Council’s successful response structure, with two perspectives: internal (the Council’s recovery) and external (the Borough’s recovery).
- 6.42. The Council’s internal recovery is to be driven by the lessons learned from responding to COVID-19, the known and emerging impacts on our communities and the need to deliver transformation at the scale needed to meet the current financial challenge. This transformation will require investment and the continued (albeit reduced) availability of the New Homes Bonus to be invested to support improvement and change work.
- 6.43. This transformation investment is needed to improve the Council’s effectiveness and efficiency going forward. This transformation will enable; a better critical mass of key services to be marshalled together, inject some capacity where it can have the most impact; and enable different approaches to be adopted to tackle key issues.
- 6.44. Some of this allocation may be required in the event of unachieved savings or, if more significant in value the use of corporate provisions and reserves will be required pending the service identifying sufficient alternative cuts.

Risks and other potential budget pressures to be managed

- 6.45. Following the review of budget pressures within Directorates, there are a number of other risks and issues which, although difficult to quantify with absolute certainty, could prove significant should they materialise.
- 6.46. 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;
 - National / London Living Wage;
 - Temporary Accommodation / Homelessness;
 - Redundancy;

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- Unwinding Covid-19 critical response and recovery; and
- Unachieved cuts.

Adult Social Care, including Transition demands

- 6.47. 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 2021/22 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. This will form part of the service review being commissioned to report by the summer of 2021.

National / London Living Wage

- 6.48. The Council has for some years now ensured it pays the London Living Wage to staff and contractors where this has been possible to contract for. However, there have remained some areas where this has not always been possible – for example; sub-contractors on some works contracts and contracting for some care services. The recent increases in living wage and focus on modern slavery and ethical charter considerations in procurement rules go some way to closing this remaining gap to ensure all employees are paid a fair wage.
- 6.49. 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

- 6.50. 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. From 2020/21 to this has been added the impact of Covid-19. These are recognised nationally, by the London Mayor and locally, of course, in Lewisham's strategies and plans. 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 remain significant and cannot be easily quantified in budgetary terms at this time.

Redundancy

- 6.51. The Council will seek to minimise the impact of cuts on services and jobs. However, a significant proportion of the Council's budget goes on staff salaries and wages, so it will not always be possible to make significant investments in service transformation and redesign to achieve budget cuts over the next four years without an impact on jobs. The cost of redundancy depends on age, seniority, and length of service of the individuals affected, and it is not possible to calculate the overall financial impact at this stage. With the introduction of the £95k cap in 2020 such costs may be reduced but further guidance and regulations are pending in respect of the local government pension's scheme. For these reasons the risk cannot be easily quantified at this time.

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Unwinding Covid-19 critical response and recovery

- 6.52. The Covid-19 pandemic has significantly impacted the Council's finances and continues to change service priorities to enable resources to focus on critical services. The estimates for 2020/21 are for cost implications and forgone income estimates of over £60m. Against these there are a range of government funding streams to offset the losses, with new ones (e.g. track and trace, tier funding) being added and others (such as compensation for forgone income) still being worked through. These financial implications along with the operational challenges and opportunities to focus the recovery work in the Borough on community needs and improvements to the place are complete, will involve the whole Council, and take time. As such the risks and associated costs and investments cannot be easily quantified at this time.

Unachieved Cuts

- 6.53. The delivery of the budget savings proposals will be through a strategic PMO approach. This will ensure robust management of delivery through the use of a newly developed Lewisham PMO framework and tools, and each directorate will have the support of a dedicated Strategic Transformation and OD Business Partner who will provide assurance, challenge and direction on delivery, and support to ensure the most suitable approach to delivery is being taken for each proposal. Specifically in relation to ensuring that equalities implications are considered in the delivery of every cut the Business Partners will work closely with the policy and communications team to ensure that both engagement and assessment of impact in the planning of delivery is timely, meaningful and considered across the programme. This will provide join up and assurance and identify any further compounding factors that have not yet been identified at the proposal stage.
- 6.54. The new strategic governance process through Thematic Boards and overseen by EMT will provide visibility of progress, risks, challenges and robust governance of the programme as a whole. Alongside, the PMO will be monitoring and reporting on programme-wide delivery of cuts, risks and equalities impact. Clear roles and responsibilities (between the PMO and service Directors) are being drawn up in order to ensure there are clear lines of accountability.
- 6.55. Staff will be further involved in the delivery of the cuts directly through discussions with managers in impacted services, but also strategically through our wider forums and staff engagement. Led directly by staff members in the Change Network, there is a project being developed to ensure that staff are involved strategically as well as directly in identifying further ways to change and deliver services in light of our financial challenges. Staff will be supported and empowered to bring forward ideas and develop them into specific change/cut proposals over the coming months. This will feed into both delivery of cuts proposals already identified, as well as the identification of additional proposals for the coming years
- 6.56. In the event that this approach cannot ensure the full delivery of the budget cuts and pressures arise in the year and are not able to be contained with Directorate budgets, they may become an additional call on corporate provisions and reserves until alternative cuts are agreed and implemented.

Summary of Budget Pressures and Investment

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

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- 6.58. There are some pressures to be funded, which can be quantified within a reasonable range. These fully commit the available £6.5m allocation and additional resources received for 2021/22. Including the use of some funding to invest in change and support the transformation work necessary to redesign services and improve the Council's culture to further collaborative working.
- 6.59. 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.

2021/22 Budget Cut Proposals

- 6.60. On the 9 December 2020, the Mayor and Cabinet agreed £15.051m of budget cut proposals for 2021/22. A summary of these cuts is attached as Appendix Y1 to this report.
- 6.61. In addition, on the 3 February 2021, the Mayor and Cabinet agreed a further £12.965m worth of budget cuts for 2021/22. A summary of these cuts is attached as Appendix Y2 to this report.
- 6.62. These cuts totalling £28.016m have been included in the 2021/22 budget calculation. They must be achieved in order to maintain a balanced budget and manage the persistent overspend. The delivery of these cuts will be monitored, any shortfall will have to be covered, in the short term pending services offering alternative proposals, through the use of reserves.
- 6.63. No estimates for Settlement Funding Assessment (SFA) in 2022/23 have been provided by the Government. 2021/22 is effectively a roll forward year for the SFA, and the outcome of the fair funding review is due later on in 2021. The prospects for future funding remain uncertain.

2020/21 Council Tax

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

Collection Fund

- 6.65. Collection Fund surpluses or deficits reflect whether the Council over or under achieves its Council Tax collection targets. Therefore, this requires a calculation to be made of how much the Council has already received for the Council Tax in the current and past years and how much of the outstanding debt it expects to collect.
- 6.66. The statutory calculation was carried out for the 15 January (date prescribed by the relevant statutory instrument). This calculation showed there is an estimated deficit on the Collection Fund in respect of Council Tax, for the years to 2020/21 of £3,129,000. This reflects the ongoing work of the Public Services team to carefully collect all monies owing to the Council but also the impact of Covid-19 to collection and rise in those eligible for the Council Tax Reduction scheme.
- 6.67. This deficit 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 £2,498,000 of the total deficit 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 £631,000 is allocated to the GLA.

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Council Tax Reduction Scheme

- 6.68. Members should note that the Council agreed on the 20 January 2021 that no changes are to be made to the Council Tax Reduction Scheme (CTRS) for 2021/22 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 2021/22. This means that everyone of working-age has to continue to pay a minimum of 25% of their council tax liability.

Council Tax Levels

- 6.69. In the 2021/22 Local Government Finance Settlement, the Government announced a 2% limit to the amount by which Councils can increase their Council Tax (inclusive of levies) without a referendum. In addition, there is also the opportunity to increase Council Tax by up to a further 3%, for the Social Care Precept in 2021/22. The government's assumptions in the local government finance settlement 2021/22 include the raising of both Council Tax and the Social Care precept in each and every year to meet the recognised funding pressures faced by the sector.
- 6.70. In 2021/22, the recommendation is that the Council approve a 3% Social Care precept which will provide additional funding of £3.5m, ring fenced for Adult Social Care spend. If implemented this charge has to be identified on the face of the Council Tax bill and made clear in the accompanying guidance for rate payers.
- 6.71. At the same time an increase in core Council Tax of 1.99% (i.e. within the limit of the 2% referendum threshold) would provide additional funding of approximately £2.3m.
- 6.72. 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 2021/22 and their general responsibilities to steward the Council's finances over the medium term.
- 6.73. In 2020/21, the Band D Council Tax in Lewisham is £1,646.44 on a base of 90,099.3 Band D equivalent properties. Of this, £332.07 relates to the activities of the GLA which the Council pays over to them on collection, Lewisham's element is £1,314.37.
- 6.74. The GLA is consulting on a precept of £363.66 (Band D equivalent) for 2021/22, an increase of £31.59 or 9.51%, and a final decision is expected from them on or after the 25 February 2021.
- 6.75. For 2021/22, the Band D Council Tax in Lewisham is recommended to be £1,743.62 on a base of 88,614.3 Band D equivalent properties (the base was approved by Council on the 20 January). Of this, £363.66 relates to the activities of the GLA which the Council will pay over to them on collection. Lewisham's element will therefore be £1,379.95, which includes a 2021/22 increase of £65.59 (4.99%).
- 6.76. Table D5 below shows, for illustrative purposes, the Council Tax payable by a Lewisham resident in a Band D property in 2021/22 under a range of possible Council Tax increases, and the financial implications of this for the Council. A full Council Tax Ready Reckoner is attached at Appendix Y4.
- 6.77. The starting point is for an assumed 4.99% increase in Lewisham's Council Tax for 2021/22, 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 2021/22 and the budget gap in future years.

Table A3 – Band D Council Tax Levels for 2021/22

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| 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 | 1,379.96 | 363.66 | 1,743.62 | 5.90 | - |
| 4.50% increase | 1,373.52 | 363.66 | 1,737.18 | 5.51 | -0.57 |
| 3.99% increase | 1,366.95 | 363.66 | 1,730.61 | 5.11 | -1.15 |
| 3.50% increase | 1,360.38 | 363.66 | 1,724.04 | 4.71 | -1.74 |
| 3.00% increase | 1,353.80 | 363.66 | 1,717.46 | 4.31 | -2.32 |
| 2.50% increase | 1,347.23 | 363.66 | 1,710.89 | 3.91 | -2.90 |
| 2.00% increase | 1,340.66 | 363.66 | 1,704.32 | 3.52 | -3.48 |
| 1.50% increase | 1,334.09 | 363.66 | 1,697.75 | 3.12 | -4.06 |
| 1.00% increase | 1,327.52 | 363.66 | 1,691.18 | 2.72 | -4.65 |
| 0.50% increase | 1,320.94 | 363.66 | 1,684.60 | 2.32 | -5.23 |
| Council Tax Freeze | 1,314.37 | 363.66 | 1,678.03 | 1.92 | -5.81 |

6.78. In January 2021 at the Council meeting, Council set the Council Tax base for 2021/22 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 2021/22

6.79. For 2021/22, the overall budget position for the Council is an assumed General Fund Budget Requirement of £243.100m, as set out in Table D6 below:

Table A4 - Overall Budget Position for 2020/21

| Detail | Expenditure/ (Income) £m | Expenditure/ (Income) £m |
|---|--------------------------------|--------------------------------|
| Settlement Funding Assessment (SFA) for 2021/22 | (123.304) | |
| Council Tax 2021/22 at 4.99% increase | (122.285) | |
| Deficit on Collection Fund | 2.498 | |
| NNDR pressure | 1.000 | |
| Business Rates S31 and Growth | (1.009) | |

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| Detail | Expenditure/ (Income) £m | Expenditure/ (Income) £m |
|--|--------------------------------|--------------------------------|
| Assumed Budget Requirement for 2020/21 | | (243.100) |
| | | |
| Base Budget for 2020/21 | 248.714 | |
| Plus: Additional Pay inflation | 2.657 | |
| Plus: Non-pay Inflation | 1.251 | |
| Plus: Budget pressures to be funded from 20/21 fund | 6.500 | |
| Plus: Adult Social Care Precept | 3.494 | |
| Less: Concessionary fares contribution | (1,500) | |
| Plus: Persistent overspend to be removed via cuts | 10.000 | |
| Less: Cuts proposed for 2021/22 | (28.016) | |
| Total | | 243.100 |

- 6.80. The statutory calculation for the 2021/22 budget requirement is attached to this report at Appendix Y6.
- 6.81. At this time, on the budget assumptions for the General Fund set out above, no use of reserves is required for 2021/22 to enable the Council to set a balanced budget.

Use of Provisions and Reserves

- 6.82. If the need should arise to balance the budget for any in-year pressures using reserves, the Executive Director for Corporate Resources advises that ongoing measures should be identified to rectify this position as quickly as possible and in any event, by the following year. The use of once off resources is therefore just delaying the need to make an equivalent level of saving in the following year.
- 6.83. In addition to the above, as part of the accounts closing process, the ability for the Council to replenish reserves for ongoing work planned for over more than one year and the impact of any risks will be reviewed and assessed and reported on. These risks include:
- Government funding support for the impact of Covid-19 may be insufficient;
 - Agreed cuts experience delays or are 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

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- Further cuts are not identified, putting strain on future budgets.
- 6.84. Further discussion of the use of reserves and planning for future budgets will be reviewed and brought back for Member consideration as part of the next Medium Term Financial Strategy update in July 2021.

7. Other grants and future years' budget strategy

- 7.1. This section of the report considers the other funding streams which the Council currently receives and implications for future years. The critical point for the budget is that spend of these grants is managed by the services to ensure commitments are maintained within the resources available. This is to avoid putting pressure on the General Fund.
- 7.2. These other funding streams are Public Health, Better Care Fund, and various other grants. This section of the report is structured as follows:
- Better Care Fund and improved Better Care Fund 2020/21;
 - Public Health Grant 2020/21;
 - Social Care Grant; and
 - Adult Social Care Precept;

Better Care Fund and improved Better Care Fund

- 7.3. The national Better Care Fund (BCF) was announced by the Government in the June 2013 Spending Round, to support transformation and integration of health and social care services to ensure local people receive better care. The BCF is a pooled budget paid to the National Health Service (NHS) that shifts resources into social care and community services for the benefit of the NHS and local government. The BCF does not represent an increase in funding but rather a realignment of existing funding streams with new conditions attached.
- 7.4. For Lewisham the value in 2020/21 is £23.287m. The allocation for 2021/22 is expected to be at least the same although local allocations have yet to be confirmed. The local plan must be agreed with the Clinical Commissioning Group (CCG) and will require the approval of NHS England.
- 7.5. 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 to be paid over to Lewisham 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 2021/22.
- 7.6. In 2017/18, the government also introduced the improved Better Care Fund (iBCF) to work alongside the BCF. The iBCF in 2020/21 is £14.502m with the formerly separate winter pressures funding included and the grant is expected to continue at the same level in 2021/22. This is intended to fund adult social care activity. Plans for its use in 2021/22 will also require the agreement of local CCG. The grant is likely to be spent in substantially the same way as in 2020/21.

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Public Health Grant

- 7.7. In 2020/21, the Council's allocation for Public Health Grant is £24.8m. Indications are that there will be a small real terms increase in 2021/22 but allocations have not yet been published.
- 7.8. The grant remains ring-fenced and the agreed commitment of these funds will therefore need to be reviewed annually.

Social Care Grant

- 7.9. The provisional Local Government finance settlement in December 2020 committed £300m more for Social Care grant nationally for 2021/22. This has increased Lewisham's grant from £8.434m in 2020/21 to £10.773m in 2021/22 (a 27.7% increase) with the discretion to spend this on both adults and children social care. The budget proposes the increase of £2.339 for 2021/22 will mainly be allocated to Children's Social Care to ease the pressure on placements spend during the year. This is consistent with the approach taken with the £8.4m in 2020/21. The detail is set out in the allocation of resources to pressures in section 6 above.

Social Care Precept

- 7.10. The 3% precept on Council Tax for social care (expected to be £3.5m in 2021/22) will be used to address the increase in fees paid to providers of Adult Social Care and growth in demand from transitions. Fees are expected to increase above the general rate of inflation and in line with London Living Wage (LLW) / National Living Wage (NLW) rates. An indicative increase of 3.5% in the market would represent a cost pressure of approximately £3m on the Council's contracts.

8. Dedicated schools grant and pupil premium

Update on 2020/21 Dedicated Schools Grant

- 8.1. The gross level of the Dedicated Schools' Grant (DSG) for 2020/21 is £296.28m. After the adjustment undertaken by the DfE to recoup funding for Academy Schools and the adjustment necessary for the inter-borough use of high needs places, this is £259.93m. The Early Years' element will be revised later in the year to take account of the pupil count which, for early years children, is undertaken in January 2021. The outcome will not be known until June 2021 and for this reason carries risk.
- 8.2. Overall, the 2020/21 DSG outturn is currently expected to be overspent by between £4m to £5m as a consequence of the pressure on the High Needs Block. Officers within the CYP directorate are progressing a detailed mitigation plan, the basis of which will be used to develop a Management Action Plan for submission to the DfE, this is a requirement where an overspend is forecast. The mitigation plan is being progressed in partnership with the Schools Forum, and this includes a working group of Head teacher representatives and Officers.
- 8.3. In 2020/21 there are 11 schools with deficits, and five schools with loans from the Council, totalling £1.4m. In addition to the 11 schools with deficits, there are 13 schools with balances that are within 8% of their delegated budget share, and 53 schools with balances in excess of 9%. In light of this, Schools have been asked to submit Budget Plans during the year. Review of these plans indicates that a significant number of

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schools expect to need to draw on their reserves to varying degrees in order to be able to set the required balanced 3 year budget plans. The use of reserves is needed to be able to meet the expected financial challenges arising from staffing restructures, movement in pupil numbers, and other unfunded pressures such as the higher than expected pay award in 2020/21.

- 8.4. Schools have faced enormous challenges this year to deliver the Schools Curriculum whilst complying with the necessary Covid regulations. It was noted with extreme disappointment that very limited funding support has been provided to schools. Schools Forum will be expressing their disappointment to the Secretary of State by a direct letter of concern.
- 8.5. The Schools Finance Team (SFT) will continue to work with schools in developing sustainable budget plans. These plans now incorporate management metrics which have been developed to enable schools to be more strategic in their approach to setting and managing budgets. For example, these metrics allow schools to compare and benchmark their resource deployment on leadership, teaching, support administration, and contact time to name a few. For 2020/21, the SFT has launched a process known as Deficit Prevention Plans which enable schools to work effectively towards a 3 year balanced budget position, and the feedback from schools has been very positive.

Dedicated Schools' Grant and Pupil Premium for 2021/22

- 8.6. This section of the report considers the Dedicated Schools' Grant (DSG) and the Pupil Premium Grant for 2021/22.
- 8.7. The Dedicated Schools Grant is the main source of funding for Schools and Early Year Providers. The grant is constituted of four parts, the Schools Block, Central Services Schools Block (CSSB), High Needs Block (HNB), and the Early Years Block (EYB). There is a national funding formula which determines each of the blocks and collectively determines the overall DSG. The provisional allocation of DSG for 2021/22 is £313.60m, an increase of £17.32m on the 2020/21 budget. However, circa £9.06m of this increase relates to the Teachers' Pension and Pay Award grant (TPPG), which has been streamlined into the DSG, and therefore is not additional funding, meaning that the net growth is £8.26m or approximately 2.8%.
- 8.8. It should be noted that this is the gross DSG allocation before the adjustment undertaken by the DfE to recoup funding for Academy Schools and the adjustment necessary for the inter-borough use of high needs places.
- 8.9. The Schools Block is the main basis to support the Schools Delegated budget share and following agreement from Schools Forum on the 19th January 2021, a submission has been made to the Department for Education (DfE) proposing funding at National Funding Formula including a 2% uplift in funding. This is the maximum that can be allocated to schools.
- 8.10. The High Needs Block which supports SEND is now under financial strain, despite the net increase in funding of circa £6m. For this reason, the Schools Block has supported a transfer of £1.068m has been agreed with forum to support the High Needs Block to meet pressures arising from meeting Statutory SEND requirements whilst services are reviewed as part of a mitigation plan. A further £1.243m remains which can be used to support schools pressures, e.g. Falling rolls Fund/Growth Fund.
- 8.11. The Central School Services Block has again been reduced in 2021/22 which reduces the funding available to support Local Authority Statutory functions. The service is currently working with Schools to consider how the delivery of Statutory and Regulatory services can be met within the reduced funding levels.

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- 8.12. Early Years Funding – the funding for this area remains provisional subject to the finalisation of the January Census Count Date. The impact of Covid is likely to have a downward impact on the pupil numbers and therefore the associated funding. The final allocation will not be known until June/July of 2022. A very small increase of 6p, equivalent to approximately £34 for a pupil on universal entitlement of 15 hours, has been allocated to Lewisham. The protection funding for Nursery schools is also not confirmed but remains provisional.
- 8.13. The pupil premium will continue in the 2021/22 financial year. Funding rates for the Pupil Premium in financial year 2021/22 will stay the same as for 2020/21, which is effectively and real term reduction in funding, the 2020/21 allocation was £14.624m. However, for 2021/22, the DfE has also confirmed that the methodology for distribution will change from the January schools census to the October 2020 school census. At this stage, it is not clear if there will be any transitional support should there be any significant changes arising from this change in methodology. Further information is expected in the near future.
- 8.14. Whilst there is extra funding in the settlement, many costs are rising by more than funding, exasperated further where pupil numbers are falling, and the ongoing impact of Covid cannot be accurately forecast. Schools continue to face pressures in their budgets, for example, salary increments, non-teaching pay increase, contract price increases including utilities, and the Apprenticeship Levy.
- 8.15. Table B1 below sets out the gross DSG provisional allocation.

Table B1: DSG Allocation

| | Schools block (£m) | Central school services block (£m) | High needs block (£m) | Early years block (£m) | Total DSG allocation (£m) |
|-----------------|--------------------|------------------------------------|-----------------------|------------------------|---------------------------|
| | A | B | C | D | E=A+B+C+D |
| 2021/22 | 222.769 | 4.261 | 62.399 | 24.166 | 313.595 |
| 2020/21 | 212.135 | 4.645 | 55.586 | 23.914 | 296.279 |
| Movement | 10.634 | -0.384 | 6.814 | 0.252 | 17.316 |

Pupil Numbers

- 8.16. The total changes in pupil numbers are as shown in table B2 below. Overall there is a reduction in numbers of 608 which, whilst relatively small at present, is the third consecutive year of falls and a risk for the schools concerned as funding for schools is driven by pupil numbers and associated characteristics (e.g. Free School Meals). This reduction in numbers could potentially have implications for those schools directly affected.

Table B2: Pupil Numbers

| | Oct-20 | Oct-19 | Change No | Change % |
|----------------|--------|--------|-----------|----------|
| Primary | 24,000 | 24,635 | -635 | -2.58% |

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| | | | | |
|------------------|---------------|---------------|-------------|---------------|
| Secondary | 11,356 | 11,330 | 27 | 0.23% |
| Net | 35,356 | 35,964 | -608 | -1.69% |

High Needs Block

- 8.17. In recognition of the pressures facing high needs, the Government has increased funding to Local Authorities to support high needs. The 2021/22 allocation for Lewisham is an overall net increase of £5.987m, which against the 2020/21 allocation of £55.585m is an 11% increase. This is partially due to an increase of 285 funded pupils.
- 8.18. It is expected that the High Needs Block will overspend for 2020/21 by up to £4m which will be the first call on this budget. It is further expected (assuming 2021/22 continues at the current levels of increase in EHCP) that 2021/22 will see an overspend position of approximately £4m to £5m. Schools Forum at its meeting of the 19th January 2021, agreed to support the High Needs Block with £1.068m. Additionally, there is a mitigation plan in place that is being progressed with Schools Forum. Recognising the funding pressure on Local Authorities, the Department for Education has now placed a new requirement on Local Authorities to submit Management Action Plans in the event of an overspend position. It is likely that Lewisham will need to submit this formally based on the scale of these projections.

Potential Risks

- 8.19. As set out in this section, there remain a number of risks in respect of funding for schools. These include:
- Impact of any overspends and the resultant requirement to establish a deficit recovery plan if the overspend is greater than 1%. In the event that the deficit cannot be contained, this pressure could potentially fall on the Schools Block, or potentially the General Fund triggering a review of services within CYP;
 - In 2019, the DfE introduced changes which now mean that where schools have deficits, these must be held against the overall schools reserves not exceeding 40%. However, if, on conversion to an academy, a school has a deficit this must be supported by the local authority;
 - Schools continue to face pressures arising from changes in policy. Examples include teachers' pay awards, support staff pay award, and pension's changes. This could have varying degree of impact for Schools;
 - Budget plans from Schools suggest that some are operating with a structural deficit dependent on reserves. Schools Finance are working with these schools to mitigate this risk; and
 - Risk of Covid-19 on schools balances; recognising that very limited funding has been made available to schools in terms of dealing with the associated costs of delivering the Schools' Curriculum during the pandemic.

9. Housing Revenue Account (HRA)

- 9.1. This section of the report considers the Housing Revenue Account (HRA). The budgeted expenditure for the HRA in 2021/22 is £269.9m, including the capital and new build programme.

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- 9.2. It is structured as follows:
- Update on the HRA financial position for 2020/21;
 - Update on the HRA Business Plan; and
 - Future Years' Forecast.

Update on the HRA financial position for 2020/21

- 9.3. The HRA is budgeted to spend over £100m in 2020/21. The latest forecast on the HRA for 2020/21, 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

- 9.4. The Housing self-financing system was implemented on 1 April 2012 when the HRA subsidy scheme was abolished. The 30 year financial model has been developed based on current management arrangements and rental income estimates, updated for efficiencies and cost pressures. In addition, policy objectives such as sheltered housing and new build plans are incorporated into the modelling.
- 9.5. The plan underwent a major revision in 2015 for a 1% reduction in social rents applied each year for four years from 2016/17 to 2019/20. The impact of the change overall was assessed at £374.0m of resources lost over the life of the 30 year business plan.
- 9.6. The HRA financial model has been further updated for current guidance that from April 2020 government allows councils with social housing stock to return to the previous formula rent method of rent increase calculations until at least 2025. This method of rent increase is based on prior September's CPI + 1%. This has been implemented in Lewisham and become effective for rental increases applied from April 2020 onwards. For financial year 2021/22, as the September 2020 CPI was 0.5%, the overall increase will be 1.5% (0.5% + 1.0%).
- 9.7. In order to protect the business plan and provide the same level of investment and services, any reduction in income will need to be off-set though increased efficiencies and reprioritisation of investment requirements across stock condition and/or development plans.
- 9.8. 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.
- 9.9. 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 1.5% rent increase estimates for 2021/22. 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).

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Table C1: Update on the HRA Business Plan

| HRA Income & Expenditure Estimates - 5 year Forecast | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|--|---------------|---------------|----------------|----------------|----------------|
| | £m | £m | £m | £m | £m |
| Income | | | | | |
| Rental income | (71.8) | (75.1) | (80.7) | (82.9) | (86.1) |
| Tenants service charge income | (6.3) | (6.4) | (6.5) | (6.6) | (6.7) |
| Leasehold service charge income | (5.1) | (5.3) | (5.4) | (5.5) | (5.7) |
| Hostel charges and grant income | (1.3) | (1.4) | (1.4) | (1.4) | (1.4) |
| Major Works recoveries | (9.9) | (6.2) | (6.0) | (6.1) | (6.1) |
| Other income | (1.6) | (1.6) | (1.6) | (1.6) | (1.6) |
| Interest earned on balances | (1.0) | (0.6) | (0.6) | (0.6) | (0.1) |
| Total Income | (97.0) | (96.6) | (102.2) | (104.7) | (107.7) |
| | | | | | |
| Expenditure | | | | | |
| Management costs | 37.5 | 38.3 | 39.8 | 40.5 | 41.5 |
| Repairs & maintenance | 15.1 | 15.1 | 15.3 | 15.5 | 15.7 |
| PFI Costs | 7.3 | 7.8 | 8.2 | 8.5 | 8.7 |
| Interest & other finance costs | 3.8 | 7.3 | 11.4 | 15.3 | 17.5 |
| Depreciation | 23.7 | 24.1 | 24.6 | 25.0 | 25.5 |
| Revenue Contribution to Capital | 29.7 | 3.8 | 2.4 | 0.0 | 0.0 |
| Total Expenditure | 117.1 | 96.4 | 101.7 | 104.8 | 108.9 |
| | | | | | |

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| | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| Surplus/(deficit) | (20.1) | 0.2 | 0.5 | (0.1) | (1.2) |
| | | | | | |
| Opening HRA reserves | 28.5 | 8.4 | 8.6 | 9.1 | 9.0 |
| Contribution to/(Drawdown) from reserves | (20.1) | 0.2 | 0.5 | (0.1) | (1.2) |
| Closing HRA Reserves | 8.4 | 8.6 | 9.1 | 9.0 | 7.8 |
| | | | | | |
| Forecast Capital Programme & Funding | | | | | |
| Capital programme (including decent Homes) | 74.0 | 46.7 | 45.8 | 46.4 | 46.0 |
| New Build construction & on-going costs (Net) | 78.8 | 102.8 | 106.5 | 70.8 | 60.0 |
| Total Capital Expenditure | 152.8 | 149.5 | 152.3 | 117.2 | 106.0 |
| | | | | | |
| Capital Programme Funded By: | | | | | |
| MRR Opening Balance | 0.0 | 0.0 | 0.2 | 0.1 | (0.2) |
| Revenue Contribution to Capital | (29.7) | (3.8) | (2.4) | 0.0 | 0.0 |
| Depreciation | (23.7) | (24.1) | (24.6) | (25.0) | (25.5) |
| Grants, Capital Receipts & Sales | (21.1) | (27.3) | (13.7) | (10.0) | (53.1) |
| Borrowing | (78.3) | (94.1) | (111.7) | (82.5) | (27.8) |
| Total Capital Funding | (152.8) | (149.3) | (152.2) | (117.4) | (106.6) |
| | | | | | |
| Capital shortfall | 0.0 | 0.2 | 0.1 | (0.2) | (0.6) |
| | | | | | |

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| | | | | | |
|--|-------|-------|-------|-------|-------|
| HRA Actual Debt Level (Forecast) | 101.3 | 195.8 | 307.3 | 389.6 | 417.5 |
| HRA Self-financing Settlement Debt Level (was £127.3m) | n/a | n/a | n/a | n/a | n/a |

- 9.10. As can be seen from the above table, the expected total expenditure, before financing, for the HRA in 2021/22 is £269.9m, comprising £117.1m operational costs and £152.8m capital and new build costs.

Future Years' Forecast

- 9.11. The key purpose of the proposed HRA budget is to ensure that there are sufficient resources to support lifecycle works, such as; repairs and maintenance, the Decent Homes programme and, a key priority for the current administration, delivery of new social homes in the borough.
- 9.12. 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 savings have been identified so far for 2021/22, any savings and efficiencies delivered against the HRA business model and future budgets can be re-invested to off-set constrained rent rises or to help bridge any investment gap identified. Discussions are ongoing to identify appropriate savings and 'target' management and maintenance costs per unit. For example, there is already an assumed reduction in the Lewisham Homes fee in 2021/22 to reflect stock losses through Right to Buy Sales.
- 9.13. Separate reports which set out in detail the proposals relating to service charges for Brockley and Lewisham Homes residents are attached at Appendix X2 and Appendix X3, respectively.

Rental Income and allowances

- 9.14. Following completion of the legislative requirements for 4 years of rental contraction, Government have confirmed rents will return to the previous method of rent increase calculations for 2020/21 onwards. This is based on the previous formula rent calculation of CPI + 1%. This will be for a minimum 5 year period to financial year 2025/26. For the purpose of business and financial planning, it is assumed that that rental charges will be increased in line with this guidance.
- 9.15. At the present time, the financial models used by the council forecast CPI to be within the range of 0.5% to 2.0% annually over this period (in line with the Office for Budget Responsibility forecasts). It should be noted that any variation to this could put additional pressure on the financial forecasts for the HRA. Each 0.5% will cost approximately £0.35m in the first year and represent a loss of £33m compounded over a 40 year period (the development lifecycle being considered for assets).
- 9.16. CPI at September 2020 was 0.5%, therefore rents are expected to increase by 1.5% for 2021/22 (0.5% + 1%), and rise by CPI + 1% for at least the next 4 years to 2025.
- 9.17. A 1.5% increase in average rents for 2021/22 will equate to an average increase of £1.46pw over a 52 week period. This will increase the full year average dwelling rent for the London Borough of Lewisham from £97.72 to £99.18 per week (pw). The proposed increase will result in additional income of £1.020m to the HRA when compared to 2020/21 income levels.

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- 9.18. A rent rise higher than the rent limit calculation, set by Government, will result in additional recharges to the HRA via the Housing Benefit (HB) subsidy limitation charges. Any rise above this level will be lost through additional limitation recharges and therefore result in no benefit to the HRA.
- 9.19. 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).
- 9.20. The main comments received from Lewisham Homes' residents concerning the proposals for rents and garages was that there are issues of affordability given the current pandemic and increase in unemployment. The main comments regarding service charges were questioning value for money as charges are increasing but service delivery is not improving.
- 9.21. There were no specific comments received from RB3 Brockley residents concerning the proposals for rents, garages and service charges.
- 9.22. Details of the options for the rent & service charge changes for 2021/22 will be presented to the Housing Select Committee on 28 January 2021 and feedback, if any, will be reported in the Budget Update report.
- 9.23. Having regard to the outcomes of the consultations held in December 2020 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 1.5% rent increase be agreed as per the rent calculation formula. The new average rent for 2021/22 is likely to be in the region of £99.18pw, an increase of approximately £1.46pw from 2020/21 levels.

Other Associated Charges

- 9.24. 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 2021/22 are set out in detail in Appendix X4.

Summary

- 9.25. The gross budgeted expenditure for the HRA in 2021/22 is £269.9m, £117.1m revenue and £152.9m capital. Council is asked to approve a rent increase of 1.5% having considered tenant's feedback following consultation held in December 2020. The current average weekly rent is £97.72 in 2020/21. This will increase to £99.18pw in 2021/22.

10. Treasury Management Strategy

Background

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

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- 10.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 10.3. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either for day-to-day revenue purposes or for larger capital projects. Treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund.
- 10.4. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, arising usually from capital expenditure, and are separate from the day to day treasury management activities.

Treasury Management Strategy for 2021/2022

- 10.5. The Strategy for 2021/22 covers two main areas:
- i Capital Issues:
 - Capital Investment Plans
 - Capital Strategy
 - Prudential Indicators
 - Minimum Revenue Provision (MRP) Policy
 - ii Treasury Management Issues:
 - Borrowing Strategy & Treasury Indicators
 - Debt Rescheduling
 - Investment Strategy
 - Creditworthiness Policy
 - Updates to Investment Strategy
 - Prospects for Investment Returns

The Strategy will also summarise the Council's non-treasury investments, which are expanded on in the separate Capital Strategy.

- 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 2021/22 incorporates the capital plans of the Council, as set out in section 6 of this Budget Report, which are a key driver of treasury

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management activity. The output of capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

- 10.8. 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 service activity and the Council's Capital Strategy. This involves both the management and monitoring of cash flows and, where capital plans require, the arrangement of appropriate borrowing facilities.

Capital Strategy

- 10.9. The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to produce a Capital Strategy, which will provide the following:
- A high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
 - An overview of how the associated risk is managed; and
 - The implications for future financial sustainability.
- 10.10. The aim of the strategy is to ensure that all elected Members on full Council fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.
- 10.11. The Capital Strategy is reported separately from the Treasury Management Strategy; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Strategy shows:
- The corporate governance arrangements for these types of activities;
 - Any service objectives relating to the investments;
 - The expected income, costs and resulting contribution;
 - 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; and
 - The risks associated with each activity.
- 10.12. The 2021/22 Capital Strategy will be presented to Members later in 2021.

Prudential Indicators

- 10.13. Forward projections for borrowing as at 31 March 2021 are summarised below in Table E1, which shows the actual external debt from treasury management operations and other long-term liabilities against the underlying capital borrowing need (the Capital Financing Requirement - CFR) which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, and its underlying borrowing need; any increase to capital expenditure which has not immediately been paid for through a revenue or capital resource will increase the CFR.
- 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.

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- 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 incorporate upcoming loan maturities and projected prudential borrowing requirements in both the General Fund and the Housing Revenue Account (HRA).
- 10.17. Table D1 below illustrates over/ (under) borrowing relative to the combined CFR for the General Fund and HRA.

Table D1: External Debt Projections

| | 2019/20 Actual £m | 2020/21 Forecast £m | 2021/22 Forecast £m | 2022/23 Forecast £m | 2023/24 Forecast £m |
|---|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| External Debt at 1 April | 217.2 | 217.0 | 230.3 | 327.1 | 421.6 |
| Change in External Debt | (0.2) | 13.3 | 96.8 | 94.5 | 116.5 |
| Other Long-Term Liabilities | 228.1 | 219.1 | 209.8 | 218.9 | 207.3 |
| Gross Debt at 31 March | 445.1 | 449.4 | 536.9 | 640.5 | 745.4 |
| CFR - HRA | 55.5 | 55.5 | 133.8 | 225.9 | 333.3 |
| CFR – General Fund and Other Long-Term Liabilities | 464.3 | 468.5 | 473.4 | 478.9 | 468.7 |
| Total Capital Financing Requirement at 31 March* | 519.8 | 524.0 | 607.2 | 704.8 | 802.0 |
| Borrowing – over / (under) | (74.7) | (74.6) | (70.3) | (64.3) | (56.6) |

*The Capital Financing Requirement includes the prudential borrowing figures shown in Table E2 of Section 11 - Capital Programme in the 2021/22 Budget Report. The previous year's forecast prudential borrowing for capital did not materialise as expected and there is a risk that this recurs. This will be monitored during the year and reported back. This is a more acute risk given the scale and ambition of the capital programme, particularly in the HRA. We will ensure that we only borrow as the need arises.

- 10.18. Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. 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. To put the cost of borrowing into context, it represents 3% of the net general fund budget, or as a share of the Lewisham element of a band D property is £44 per year. This proportion has remained broadly flat, reducing slightly, over the past five years.
- 10.20. The Executive Director for Corporate Resources officer 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.

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Limits to Borrowing Activity

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

The Operational Boundary for External Debt

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

Table D2: Operational Boundary

| | 2020/21 £m | 2021/22 £m | 2022/23 £m | 2023/24 £m |
|--------------------------------------|---------------|---------------|---------------|---------------|
| Maximum External Debt at 31 March | 230.3 | 327.1 | 421.6 | 538.1 |
| Other Long-Term Liabilities | 219.1 | 209.8 | 218.9 | 207.3 |
| Operational Boundary for Year | 449.4 | 536.9 | 640.5 | 745.4 |

The Authorised Limit for External Debt

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

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

10.25. The authorised limits are as set out in Table D3.

Table D3: Authorised Limits for External Debt

| | 2020/21 £m | 2021/22 £m | 2022/23 £m | 2023/24 £m |
|--|---------------|---------------|---------------|---------------|
| Operational Boundary for Year | 449.4 | 536.9 | 640.5 | 745.4 |
| Provision for Non Receipt of Expected Income | 56.0 | 56.0 | 56.0 | 56.0 |
| Additional 10% Margin | 44.9 | 53.7 | 64.1 | 74.5 |
| Authorised Limit for Year | 550.3 | 646.6 | 760.6 | 875.9 |

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

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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 MHCLG Statutory Guidance on Minimum Revenue Provision.

- 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); and
 - 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.
- 10.30. In 2019/20 the Council, on independent advice and as audited in the accounts, adjusted the MRP for an historic overcharge dating back to 2003/04. The details were set out in the 2020/21 budget report. The value of the overcharge has been calculated as £10.1m, which will be recovered from 2019/20 over a 10 year period via an annual reduction to MRP. The outstanding value of the overcharge to be recovered as at 31 March 2021 is £8.1m.

Borrowing Strategy

- 10.31. The Council's external debt as at 31 March 2021, gross borrowing plus long term liabilities, is expected to be £449m. 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.
- 10.32. The Executive Director for Corporate Resources will continue to monitor interest rates in the financial markets and adopt a pragmatic and cautious approach to changing circumstances. For instance, if it was felt that there was a significant risk of a sharp fall in long and short term rates then long term borrowing will be postponed and potential rescheduling from fixed rate funding into short-term borrowing considered. Any such decisions would be reported to Mayor and Cabinet and subsequently Council, at the next available opportunity.
- 10.33. Alternatively, if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast (perhaps arising from an acceleration in rate of increase in central rates in the USA and UK, an increase in world economic

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activity or a sudden increase in inflation risks) then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in future years. Once again, any such decisions would be reported to Mayor and Cabinet and subsequently Council, at the next available opportunity.

Policy on Borrowing in Advance of Need

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

Treasury Indicators

10.35. 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.

10.36. The debt related indicators are:

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

10.37. The treasury indicators and limits are set out in Table D4 below:

Table D4: Treasury Indicators and Limits

| Limits on Interest Rate Exposures | 2021/22 | 2022/23 | 2023/24 |
|--|---------|---------|---------|
| | Upper | Upper | Upper |
| Limits on fixed interest rates: | | | |
| • Debt only | 100% | 100% | 100% |
| • Investments only: | | | |
| When total portfolio >£400m | 90% | 90% | 90% |
| When total portfolio <£400m | 85% | 85% | 85% |
| Limits on variable interest rates | | | |
| • Debt only | 15% | 15% | 15% |
| • Investments only | 75% | 75% | 75% |
| Limits on Maturity Structure of Fixed Interest Rate Borrowing 2021/22 | | | |
| | | Lower | Upper |
| Under 12 months | | 0% | 10% |

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| | | |
|---|--------------|--------------|
| 12 months to 2 years | 0% | 10% |
| 2 years to 5 years | 0% | 10% |
| 5 years to 10 years | 0% | 25% |
| 10 years to 20 years | 0% | 20% |
| 20 years to 30 years | 0% | 25% |
| 30 years to 40 years | 0% | 50% |
| 40 years to 50 years | 0% | 60% |
| Limits on Maturity Structure of Variable Interest Rate Borrowing 2021/22 | | |
| | Lower | Upper |
| 30 years to 40 years | 0% | 60% |
| 40 years to 50 years | 0% | 40% |

Long Term Investments Indicator

- 10.38. 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.
- 10.39. The indicator is set out in Table D5 below. As at 31 March 2021, the Council is not expected to hold any investments for longer than 365 days.

Table D5: Treasury Indicators and Limits

| Maximum Principal Sums Invested for Longer than 365 days | | | |
|---|----------------|----------------|----------------|
| | 2021/22 | 2022/23 | 2023/24 |
| | £m | £m | £m |
| Limit on principal sums invested for longer than 365 days | 50.0 | 50.0 | 50.0 |

Debt Rescheduling

- 10.40. 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).
- 10.41. 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).

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- 10.42. The Council will continue to explore rescheduling opportunities as appropriate in respect of the financing of its PFIs and external loans.
- 10.43. The Council has £120m of LOBO loans at nominal value as at 31 March 2021 of which £47.5m will be in their call period in 2021/22. 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.
- 10.44. The Council continuously reviews its debt position to optimise its cash flow. Any consideration of debt rescheduling will be reported to Mayor and Cabinet and subsequently to Council at the earliest meeting possible.

Annual Investment Strategy

Investment Policy – Management of Risk

- 10.45. The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals predominantly with financial instruments (as managed by the Strategic Finance – Treasury Team); non-financial investments, essentially the purchase of income yielding assets, are summarised at the end of this report and covered in detail within the separate Capital Strategy.
- 10.46. The Council’s investment policy has regard to MHCLG’s Guidance on Local Government Investments (“the Guidance”), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”), and CIPFA’s Treasury Management Guidance Notes 2018.
- 10.47. The Council’s investment priorities will be security first, liquidity second, then return. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council’s risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.
- 10.48. The Council uses Link Group, Treasury Solutions as its external treasury management advisor. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information including, but not solely, our treasury advisors. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.
- 10.49. The Guidance and CIPFA TM 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.

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2. **Other information**; ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end, the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings, as well as information on outlooks and watches. This is fully integrated into the credit methodology provided by the advisors in producing its colour codings which show the varying degrees of suggested institution creditworthiness. This has been set out in more detail at Appendix Z2.
3. **Other information sources** used will include the financial press, share prices and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. The Council has defined the list of **types of investment instruments** that the treasury team are authorised to use in the financial year, and these are listed in Appendix Z2 under the categories of “specified” and “non-specified” investments
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.
5. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the credit criteria provided by advisors, and are set out in Appendix Z2.
6. **Interest rate limits** are set out in paragraph 11.36 and Table E4 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 11.38 and Table E5).
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 11.53).
9. All investments will be denominated in **sterling**.
10. As a result of the change in accounting standards for 2018/19 under IFRS 9, the Council will, on an ongoing basis, consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant changes at the end of the year to the General Fund. The MHCLG enacted a statutory override in 2018/19 for a five year period over the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year, giving local authorities time to initiate an orderly withdrawal of funds if required. The Council does not at present have any pooled investments, though has scope to do so as per the creditworthiness policy in Appendix Z2.

10.50. 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

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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). The remainder of its investments will be placed in fixed term deposits of up to 24 months to generate improved returns, depending on prevailing market conditions.

Creditworthiness Policy

10.51. The Council's Treasury Team applies the creditworthiness service provided by its advisors Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

10.52. 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.

**apart from exceptions where relevant and as set out in the policy.

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

Country limits

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

Updates to Investment Strategy

10.55. For the 2021/22 strategy an additional unspecified investment has been added to the creditworthiness policy at Appendix Z2, namely the ability to invest in UK building societies with a minimum credit rating of BBB- from Fitch (or equivalent), specifically those that are shown on Link Group's lending list only (but which may be rated 'No colour') for a maximum of three months and limited to £10m per institution.

10.56. Very few building societies have credit ratings assigned to them due to the lack of large

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

- 10.57. This addition to the strategy has been made as a result of current economic conditions (described further from paragraph 11.57 onwards) and the reduced options available for investing at positive yields; in practice it opens up a limited number of two-three additional counterparties for consideration. Officers will continue to monitor the rating movements against these counterparties to ensure that any investments fall within the set criteria.

Prospects for Investment Returns

- 10.58. Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years. The coronavirus outbreak has caused huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut the Bank Rate to first 0.25%, and then to 0.10%, it has left the Bank Rate unchanged in subsequent meetings although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary.
- 10.59. Despite this, some deposit accounts are already offering negative rates for shorter periods, including the Government's Debt Management Account Deposit Facility (DMADF). Money market yields have continued to drift lower and some managers have resorted to trimming fee levels to ensure that net yields for investors remain in positive territory, or zero, where possible. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has resulted in a surplus of cash swilling around at the very short end of the market with only marginally positive returns.
- 10.60. The Council uses the services of its advisor, Link Group, to formulate a view on interest rates; their view is that there will be no increase in the Bank Rate in the immediate short-term up to at least March 2024 as economic recovery is expected to be gradual and therefore prolonged. Given this uncertainty, suggested investment returns are expected to remain low and money market related instruments will be sub 0.50% for the foreseeable future.
- 10.61. In light of these predictions for low returns the Council continues to assess, with support from its advisors, the potential risk and return offered by investing for longer (five or more years) in pooled asset funds. This policy is set with regard to the Council's liquidity requirements and to reduce the risk of a forced sub-optimal early sale of an investment; any investments entered into will be on the advice of the Council's advisors and will continue to meet the objectives of security, liquidity and return.
- 10.62. The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to some uncertainty due to the coronavirus, the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions. There is relatively little UK domestic risk of increases or decreases in the Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in the Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence

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in equities, could impact gilt yields (and so PWLB rates) in the UK.

10.63. A more extensive table of interest rate forecasts for 2021 onwards, including Public Works Loan Board (PWLB) borrowing rate forecasts, is set out in Appendix Z1.

Non-Treasury Investments

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

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

- 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.

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

Subsidiary Companies

10.67. 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

10.68. 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.

10.69. 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.

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

10.71. As at 31 March 2021 the Council expects to have advanced £17m of the available £20m commercial loan facility, and all £20m of the agreed facility financed from PWLB debt.

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Catford Regeneration Partnership Limited (CRPL)

- 10.72. The CRPL is a property investment company created in January 2010 which owns the Catford Shopping Centre and several neighbouring properties used to generate income whilst driving forward a regeneration programme for the town centre and surrounding area.
- 10.73. The Council has existing loan agreements in place with the CRPL, currently on an interest only basis. As at 31 March 2021 the Council expects the outstanding loan principal to be approximately £14.5m.
- 10.74. 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 and Cabinet. In 2020/21 a further £1.15m was advanced to the company as part of agreed loan commitments, and to support the company's cash flows through the uncertainty caused by the coronavirus outbreak; the debt is secured against the value of the company's assets.

Other Non-Treasury Investments

Besson Street Joint Venture

- 10.75. The Council is an equal equity partner in a joint venture with Grainger Plc. to bring forward the development of the currently vacant Besson Street site to provide properties for the Private Rented Sector on long term tenancies. The Council has invested land at this stage and will be required to put forward an estimated £20m – 25m of cash to make up its share (50%) of the 40% equity, with 60% external long term borrowing, to be invested once the the scheme is built. This is currently forecast to be in early 2025.
- 10.76. 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.
 - Less than 1% in the London Collective Investment Vehicle the pension fund pool vehicle for London local government pension funds.
 - Less than 1% in the Municipal Bonds Agency, a national body established by local authorities as a potential alternative source of borrowing to the PWLB.

11. Capital Programme

- 11.1. In reviewing the Council's overall financial position the Capital Programme has to be considered to ensure that any revenue implications of capital decisions are taken into account in building the revenue budget. The Capital Programme budget for 2021/22 to 2023/24 is proposed at £517.5m of which £184.2m is for 2021/22.
- 11.2. This section of the report is structured as follows:
- Update on 2020/21 Capital Programme

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- Proposed Capital Programme 2021/22 to 2023/24
- Future schemes and resources

Update on 2020/21 Capital Programme

- 11.3. Progress in delivering the 2020/21 Capital Programme has been reported to Mayor & Cabinet and the Public Accounts Select Committee throughout the year. The latest forecast projection was that the revised budget allocated for the year of £163.6m, and reported to Mayor and Cabinet on 11 November 2020, would be delivered this year. Since November the revised budget shows a slight net increase of £0.4m to the last reported budget figure due to the re-profiling of some budgets.
- 11.4. Overall spend to date on the re-profiled budget suggests at least 46% of the plan will be delivered in 2020/21. This significant under-delivery is mainly due to the impact of the Covid-19 pandemic where sites and works were paused at stages through the lockdowns of 2020. The Housing Revenue Account (HRA) in particular is behind plan. The Building for Lewisham programme and stock condition survey for the HRA capital programme are being reviewed. Assuming affordability and viability these delays in planned works will be rolled forward to future years and the plan updated to recover the delivery ambition.
- 11.5. The scale of the capital programme is growing in line with the Corporate Strategy priority for more homes. This is a significant and ambitious commitment and officers are working to improve their profiling of this work as schemes and timing of their delivery change.

Current position on the major projects in the 2020/21 Capital Programme i.e. those over £0.5m in 2020/21

| 2020/21 Capital Programme | Revised Budget (M&C 11/11/20) | Revised Budget- Dec 2020 | Spend to 31 Dec 2020 | Spent to Date (Revised Budget) |
|--|-------------------------------|--------------------------|----------------------|--------------------------------|
| | | | £m | % |
| GENERAL FUND | | | | |
| Schools - School Places Programme | 4.7 | 3.4 | 1.3 | 38% |
| Schools - Other (Inc. Minor) Capital Works | 5.7 | 5.7 | 3.5 | 61% |
| Highways & Bridges - LBL | 3.0 | 3.0 | 1.7 | 57% |
| Highways & Bridges – TfL | 1.2 | 1.3 | 0.6 | 46% |
| Highways & Bridges - Others | 1.5 | 1.5 | 0.2 | 13% |
| Catford town centre | 1.0 | 1.0 | 0.7 | 70% |
| Asset Management Programme | 1.3 | 1.5 | 0.6 | 40% |
| Other AMP Schemes | 0.7 | 0.7 | 0.1 | 14% |
| Broadway Theatre – Works | 0.4 | 0.4 | 0.2 | 50% |
| Lewisham Gateway (Phase 2) | 14.8 | 14.8 | 13.4 | 91% |
| Private Sector Grants and Loans (Inc. DFG) | 0.6 | 0.6 | 0.6 | 100% |
| Achilles St. Development | 0.8 | 0.8 | 0.4 | 50% |
| Edward St. Development | 9.0 | 9.0 | 2.9 | 32% |
| Deptford Southern Sites Regeneration | 0.4 | 2.6 | 2.6 | 100% |
| Residential Portfolio Acquisition – Hyde Housing Association | 2.9 | 2.9 | 2.1 | 72% |
| Fleet Replacement Programme | 7.8 | 7.0 | 5.1 | 73% |

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| 2020/21 Capital Programme | Revised Budget (M&C 11/11/20) | Revised Budget- Dec 2020 | Spend to 31 Dec 2020 | Spent to Date (Revised Budget) |
|--|-------------------------------|--------------------------|----------------------|--------------------------------|
| | | | £m | % |
| Other General Fund schemes | 7.4 | 7.4 | 1.8 | 24% |
| TOTAL GENERAL FUND | 63.2 | 63.6 | 37.8 | 59% |
| HOUSING REVENUE ACCOUNT | | | | |
| Building for Lewisham Programme | 36.5 | 33.6 | 10.1 | 30% |
| HRA Capital Programme (Decent Works) | 47.7 | 47.7 | 21.0 | 44% |
| Creekside Acquisition | 5.7 | 5.7 | 5.6 | 98% |
| Ladywell Leisure Centre Development Site | 4.5 | 4.5 | 0.4 | 9% |
| Achilles St. Development | 4.3 | 4.3 | 0.1 | 2% |
| Mayow Rd Development | 1.1 | 1.1 | 0.0 | 0% |
| Other HRA schemes | 0.6 | 3.5 | 0.3 | 9% |
| TOTAL HOUSING REVENUE ACCOUNT | 100.4 | 100.4 | 37.5 | 37% |
| TOTAL CAPITAL PROGRAMME | 163.6 | 164.0 | 75.3 | 46% |

Proposed Capital Programme 2021/22 to 2023/24

- 11.6. The Council's proposed Capital Programme for 2021/22 to 2023/24 is currently £556.3m, as set out in Table E1:

Table E1: Proposed Capital Programme for 2021/22 to 2023/24

| Major Projects over £1m | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 3 year Total |
|---|---------|---------|---------|---------|--------------|
| | £m | £m | £m | £m | £m |
| GENERAL FUND | | | | | |
| Schools - School Places Programme | 3.4 | 10.4 | 2.4 | 0.0 | 12.8 |
| Schools – Minor Works Capital Programme | 3.9 | 0.1 | 0.0 | 0.0 | 0.1 |
| Schools - Other Capital Works | 1.7 | 1.6 | 0.0 | 0.0 | 1.6 |
| Highways & Bridges - TfL | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Highways & Bridges - LBL | 3.0 | 2.5 | 2.5 | 0.0 | 5.0 |
| Highways - Others | 1.5 | 0.8 | 0.1 | 0.0 | 0.9 |
| Catford town centre | 1.0 | 0.3 | 0.3 | 3.4 | 4.0 |
| Asset Management Programme | 1.5 | 2.8 | 2.5 | 0.0 | 5.3 |
| Other AMP Schemes | 0.7 | 0.9 | 0.0 | 0.0 | 0.9 |
| Broadway Theatre - Works | 0.4 | 4.8 | 1.7 | 0.0 | 6.5 |
| Catford Phase 1 – Thomas Lane Yard / Catford Constitution Club' | 0.1 | 0.6 | 2.6 | 0.0 | 3.2 |

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| Major Projects over £1m | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 3 year Total |
|--|-------------|-------------|-------------|-------------|--------------|
| | £m | £m | £m | £m | £m |
| Catford Station Improvements | 0.1 | 0.3 | 1.0 | 0.1 | 1.4 |
| Lewisham Gateway (Phase 2) | 14.8 | 3.5 | 0.0 | 4.8 | 8.3 |
| Beckenham Place Park | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Beckenham Place Park (Eastern Part) | 0.2 | 1.7 | 0.0 | 0.0 | 1.7 |
| Lewisham Homes – Property Acquisition | 0.0 | 3.0 | 0.0 | 0.0 | 3.0 |
| Residential Portfolio Acquisition – Hyde Housing Ass. | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disabled Facilities Grant | 0.4 | 2.1 | 0.0 | 0.0 | 2.1 |
| Private Sector Grants and Loans | 0.2 | 2.1 | 0.0 | 0.0 | 2.1 |
| Edward St. Development | 9.0 | 8.4 | 0.0 | 0.0 | 8.4 |
| Achilles St. Development | 0.8 | 1.0 | 0.0 | 3.6 | 4.6 |
| Mayow Rd Development | 0.6 | 6.6 | 1.1 | 0.1 | 7.8 |
| Canonbie Rd Development | 0.8 | 1.4 | 0.3 | 0.0 | 1.7 |
| Ladywell Leisure Centre Development site (1,000 Homes Prog.) | 0.1 | 2.7 | 0.0 | 0.0 | 2.7 |
| Deptford Southern Sites Regeneration | 2.6 | 0.3 | 0.0 | 2.1 | 2.4 |
| Acquisition of Sydney Arms | 0.0 | 3.8 | 0.0 | 0.0 | 3.8 |
| Fleet Replacement Programme | 7.0 | 0.8 | 0.8 | 0.8 | 2.4 |
| Travellers Site Relocation | 0.2 | 3.6 | 0.0 | 0.0 | 3.6 |
| Other Schemes | 4.9 | 4.1 | 1.3 | 0.0 | 5.4 |
| | | | | | |
| TOTAL GENERAL FUND | 63.6 | 70.2 | 16.6 | 14.9 | 101.7 |

| HOUSING REVENUE ACCOUNT | | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Building For Lewisham Programme | 33.6 | 48.3 | 56.4 | 57.2 | 161.9 |
| Creekside Acquisition | 5.7 | 13.9 | 2.0 | - | 15.9 |
| Ladywell Leisure Centre Development | 4.5 | 15.4 | 43.4 | 27.7 | 86.5 |
| Achilles St. Development | 4.3 | 0.4 | 1.0 | 21.6 | 23.0 |
| Mayow Rd Development | 1.1 | 0.8 | - | - | 0.8 |
| Decent Homes Programme | 47.7 | 70.4 | 42.3 | 41.3 | 154.0 |
| Other Schemes | 3.5 | 3.6 | 4.4 | 4.5 | 12.5 |
| | | | | | |
| | 100.4 | 152.8 | 149.5 | 152.3 | 454.6 |

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| | | | | | |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| | | | | | |
| TOTAL PROGRAMME | 164.0 | 223.0 | 166.1 | 167.2 | 556.3 |

11.7. The resources available to finance the proposed Capital Programme are as set out in Table E2 below:

Table E2: Proposed Capital Programme Resources for 2021/22 to 2023/24

| | 20/21 | 21/22 | 22/23 | 23/24 | 3 Year Total |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| | £m | £m | £m | £m | £m |
| General Fund | | | | | |
| Prudential Borrowing | 17.3 | 18.7 | 1.5 | 6.5 | 26.7 |
| Grants and Contributions | 29.4 | 24.5 | 4.1 | 4.9 | 33.5 |
| Capital Receipts | 7.6 | 7.4 | 0.8 | 2.7 | 10.9 |
| Reserves / Revenue | 9.3 | 19.6 | 10.2 | 0.8 | 30.6 |
| | 63.6 | 70.2 | 16.6 | 14.9 | 101.7 |
| Housing Revenue Account | | | | | |
| Prudential Borrowing | 0.0 | 78.3 | 94.1 | 111.7 | 284.1 |
| Grants | 8.6 | 14.8 | 16.2 | 5.2 | 36.2 |
| Specific Capital Receipts | 0.0 | 6.3 | 11.1 | 8.5 | 25.9 |
| Reserves / Revenue | 91.8 | 53.4 | 27.9 | 27.0 | 108.3 |
| | 100.4 | 152.8 | 149.5 | 152.3 | 454.5 |
| Total Resources | 164.0 | 223.0 | 166.1 | 167.2 | 556.3 |

- 11.8. 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.
- 11.9. 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.
- 11.10. Detailed proposals, specific scheme funding arrangements, and procurement approach will be brought forward to Members for decision as individual projects are worked up and brought forward. Should this lead to changes being required to the plan these will be reported as part of the regular monitoring information provided.
- 11.11. Members will also note the significant proposed rise in prudential borrowing of £308m, primarily to fund the Building for Lewisham Capital plans.
- 11.12. 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

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funding line also includes amounts transferred to reserves in previous years for schemes which at that time, had not been delivered. Some of these may be at risk if the associated grants to support them are time limited, this is a particular risk to the use of right to buy receipts and government or GLA grants.

- 11.13. 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 2021/22.
- 11.14. The 2020/21 capital programme experienced significant disruption due to Covid-19 with less than 50% of the plan delivered. As the Council plans and builds for recovery from the Covid-19 pandemic there are a number of new or competing demands on the capital programme. New strategies are in development for key service areas such as waste management, libraries, leisure services, and others. These in turn inform the thematic review of use of Council assets, including the stock condition surveys currently concluding for the Council's housing and corporate assets. Alongside this the government funding mechanisms may be changing to meet policy objectives, in particular in respect of support for bringing forward more housing supply. In addition, while school rolls are falling, work is underway to assess the need in schools and related transition social care settings to consider whether the provision of dedicated suitable specialist places would be beneficial to those in need of these services.
- 11.15. These competing demands are expected to include significant capital requirements in both the short and medium term. If they are over and above the funding available above, they may require the Council to look at borrowing more (requiring further revenue savings cuts), re-profiling the current programme, stopping or amending certain schemes, and/or selling non-strategic assets to fund the programme. This work is ongoing and, as noted above, will be reported to Members for decision as the detail becomes known and recommendations can be made with regard to the Council's statutory obligations and corporate strategy priorities.
- 11.16. The paragraphs below summarise the key projects currently underway and major scheme plans with more detailed narrative provided in Appendix W1. They include:

Schools

- 11.17. Places programme currently has four schemes, three for schools catering for children with special needs, currently in development and delivery over the next three years. They are:
- Expanding Ashmead Primary to two forms of entry
 - New satellite facility at the former Brent Knoll site for 93 students of Greenvale school, Lewisham's community special school
 - Remodelling and refurbishment of the New Woodlands school, a special school
 - Review of plans for new teaching block at Watergate, Lewisham's primary special school, to accommodate 59 places.
- 11.18. Minor works programme is an ongoing programme of minor capital works to existing community school buildings, primarily relating to mechanical and electrical infrastructure and building fabric needs. The programme is grant funded by central government.

Highways & Bridges

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- 11.19. The Council continues to invest resources in maintaining its 397km of highway borough roads, most notably through its annual programme of carriageway and footway resurfacing works.
- 11.20. The footway resurfacing programme aims to bring improvements to 17 roads where the Condition Index classifies as “Red” and thus in need of future works. Footways if the focus now the priority highway works have been completed.
- 11.21. For both highways and footways, once the red works are completed work will focus on the ‘Amber’ index alongside delivery of responsive repairs.
- 11.22. The replacement of the span for the Sydenham Park footbridge is in planning and the Council is working to secure a delivery plan agreement with Network Rail.

Regeneration and Place making

Catford Town Centre

- 11.23. The non-statutory public consultation process on the town centre framework commenced in November 2020. The Catford Town Centre Framework document will then be used as an evidence base for the emerging Local Plan.
- 11.24. Work with TfL has recommenced on the proposal to realign the South Circular A205. The Greater London Authority (GLA) Housing Infrastructure Funding (HIF) of £10m has been secured on condition that the road is delivered by TfL.
- 11.25. A series of public realm improvements to the areas around Catford stations aims to provide a better environment for movement around the stations in preparation for the recovery from the pandemic. Also with funding from the GLA in the form of the Good Growth Grant the refurbishment of the Catford Constitution Club (CCC) and the development of a mixed-use scheme up to Planning stage on the T/Lane car park site to provide a mix of business units and up to 100 homes that would realise multiple regeneration benefits including: jobs retention, business creation and potential early housing delivery and can also support the Post-Covid19 recovery plan.
- 11.26. Officers are in further negotiations with the GLA on additional funding following a successful bid to the GLA for Get Building Funding of just under £1m to secure additional town centre improvement schemes including public realm improvements to the pedestrian area on Holbeach Road and a partnership project to provide a public sector hub in the Old Town Hall.

Old Town Hall

- 11.27. Officers are developing a programme of investment works for the Old Town Hall. This is part of proposals to convert the Old Town Hall into a public sector hub for a number of public sector partners. There is currently no allocation in the capital programme to support this project so this is part of the ongoing re-prioritisation of the programme.

Broadway Theatre

- 11.28. Urgent work is required to address key risk areas and the proposed works include a rewire of the theatre, replacement fire detection equipment, new emergency lighting, new central heating and domestic water system, damp proofing and decorations, improvements to support disabled access, toilet expansion and external improvements. The theatre will be closed to enable the work to be carried out effectively and efficiently. The works are proposed to complete late 2022

Lewisham Gateway Development

- 11.29. The Council is supporting the delivery of Phase 2 of the Lewisham Gateway development by the provision of:

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- (a) £9,558,850 of grant from its own resources being a commuted sum earmarked for affordable housing under a section 106 agreement relating to the Loampit Vale development.
 - (b) £13,500,000 of housing infrastructure fund (HIF) grant that comes from government via government's delivery partner, The Greater London Authority (GLA).
- 11.30. Phase 1 was completed in 2019 providing construction of the new highway layout and pedestrian crossings (including re-location of River Ravensbourne and Quaggy), 362 residential units, commercial café and retail space, Confluence Place Park: a public space connecting the river, station and public realm as well as a number of commercial food and beverage units
- 11.31. Phase 2 of the project will deliver four buildings to provide 530 residential apartments, 119 co-living units, retail units, a gym space and a cinema together with associated public realm (including hard and soft landscaping). A basement energy centre will also be provided in the building known as building block E.

Beckenham Place Park

- 11.32. The restoration of Beckenham Place Park (to the western side of the railway) has been completed. The listed stable block is now home to the new park café and environmental education centre, and the long anticipated restored landscape, with its reinstated lake, is being enjoyed by thousands of local people. The stable yard itself will become an arrival and visitor's hub, as new tenants take up occupation of the cottages over the next year. The new play facilities are much loved, as part of the restored pleasure grounds, and the previously derelict Gardener's cottage is now fully restored and re-purposed as a hub for volunteer activity in the park, in the midst of the new community garden. Open water swimming now takes place on the lake, and visitors will be encouraged to explore the breadth and nature of Lewisham's largest park on new paths and trails.
- 11.33. Work is now underway to develop the scope of works to the eastern side of the park and it is hoped that this allocation could be used to lever in further support from the GLA and GLA and the Environment Agency.

Corporate and Service delivery priorities

Asset Management Programme

- 11.34. A full condition survey of the corporate estate was completed in 2020 and is helping define the future investment need of the estate, the Asset Review, and underpin the use of the AMP capital programme funding for future years. A comprehensive Corporate Estate Maintenance Programme is being developed to start in 2021/22 (with some urgent health and safety works already underway).

Lewisham Library

- 11.35. There is currently no allocation in the capital programme to support this project. Mayor and Cabinet agreed that officers look at options that will sustain the library service provision into the future. A number of options are currently being explored

Fleet vehicle replacement

- 11.36. As agreed in the 2020/21 budget a sinking fund to procure future fleet as capital will be built at 800k per annum.

Smart Working Programme

- 11.37. The Smarter Working programme seeks to consolidate offices and release sites for future redevelopment in Catford town centre, as well as the refurbishment of the council's main office site, Laurence House, to ensure it is fit for purpose until new

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council offices can be built. Options are being considered to deliver improvements to the ground floor and the civic suite.

Housing

Lewisham Homes – Property Acquisition

- 11.38. This funding supports the delivery of the Lewisham Homes acquisitions programme that secures properties for temporary accommodation for homeless households, making a saving on the Council's spend on bed & breakfast accommodation.

Edward Street

- 11.39. Edward St will provide 34 new high-quality temporary accommodation homes for local families in housing need. The tender and contract award has been completed.

Residential Portfolio Acquisition – Hyde Housing Association

- 11.40. The Council completed on the acquisition of a portfolio of 120 homes from Hyde Housing Association. Hyde Housing Association have offered the option of further acquisitions. The Council are currently considering this option and carrying out due diligence in relation to this.

Achilles Street

- 11.41. Residents on the Achilles Street Estate have voted for the redevelopment of the estate to go ahead. Work is underway to carry out due diligence and the procurement of the design team has commenced with estate residents. The scheme will deliver new homes for all existing residents as well as a significant number of new council owned homes for social rent.

Acquisition of Sydney Arms

- 11.42. In response to COVID-19 local authorities were instructed by the government to bring 'Everyone In' the acquisition and refurbishment of the Sydney Arms will allow up to 16 rough sleepers, or other households, to be accommodated in affordable accommodation with support available to meet their needs.

Ladywell Leisure Centre Development site

- 11.43. This mixed-use development will see approximately 69 new homes come forward in addition to retaining the 24 homes that are in the PLACE building. The Council, through Lewisham Homes, will directly deliver these new homes.

Mayow Road Development Site

- 11.44. The Mayow Road site we will deliver 26 family-sized homes for homeless families. These will consist of self-contained flats with two and three bedrooms, all with their own private amenity space. The homes will provide much-needed temporary accommodation, supporting residents to remain in their local community. We will also deliver six supported living homes for residents with learning disabilities or autism, helping them to remain in borough and live more independent lives.

Traveller's site relocation

- 11.45. The latest site search for a Gypsy and Traveller site has identified a site at Pool Court as the most appropriate location to develop a new Gypsy and Traveller site for the borough. The construction cost of the 6-pitch site is estimated at £1.8m including design fees and other costs. The acquisition cost of the Network Rail section of the site is estimated at up to £2m.

Building for Lewisham Programme update

- 11.46. The Building for Lewisham (BfL) supersedes the Housing Matters Programme. In January 2020, the Mayor and Cabinet approved recommendations to advance and

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expand the Council's housebuilding programme to meet the corporate objectives set for the period between 2018 and 2022.

- 11.47. The BfL programme will deliver a significant proportion of new council housing for the borough. Funding has currently been agreed for the continuation of the former New Homes Better Places programme and for a series of additional infill sites. In addition, funding for feasibility and preparation of planning and tender information for major strategic projects at Ladywell, Achilles Street Estate and Catford has been allocated; as well as funding for wider feasibility studies for sites across the borough.
- 11.48. The Council, via its development agent, Lewisham Homes, is also investigating acquisition opportunities on land and sites from the market. These schemes may offer an opportunity to deliver more homes on an expedited timescale.
- 11.49. The current consolidation of the BfL programme notes funding for 1,686 new homes across a mix of tenures. This has been modelled over a 40 year period and has been inflation-adjusted accordingly. However, the assumptions used in this report represent an over-programming of developments and not all developments modelled will necessarily come forward. Therefore, this represents the most budget-intensive scenario. The financial and programme risk associated with the BfL programme will be monitored closely and mitigations implemented accordingly. Should any material changes to this budget be required, approval from Members will be sought.
- 11.50. Around 458 new social homes are forecast to achieve planning permission or start on site in 2021.

HRA Capital Programme

- 11.51. Lewisham Homes are responsible for ensuring council owned stock under their management is brought up to and maintained to a decent homes level, covering both internal and external works. Lewisham Homes are leading on the delivery of the decent programme (under delegated powers) in consultation and agreement with the Council. This needs to incorporate fire safety works and the priorities on stock condition identified in 2020/21. The increase of £38.8m in 2021/22 (£31.6m to £70.4m) from the draft budget to M&C on the 3 February is proposed to ensure that the priorities identified from the stock condition survey undertaken in 2020/21 can be fully delivered.
- 11.52. To be able to accommodate this additional capital expenditure within the HRA Business Plan and accompanying 30 year financial model, it has been necessary to reduce the repairs and maintenance revenue budget by £1m in 2021/22. Lewisham Homes will need to make this revenue spend reduction from the R&M budget or by equivalent alternative savings in the year.

Future schemes and resources

- 11.53. 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.
- 11.54. 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

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reports through to the Regeneration and Capital Programme Board which is chaired by the Executive Director for Housing, Regeneration & Environment.

- 11.55. The General Fund Capital Programme is financed by a number of sources, including capital receipts, central government grants, developer's contributions, the revenue budget and Prudential Borrowing. There is very limited scope to commit any further amounts of revenue budget to finance capital spend, and there is also a finite amount of capital receipts forecast. This means the Council will have to look to finance any new schemes going forward from either grant monies or Prudential Borrowing. Also contributions from developers via s106 and Community Infrastructure Levy (CIL) may be an increasingly important source of finance for the Council's plans.
- 11.56. During 2021/22, 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 into 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

- 11.57. The proposed 2021/22 to 2023/24 Capital Programme totals £556.3m (General Fund £101.7m and HRA £454.5m) 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.

12. Consultation on the budget

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

Rent Setting and Housing Panel

- 12.2. As in previous years, tenants' consultation was undertaken via Housing Panel meetings. This provided tenant representatives of Lewisham Homes with an opportunity on 17 December 2020 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 16 December 2020 to hear the proposals and feedback.
- 12.3. Details of comments from the residents' meetings have been set out in Appendix X2 and X3.

Business Ratepayers

- 12.4. 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 2021/22 and respond with any comments that they may have.
- 12.5. The consultation ran from the 11 January to the 1 February 2021. There were no responses received back.

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13. Financial implications

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

14. Legal implications

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

Capital Programme

- 14.2. Generally, only expenditure relating to tangible assets (e.g. roads, buildings or other structures, plant, machinery, apparatus and vehicles) can be regarded as capital expenditure. (Section 16 Local Government Act 2003 and regulations made under it).
- 14.3. The Local Government Act 2003 introduced a prudential system of financial control, replacing a system of credit approvals with a system whereby local authorities are free to borrow or invest so long as their capital spending plans are affordable, prudent, and sustainable. Authorities are required to determine and keep under review how much they can afford to borrow having regard to CIPFA's Prudential Code of Capital Finance in Local Authorities. The Code requires that in making borrowing and investment decisions, the Council is to take account of affordability, prudence, and sustainability, value for money, stewardship of assets, service objectives, and practicality.
- 14.4. Section 11 Local Government Act 2003 allows for regulations to be made requiring an amount equal to the whole or any part of a capital receipt to be paid to the Secretary of State. Since April 2013, there has been no requirement to set aside capital receipts on housing land (SI2013/476). For right to buy receipts, the Council can retain 25% of the net receipt (after taking off transaction costs) and is then entitled to enter an agreement with the Secretary of State to fund replacement homes with the balance. Conditions on the use of the balance of the receipts are that spending has to happen within three years and that 70% of the funding needs to come from Council revenue or borrowing. If the funding is not used within three years, it has to be paid to the Ministry of Housing, Communities and Local Government, with interest. In London, the monies are then transferred to the GLA. However, the Council has entered into an agreement with the GLA where the GLA has agreed in principle that all monies received from central government arising from right to buy disposals in Lewisham will be ring fenced and made available to the Council as social housing grant.

Housing Revenue Account

- 14.5. Section 24 of the Housing Act 1985 provides that a local authority may make such reasonable charges as they determine for the tenancy or occupation of their houses. The Council must review rents from time to time and make such charges as circumstances require.
- 14.6. Under the Local Government and Housing Act 1989, the Council is obliged to maintain a separate HRA (Section 74) and by Section 76 must prevent a debit balance on that account. Rents must therefore be set to avoid such a debit.
- 14.7. By Schedule 4 of the same Act where benefits or amenities arising out of a housing authority functions are provided for persons housed by the authority but are shared by the community, the Authority must make such contribution to the HRA from their other revenues to properly reflect the community's share of the benefits/amenities.

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- 14.8. The process for varying the terms of a secure tenancy is set out in Sections 102 and 103 of the Housing Act 1985. It requires the Council to serve notice of variation at least four weeks before the effective date; the provision of sufficient information to explain the variation; and an opportunity for the tenant to serve a Notice to Quit ending their tenancy.
- 14.9. Where the outcome of the rent setting process involves significant changes to housing management practice or policy, further consultation may be required with the tenants' affected in accordance with section 105 of the Housing Act 1985.
- 14.10. Part 7 of the Localism Act 2011 abolished HRA subsidy and moved to a system of self financing in which Councils are allowed to keep the rents received locally to support their housing stock. Section 174 of the same Act provides for agreements between the Secretary of State and Councils to allow Councils not to have to pay a proportion of their capital receipts to the Secretary of State if he/she approves the purpose to which it would be put.

Balanced Budget

- 14.11. In accordance with the Local Government Act 1992 the Council must set its Council Tax for 2021/2022 before 11 March 2021. By law it may not set the Council Tax before receipt of confirmation of the precept from the precepting authority, the GLA which is anticipated on 26 February. A report will be prepared for the Council meeting on 3 March 2021 on the basis of indications from the GLA but the report will be despatched before their final decision. The Executive Director for Corporate Resources will update the Council accordingly before it makes its decision.
- 14.12. Following the introduction of the Local Authorities (Standing Orders)(Amendment) Regulations 2014 the Council's Constitution was amended to require that when the Council votes on key budget and Council Tax decisions, the vote must be recorded. This requirement will apply when the Council meets to set the Council Tax.
- 14.13. Members have a duty to ensure that the Council acts lawfully. It must set and maintain a balanced budget each year. The Council must take steps to deal with any projected overspends and identify cuts or other measures to bring the budget under control. If the Capital Programme is overspending, this may be brought back into line through cuts, slippage, or contributions from revenue. The proposals in this report are designed to produce a balanced budget in 2021/22.
- 14.14. In this context, Members are reminded of their fiduciary duty to the Council Tax payer, effectively to act as trustee of the Council's resources and to ensure proper custodianship of Council funds.

An annual budget

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

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

Referendum

- 14.17. Sections 72 of the Localism Act 2011 and Schedules 5 to 7 amended the provisions governing the calculation of Council Tax. They provide that if a Council seeks to impose a Council Tax increase in excess of limits fixed by the Secretary of State, then a Council Tax referendum must be held, the results of which are binding. The Council may not implement an increase which exceeds the Secretary of State's limits without holding the referendum. Were the Council to seek to exceed the threshold, substitute calculations which do not exceed the threshold would also have to be drawn up. These would apply in the event that the result of the referendum is not to approve the "excessive" rise in Council Tax. Attention is drawn to the statement of the Secretary of State that the Council may impose a precept of 3% on the Council Tax, ring-fenced for social care provision, and may impose an additional increase of less than 2% without the need for a referendum. The maximum proposed Council Tax increase is 4.99% and therefore below the combined limit.
- 14.18. In relation to each year the Council, as billing authority, must calculate the Council Tax requirement and basic amount of tax as set out in Section 31A and 31B of the Local Government Finance Act 1992. These statutory calculations appear in Appendix Y6.

Robustness of estimates and adequacy of reserves

- 14.19. Section 25 of the Local Government Act 2003 requires, when the authority is making its calculations under s31 of the Local Government Finance Act 1992, the Chief Finance Officer to report to it on:-
- (a) the robustness of the estimates made for the purposes of the Calculations; and
 - (b) the adequacy of the proposed financial reserves.
- 14.20. The Chief Financial Officer's section 25 statement will be appended to the Budget Report update to Mayor & Cabinet on 10 February 2021 when the Mayor & Cabinet will be asked to agree their final recommendations to the Council in respect of the 2021/22 budget.

Treasury Strategy

- 14.21. Authorities are also required to produce and keep under review for the forthcoming year a range of indicators based on actual figures. These are set out in the report. The CIPFA Treasury Management Code of Practice says that movement may be made between the various indicators during the year by an Authority's Chief Finance Officer as long as the indicators for the total Authorised Limit and the total Operational Boundary for external debt remain unchanged. Any such changes are to be reported to the next meeting of the Council.
- 14.22. Under Section 5 of the 2003 Act, the prudential indicator for the total Authorised Limit for external debt is deemed to be increased by an amount of any unforeseen payment

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which becomes due to the Authority within the period to which the limit relates which would include for example additional external funding becoming available but not taken into account by the Authority when determining the Authorised Limit. Where Section 5 of the Act is relied upon to borrow above the Authorised Limit, the Code requires that this fact is reported to the next meeting of the Council.

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

Constitutional provisions

- 14.24. Legislation provides that it is the responsibility of the full Council to set the Council's budget. Once the budget has been set, save for those decisions which they are precluded from, it is for the Mayor and Cabinet to make decisions in accordance with the statutory policy framework and that are not wholly inconsistent with the budget. It is for the Mayor and Cabinet to have overall responsibility for preparing the draft budget for submission to the Council to consider. If the Council does not accept the Mayor and Cabinet's proposals, it may object to them and ask them to reconsider. The Mayor and Cabinet must then reconsider and submit proposals (amended or unamended) back to the Council which may only overturn them by a two-thirds majority.
- 14.25. For these purposes the term "budget" means the "budget requirement (as provided for in the Local Government Finance Act 1992) all the components of the budgetary allocations to different services and projects, proposed taxation levels, contingency funds (reserves and balances) and any plan or strategy for the control of the local authority's borrowing or capital expenditure." (Chapter 2 statutory guidance).
- 14.26. Authorities are advised by the statutory guidance to adopt an inclusive approach to preparing the draft budget, to ensure that councillors in general have the opportunity to be involved in the process. However, it is clear that it is for the Mayor and Cabinet to take the lead in that process and proposals to be considered should come from them. The preparation of the proposals in this report has involved the Mayor and Cabinet, the Council's select committees and the Public Accounts Select Committee in particular, thereby complying with the statutory guidance.

Statutory duties and powers

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

Reasonableness and proper process

- 14.28. Decisions must be made reasonably taking into account all relevant considerations and ignoring irrelevancies. Members will see that in relation to the proposed budget cuts there is a summary at Appendix Y1 and Y2. If the Mayor and Cabinet decides that the budget for that service must be reduced, the Council's reorganisation procedure applies if staffing numbers would reduce. Staff consultation in accordance with that procedure will be conducted and in accordance with normal Council practice, the final decision would be made by the relevant Executive Director under delegated authority.
- 14.29. It is also imperative that decisions are taken following proper process. Depending on the particular service concerned, this may be set down in statute, though not all legal

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requirements are set down in legislation.

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

Staff consultation

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

Best Value

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

Integration with health

- 14.33. Members are reminded that provisions under the Health and Social Care Act 2012 require local authorities in the exercise of their functions to have regard to the need to integrate their services with health. See "[Legal implications in the guidance](#) for more information.

15. Equalities implications

- 15.1. The Equality Act 2010 (the Act) introduced the public sector equality duty (the equality duty or the duty). It covers the following nine protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- 15.2. In summary, the Council must, in the exercise of its functions, have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
 - advance equality of opportunity between people who share a protected characteristic and those who do not.
 - foster good relations between people who share a protected characteristic and those who do not.

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- 15.3. The duty continues to be a “have regard duty”, and the weight to be attached to it is a matter for the Mayor and Cabinet, bearing in mind the issues of relevance and proportionality. It is not an absolute requirement to eliminate unlawful discrimination, advance equality of opportunity or foster good relations. Assessing the potential impact on equality of proposed changes to policies, procedures and practices is one of the key ways in which the Council can demonstrate that they have had ‘due regard’.
- 15.4. The Equality and Human Rights Commission issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled “Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice”. The Council must have regard to the statutory code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with services and public functions. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found at: <http://www.equalityhumanrights.com/legal-and-policy/equality-act/equality-act-codes-of-practice-and-technical-guidance/>
- 15.5. The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:
1. The essential guide to the public sector equality duty
 2. Meeting the equality duty in policy and decision-making
 3. Engagement and the equality duty
 4. Equality objectives and the equality duty
 5. Equality information and the equality duty
- 15.6. The essential guide provides an overview of the equality duty requirements including the general equality duty, the specific duties, and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice. Further information and resources are available at: <http://www.equalityhumanrights.com/advice-and-guidance/public-sector-equality-duty/guidance-on-the-equality-duty/>
- 15.7. The EHRC has also issued Guidance entitled “Making Fair Financial Decisions”. It appears at Appendix Y9 and attention is drawn to its contents.
- 15.8. Assessing impact on equality is not an end to itself and it should be tailored to, and be proportionate to, the decision being made. Whether it is proportionate for the Council to conduct an Equalities Analysis Assessment of the impact on equality of a financial decision or not depends on its relevance to the Authority’s particular function and its likely impact on people from protected groups, including staff.
- 15.9. Where proposals are anticipated to have an impact on staffing levels, it will be subject to consultation as stipulated within the Council’s Employment/Change Management policies, and services will be required to undertake an Equalities Analysis Assessment (EAA) as part of their restructuring process.
- 15.10. It is also important to note that the Council is subject to the Human Rights Act, and should therefore, also consider the potential impact their particular decisions could have on human rights. Where particular cuts have such implications, they must be dealt with and considered in relation to those particular proposals before any final decision is made.

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16. Climate change and environmental implications

- 16.1. Section 40 of the Natural Environment and Rural Communities Act 2006 states that: 'every public authority must, in exercising its functions, have regard, so far as is consistent with the proper exercise of those functions, to the purpose of conserving biodiversity'.
- 16.2. Overall there are limited changes to the budget structure and service funded either from agreed reductions or pressures funded. The environment considerations for any cuts were specifically considered as part of those proposals agreed by M&C. The environment considerations for the pressures to be funded in 2020/21, for example air quality, home energy, and healthier neighbourhood initiatives are positive.

17. Crime and disorder implications

- 17.1. Section 17 of the Crime and Disorder Act 1998 requires the Council when it exercises its functions to have regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.
- 17.2. There are no specific crime and disorder implications arising from this report.

18. Health and wellbeing implications

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

19. Background papers

| Short Title of Report | Date | Location | Contact |
|--|---------------------------|--------------------------|--------------|
| Financial stabilisation - budget update and medium term plan | 7 October 2020 (M&C) | 1st Floor Laurence House | David Austin |
| Budget Cuts Proposal 2020/21 – round 1 | 9 December 2020 (M&C) | 1st Floor Laurence House | David Austin |
| Budget Cuts Proposal 2020/21 – round 2 | 3 February 2020 (M&C) | 1st Floor Laurence House | David Austin |
| Council Tax Base | 20 January 2021 (Council) | 1st Floor Laurence House | David Austin |
| Budget Report 2021/22 | 3 February 2021 (M&C) | 1st Floor Laurence House | David Austin |
| Budget Update Report 2021/22 | 10 February 2021 (M&C) | 1st Floor Laurence House | David Austin |

20. Glossary

| Term | Definition |
|------|------------|
|------|------------|

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

21. Report author and contact

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

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

22. Appendices

Capital Programme

W1 2020/21 to 2023/24 Capital Programme – Major Projects

W2 Proposed Capital Programme – Original to latest Budget

Housing Revenue Account

X1 Proposed Housing Revenue Account Cuts 2021/22

X2 Leasehold and Tenants charges consultation 2021/22

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- X3 Leasehold and Tenants Charges 2021/22 Lewisham Homes
- X4 Other Associated Housing Charges for 2021/22
- X5 Garage Rent Increase Report 2021/22
- X6 Tenants' rent consultation 2021/22

General Fund

- Y1 Summary of previously agreed budget cuts for 2021/22 (Approved 2020)
- Y2 Summary of previously agreed budget cuts for 2021/22 (Approved 2021)
- Y3 Cuts Allocation to Base Budget and Overspend
- Y4 Ready Reckoner for Council Tax 2021/22
- Y5 Chief Financial Officer's Section 25 Statement
- Y6 Council Tax and Statutory Calculations
- Y7 Summary of risks and pressures to be funded
- Y8 Making Fair Financial Decisions

Treasury Management

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

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