

MAYOR & CABINET			
REPORT TITLE	2012/13 Budget		
KEY DECISION	Yes	Item No.	
WARD	All		
CONTRIBUTORS	Executive Director for Resources and Regeneration		
CLASS	Part 1	Date	15 February 2012

1. EXECUTIVE SUMMARY

- 1.1 Following the global financial crisis and the requirement to rebalance the public finances, the Government has last year set out challenging financial parameters to eliminate the public sector deficit over a four year period. The Government's existing plan for three-quarters of the deficit is to be eliminated by the use of public sector spending cuts.
- 1.2 The Office for Budget Responsibility (OBR) provides independent analysis of the UK's public finances. The most recent forecasts, released in November 2011 are for the period to 2016/17. This suggests that the economy has grown less strongly this year than the OBR forecast in March, mainly due to inflation being higher than expected and this has put pressure on household incomes and consumer spending. There has also been the negative influence of the euro zones current difficulties.
- 1.3 The OBR expect the economy to pick up during the second half of 2012, but the headline measure of GDP is likely to be flat until then. Furthermore, the OBR forecast assumes that the euro area finds a solution to the current crisis and a way to deliver sovereign debt sustainability. If this is not the outcome, there is a significant risk to the forecast, but one that the OBR have not quantified.
- 1.4 Although there is no prediction of a recession, growth forecasts have been revised down. In response to the lower than expected growth, the Government will be taking more tough decisions to deliver permanent savings in the medium and long term to protect the economy. More details of this will be revealed throughout 2012 as the result of a number of reforms are announced, particularly in Local Government finance.
- 1.5 Members will recall that the Spending Review 2010 outlined a 26% reduction in Local Government funding over a four year period from 2011/12 to 2014/15. This also indicated a heavy front-loading of revenue savings. The resultant Local Government Finance Settlement detailed a two-year Settlement and re-affirmed the 26% cut to Local Government funding from Central Government over four years. This confirmed a front-loading of 10.6% cut in the first year 2011/12 and 7.8% cut in the second year of 2012/13.
- 1.6 At the time, modelling this level of cut over two years resulted in Lewisham having a General Fund revenue budget savings target of £33.2m in 2011/12 and £23.4m in 2012/13. Extrapolating this over the four years, given Lewisham an overall indicative savings target of £88m.

1.7 This report sets out the impact of the financial settlements as they impact on the Council's overall resources:

- the 2012/17 Capital Programme;
- the 2012/13 Housing Revenue Account and level of rents;
- the 2012/13 Revenue Budget;
- a Council Tax level for 2012/13; and
- the Treasury Strategy for 2012/13.

2. PURPOSE

2.1 The purpose of this report is to set out the overall financial position of the Council in relation to 2011/12 and to set the budget for 2012/13. This can be achieved without increasing the level of Council Tax from its existing level, provided that proposals to accept the Council Tax Freeze Grant are agreed. This allows for the Council Tax to be agreed and Housing Rents to be set for 2012/13. It also sets out the Capital Programme for the next five years and the Council's Treasury Strategy.

2.2 The report also sets out revenue budget savings proposals that need to be agreed to balance the budget for 2012/13 and to address the budget requirement for future years.

3. RECOMMENDATIONS

3.1 It is recommended that the Mayor considers the comments of the Public Accounts Select Committee of 9 February 2012, which incorporates the views of the respective Select Committees.

That, having considered the views of consultees on the budget, subject to proper process and consultation, if required, the Mayor:

Capital Programme

3.2 notes the 2011/12 Quarter 3 Capital Programme monitoring, as set out in paragraph 5.3;

3.3 recommends that Council approves the proposed new capital projects, as set out in paragraphs 5.17 to 5.30, and approves the 2012/17 Capital Programme of £399.2m, as set out in Table A4;

Housing Revenue Account

3.4 recommends that Council sets an increase of dwelling rents of £5.76 per week or 7.04% in accordance with the Rent Restructuring formula and Department Communities and Local Government (DCLG) guidance;

3.5 recommends that Council sets an increase in the hostels accommodation charge by £3.99 per week or 7.18% in accordance with the Rent Restructuring formula;

3.6 recommends that Council approves the following average weekly increases for dwellings for:

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

- caretaking 3.0% (£0.08)
- grounds 3.0% (£0.04)
- communal lighting 38.67% (£0.20)
- bulk waste collection 3.0% (£0.01)
- window cleaning 3.0% (£0.00)
- Tenants Levy No increase

3.6.2 ask Members to note the consultation report on service charges to tenants and leaseholders in the Brockley area, presented to area panel members on 14 December 2011, attached at Appendix X3;

3.6.3 service charges to Lewisham Homes managed dwellings:

- caretaking 1.47% (£0.08)
- grounds 5.0% (£0.04)
- Lumber Collection No increase
- Window Cleaning 200% (£0.04)
- communal lighting 38.67 (£0.23)
- block pest control -1.29% (-£0.02)
- Tenants Levy No increase

3.7 recommends that Council approves the introduction of a new service charge for Lewisham Homes tenants for CCTV systems of between £1.50 to £3.00 per week, for those who receive the service;

3.8 ask Members to note a Lewisham Homes consultation report on Service charges to tenants and leaseholders, presented to area panel members on 7 December 2011, attached at Appendix X4;

3.9 ask Members to note the comments of the Housing Select Committee, attached at Appendix X5;

3.10 recommends that Council approves the following average* weekly percentage increases for hostels and shared temporary units for;

- Service charges (hostels) – caretaking/grounds 31.98% (£4.15)
- The overall rise in Hostel Service Charge will therefore be £4.15 per week and increase the weekly charge from £12.99 to £17.14 per week.
- In lieu of Council Tax - 0.0%
- Energy cost increases for heat, light & power – 23.38% (£3.34 per week)
- Water Charges increase – 64.68% (£1.22 per week)

* The average amount varies according to bed space/type of accommodation

3.11 recommends that Council approves an increase in Garage rents by inflation of 5.6% (£0.44 per week) for Brockley residents and 5.6% (£0.54 per week) for Lewisham Homes residents;

- 3.12 notes that there are no proposals to increase charges for sheltered housing and very sheltered housing;
- 3.13 recommends that Council approves an increase of 6.97% or £0.32 per week for Linkline Charges to tenants for line rental and maintenance. This would raise the charge from £4.59 to £4.91 per week;
- 3.14 notes that Private Sector Leasing rents moved to the Local Housing Allowance rate as at January 2011, according to bed size or capped LHA limit, as set out in Section 6 of this report;
- 3.15 agrees the Housing Revenue Account budget strategy proposals in order to achieve a balanced budget in 2012/13;
- 3.16 notes the impact on HRA self-financing, as set out in Section 6 of the report and;
- 3.16.1 agrees to recommend to Council that the Authority agrees to enter into a maximum sum of additional prudential borrowing of £44m (to the level of DCLG's 'self financing cap') over the period 2012/13 to 2016/17;
- 3.16.2 agrees to recommend that authority, as to the amounts and timings of any such borrowing, is delegated to the Executive Director for Resources & Regeneration, acting on the advice of the Head of Law;

Dedicated Schools Grant

- 3.17 recommends that Council approves that the Dedicated Schools Grant allocation of £232.1m be the Schools Budget for 2012/13;

General Fund Revenue Budget

- 3.18 notes the overall variance against the agreed 2011/12 revenue budget, as set out in Section 8 of the report;
- 3.19 notes the already approved revenue budget savings of £12.608m for 2012/13, as summarised in Appendix Y1;
- 3.20 recommends that Council agrees further revenue budget savings of £3.946m for 2012/13, as summarised in Appendix Y2 and set out in detail in Appendix Y3;
- 3.21 notes the implications of the provisional Local Government Finance Settlement for 2012/13, as set out in Section 8 of this report;
- 3.22 recommends that Council agrees to fund revenue budget pressures of £2.930m in 2012/13, as set out in Section 8 of this report;
- 3.23 considers risks and other potential budget pressures which could emerge during the year, as set out in Section 8 of this report and makes recommendations accordingly to Council;
- 3.24 subject to decisions on the above proposals, agrees to recommend to Council to set a General Fund Budget Requirement of £268.510m for 2012/13;
- 3.25 agrees that the Executive Director for Resources & Regeneration issues cash limits to all Directorates once the 2012/13 Revenue Budget is agreed;

Council Tax

- 3.26 subject to decisions above, agrees that an increase of 0% in Lewisham's Council Tax element for 2012/13 is recommended to Council on 29 February 2012;
- 3.27 subject to final notification from the Greater London Authority (GLA), agrees that the overall decrease in Council Tax for 2012/13 is 0.23%, which includes the indicative GLA precept for 2012/13 being reduced by 1% from its 2011/12 level;

Future Years' Revenue Budgets

- 3.28 notes the prospects for the revenue budget for 2013/14 and future years;
- 3.29 ask officers to continue to develop firm proposals to help meet the forecast budget shortfalls in future years;

Treasury Strategy

- 3.30 recommends that Council approves the prudential indicators and authorised limits, as set out in Section 11 of the report and Appendix Z1;
- 3.31 recommends that the Council adopts the revision to the Minimum Revenue Provision (MRP) policy, as set out in Appendix Z2;
- 3.32 recommends Council to approve the 2012/13 Treasury Management Strategy, as set out in Section 11 of the report, including the Investment Strategy and the revised credit rating criteria attached at Appendix Z3;
- 3.33 notes the Council's priorities for specified and non specified investment as set out in Appendix Z4;
- 3.34 recommends that Council delegates to the Executive Director for Resources & Regeneration authority during 2012/13 to make amendments to the Borrowing and Investment Strategies provided there is no change to the Council's authorised limit for borrowing;

Specific Recommendations for Appendix Y6 – Fees & Charges

- 3.35 to approve the recommendations in relation to:
 - 3.35.1 the recommendations in relation to parking charges set out at paragraph 6.25 of this report;
 - 3.35.2 the recommendations in relation to school meals set out at paragraph 7.13 of this report
 - 3.35.3 the recommendation in relation to early years nursery places at paragraph 8.14 of this report
 - 3.35.4 the recommendations in relation to the highways charges at paragraph 9.11 of this report
 - 3.35.5 the recommendations in relation to the trade refuse at paragraph 10.3 of this report
 - 3.35.6 the recommendations in relation to libraries at paragraph 11.9 of this report

- 3.35.7 the recommendations in relation to the Community Education Lewisham at paragraph 12.2 of this report
- 3.35.8 the recommendations in relation to the Registrars at paragraph 13.3 of this report
- 3.35.9 the recommendations in relation to the Community Centres at paragraph 14.3 of this report
- 3.35.10 the recommendations in relation to Pest Control at paragraph 15.3 of this report
- 3.35.11 the recommendations in relation to the Local Land Charges at paragraph 16.9 of this report
- 3.35.12 the recommendations in relation to HMO Licensing at paragraph 17.3 of this report
- 3.35.13 the recommendations in relation to the budget adjustments proposed in section 18 of this report

Specific Recommendations for Appendix Y7 – Complex Needs Review Savings Proposals

- 3.35 to approve the recommendations in relation to:
 - 3.35.1 that consultation begins on proposals coming out of the Management Review of services to support children with complex needs to:
 - a) Reorganise services within the Directorate for Children and Young People to bring together all assessment, planning, intervention and support functions for children and young people with complex needs under single management, deleting a service manager post;
 - b) Reconfigure the Inclusion Service, in order to remove duplication with the Early Intervention service; rationalise support for 0-5 s with complex needs and to build capacity to support and challenge schools and early years settings to improve their provision related to children and young people with special and complex needs;
 - c) Realign other services relating to children with special and complex needs to ensure coherence (e.g. work on planning to secure sufficient SEN places in schools).
 - d) Note that, if agreed following consultations, the reorganisation above is planned to release £243k for savings with £425k reinvested to ensure sufficient capacity to support 0-5 s with special and complex needs and £220k DSG resource released to cover pressures in the DSG relating to the education of children with special and complex needs. In addition, £160k is reserved for one-off transitional support and implementation.
- 3.35.2 That officers complete a full equalities impact assessment.
- 3.35.3 That officers undertake further work following the initial implementation to develop proposals to integrate assessment and support processes including to

consider the extent to which further savings are possible. by end of March 2013.

- 3.35.4 Report back to the mayor the outcomes of the public consultation and any proposed changes to the recommendations arising.

4. STRUCTURE OF REPORT AND POLICY CONTEXT

- 4.1 The 2012/13 Budget Report is structured as follows:

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

Policy Context

- 4.2 The Council's strategy and priorities drive the Budget with changes in resource allocation determined in accordance with policies and priorities. The 6 Sustainable Community Strategy priorities, agreed with the Local Strategic Partnership (LSP) and the Council's 10 Corporate Priorities are set as follows:

Sustainable Community Strategy

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

Corporate Priorities

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

4.3 In taking forward the Council's Budget Strategy, in engaging our residents, service users and employees, and in deciding on the future shape, scale and quality of services, we are driven by the Council's four core values:

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

4.4 At the beginning of 2010, Lewisham Mayor Sir Steve Bullock and Sir Richard Leese leader of Manchester City Council were requested by the then Secretary of State to consider a strategic approach to the public services response to the economic pressures which were very clearly on the horizon. The primary aim of this work was to provide a framework for the exploration of efficiencies and to mitigate against the worst impact on citizens. The output of this work provided a series of ten questions which all local authorities should consider in meeting the current challenge. Building on the approach started last year in creating the 2011/12 budget, officers continue to use these questions to generate a local approach to exploring efficiencies, cost reductions and savings.

The Ten Questions and Nine Guiding Principles

4.5 Q1 – Are you taking a coordinated approach with partners, centred on the Customer, to transforming, sharing and reshaping services in the front and back office?

4.5.1 The Council has had a coordinated approach to Customer Transformation over the past four years involving its partners and service users and as a consequence have developed a number of building blocks which have improved the customer experience and delivered efficiency savings of £9.35m.

4.5.2 The launch of the new website has increased functionality with customers being able to go on line and follow simple steps for 'Report It', 'Pay for It', 'Book It' and 'Apply For It' transactions to enable Self-Serve. There are also Self-Serve kiosks in key AccessPoints located across the borough which enable customers to access services on-line and assist with reducing queues at busy times. A new payment portal has been developed which provides an e-form for services requiring payment which can be accessed at anytime on line and has been integrated with the Council's accounting systems.

4.5.3 Payments processes have been modernised with more customer access points having Chip & Pin which reduces transaction time and removes the need to authorise payments with signatures. The Council has implemented a corporate solution for alternatives to cash and cheque payments. By using pre-paid cards, customers can now pay for services on-line and for those customers without bank accounts they can now access services previously unavailable to them. By using the PayOut service, customers can be offered more choice as to where to collect cash payments owed to them from the Council. For those customers still wishing to pay for services in cash, a bar-code generator has been developed which allows customers to pay for services at any PayPoint or Post Office.

4.5.4 Appointment solutions have been implemented in Housing Benefits, Registrations and Concessionary Awards to effectively manage customer demand, with the ability to send Short Message Service (SMS) reminders to reduce the number of non attendance for appointments.

4.6 Q2 – Are you engaging with all your partners, taking a 'Total Place' approach, to secure outcomes for the customer which maximises value for money?

- 4.6.1 There are a range of examples of the Council working with partners to ensure improved outcomes at lower cost. For instance, joint commissioning arrangements in both Children's and Adult's Services; an integrated offender management approach with police and probation; joint procurement of energy across London Councils; delivery of the Mayor's Apprenticeship Scheme with Lewisham College; and a joint ICT contract with Bromley Council.
- 4.6.2 Lewisham is one of the sixteen first phase Community Budget pilot areas. Community Budgets aim to allow greater pooling and aligning of resources to develop new ways to tackle the problems associated with families with complex needs. Lewisham's Community Budget work builds on the progress made through our Total Place pilot, which developed new ways of delivering better outcomes at lower cost across a range of themes.
- 4.7 Q3 – Are you improving processes, systems and practices whilst you transform and share resources to ensure that new services are efficient and designed for the customer throughout?
- 4.7.1 The provision for specialist equipment for people with health and social care needs benefits people of all ages, and has been subject to recent department of health strategies that alter the model of service delivery. In future, small items of equipment will be provided via collection from the local pharmacist, thereby reducing current delivery and collection costs. Additionally, large items will be commissioned through a pan-London consortium contract, which will lead to reduced contract costs, reduced unit costs for the larger pieces of equipment through bulk purchasing arrangements, and lower activity costs.
- 4.7.2 A further example is the Reablement provision, where the integrated service within the intermediate tier is evidencing a reduction in costs of ongoing social care, and is especially effective when providing intensive support for people leaving hospital. A programme is underway to ensure that acute and community health organisations have integrated care pathways, where people can access services to promote independence, and duplication of roles between health professionals in different organisations is reduced, and information is shared. This will ensure that people using the service have a coordinated experience, and costs are reduced across the health and social care system.
- 4.8 Q4 - Do you have the data available to understand how your Council is performing, and do you share and benchmark this information against others to identify areas for increased efficiency?
- 4.8.1 Lewisham Council reports its performance against 59 headline indicators in a monthly Management Report. These 59 headline indicators are a mixture of indicators which cut across the Council's ten priorities. Some of these measures are drawn from the former national performance management framework and others are local measures. The Council rigorously tests data to ensure its veracity and reliability. The Management Report sets out two distinct prisms through which the Council benchmarks its performance:
- compared to current target and;
 - compared to the previous year

- 4.8.2 Both the Management Report and the Council's disciplined approach to data quality management have been held up by our regulator as models of best practice.
- 4.8.3 Lewisham also submits performance data for the Local Authority Performance System (LAPS), which is managed by London Councils. The LAPS tool currently provides quarterly comparative information, for both performance and cost, across a wide range of service areas. Our analysis of this data enables the Council to see how it is performing relative to other authorities, which submit their data for comparison.
- 4.8.4 Lewisham is also a member of the London Authorities Performance Management Network. The forum which is convened by London Councils, brings together performance leads from across London to share good practice and develop approaches to improve performance management.
- 4.8.5 Furthermore, the Executive Director for Resources and Regeneration is a member of the CIPFAstats Management Steering Group, which supports the development of best practice across a wide range of public services and facilitates our drive for continued improvement in performance.
- 4.9 Q5 – Are you considering where you can collaborate with others on the procurement of technology, goods and service provision, and how you can achieve wider social objectives through innovative procurement?
- 4.9.1 Lewisham is using a number of EU compliant framework arrangements either procured by ourselves or by other organisations. These range over a number of procurement categories, for example: ICT hardware, Gas and Electricity (Government Procurement Service) construction consultants modular buildings (Lewisham) agency staff and learning & development (Eastern Shires Purchasing Organisation). These allow the Council to take advantage of rates and fees negotiated nationally or in conjunction with a number of other local authorities, thus achieving economies of scale not only in our expenditure, but also in the cost of our procurement activity.
- 4.9.2 Opportunities for joint procurement are being extended further across an even wider range of our services. We have particularly developed close links within our South East London sub-region group (Bromley, Bexley, Croydon, Greenwich, Lambeth and Southwark) and these partnerships include Close Circuit Television - Management & Maintenance (Bromley), Parking Services (Southwark) Welfare Catering - Meals on Wheels (Lambeth and Southwark), Street Lighting (Croydon) and Oracle Financials System upgrade (Barking & Dagenham, Brent, Croydon, Havering and Lambeth and potentially a further 11 authorities). This latter project is aimed at creating a shared service for all London authorities which use Oracle Financials.
- 4.9.3 Lewisham has also been the leading London Authority in the implementation of the London Living Wage (LLW) in its contractual arrangements. Throughout the last year, we have been continuing the inclusion of this requirement in contracts where it is assessed staff are paid below the current LLW rate. Thus the re-provision of the Leisure Management and the extension of the Agency Staff contracts have been awarded on the basis that the LLW will be paid to all staff engaged on Lewisham services in these areas.
- 4.9.4 In the forthcoming year our contracts valued in excess of £1 million will include the need to provide apprenticeship opportunities for Lewisham residents, particularly

young people. We are also encouraging our contractors, suppliers and service providers to make employment or sub-contracting opportunities available to Lewisham residents and businesses. We are also changing our Contract Procedure Rules in relation to our lower value contracts (under £40,000), thereby making it mandatory for at least one quotation to be from a Lewisham business. If no Lewisham business exists, then the opportunity should be offered to those from South East London.

4.10 Q6 – Are you considering how you can improve asset management when sharing services, and when considering organisational structures?

4.10.1 The Council has continued to strengthen its asset management arrangements. Lewisham's public sector partners now meet every 6 months to jointly develop and deliver improvements to the borough's physical infrastructure. An Asset Rationalisation Programme has been developed that will reduce the number of Council buildings and our revenue costs by £1m. This will be considered by the Mayor in February 2012. Discussions continue with neighbouring boroughs on sharing information on the estate rationalisation proposals close to borough boundaries.

4.11 Q7 – Do you understand your workforce and how to get the best out of them?

4.11.1 Lewisham is ambitious for the community it serves, and committed to the continued development of the productivity and effectiveness of our workforce. The indicators concerned with the overall representation of the workforce identify that Council performance has improved. Similarly, the Council reflects the ethnic origins of the community in its workforce with representation of BME staff at senior level increasing on a year on year basis.

4.11.2 The People Management Strategy focuses on the importance of having an effective, motivated and efficiently organised workforce to deliver this vision. The Council aims to be a “learning organisation” – creating a positive environment in which all staff can improve their approach to learning how they can best deliver value to the public. The Council has been continuously accredited by the Investors in People (IIP) standard since 1996. The IIP assessment process has been an integral part of our continuous workforce development for over a decade – enabling us to identify and implement good practice. The IIP assessment process provides an opportunity for employees to provide feedback about what works well at Lewisham and what could be improved and provides the organisation with an external view of how well people are managed and developed across the Council and where it needs to focus its attention.

4.11.3 We have a well-motivated and skilled workforce that is clear about the priorities of the organisation and their role in achieving the organisation's overall goals and in delivering specific service objectives. This is evidenced in our latest employee survey that demonstrated, among other things, that 90 per cent of staff have a comprehensive understanding of their service goals, 13 percentage points above public sector norms. In relation to the employee survey, we could add: that we are planning to engage in a further employee survey early in 2012 to update and inform our current understanding.

4.12 Q8 - Does your Council have the leadership capacity and skills needed to develop innovative solutions and engage communities and frontline staff?

- 4.12.1 The Audit Commission has reported positively on the strength of the political and managerial leadership of the organisation. The Council has also been recognised as having an outstanding approach to engaging with its community. The Council's comprehensive approach to engaging with its residents and citizens across the borough is a strength and the former inspection regime was awarded a green flag for excellence in community engagement.
- 4.12.2 As part of our review of changing the managerial structure of the Council, action has been taken to ensure that we maximise our strength in order that we remain robust in managing the change.

Q9 – Are you considering whether you have the most efficient management layers and structures in place and can these be shared, integrated or aligned with those of partners?

- 4.12.3 'New Directions', the Chief Executive's paper on organisational structure and cost savings has outlined the approach to affecting cost reduction across senior management. It set out a plan to increase managerial spans of control across the Council and reduce senior management costs. The Chief Executive's most recent paper, 'Serving Lewisham Smarter' has now begun to effect the process of implementing both a new organisational structure and new ways of working to deliver cost reductions. The Council has been restructured around 4 rather than 5 directorates – reducing the number of senior officers and extending senior officer spans of control across service areas.
- 4.12.4 The redesign of the organisation has sought to secure effective service delivery at lower cost (through direct employment of service contracting) while sustaining accountability to the Council and a capacity to innovate and adapt to changing demands.
- 4.13 Q10 – Are you considering how flexible your staff are and how specialist professional skill sets can be shared across your partner's organisations?

- 4.13.1 As part of the budget proposals for 2012/13, cross directorate thematic reviews are planned including shared services and a review of terms and conditions of employment. This review is intended to provide cashable savings as well as increased flexibility and efficiencies, across the Council with a view to improving service performance in line with the 'Serving Lewisham Smarter' agenda.

4.14 Nine Guiding Principles

- 4.14.1 Lewisham has developed an underpinning set of nine guiding principles, designed to assist in the process of bringing forward savings proposals and to aid decision making.

- 4.14.2 Outlined below are the nine guiding principles:

- 1) Consider the social impact of proposed changes
- 2) Avoid short-term fixes
- 3) Co-ordinate action across the whole Council
- 4) Encourage self-reliance, mutualism and cooperative endeavour
- 5) Prioritise support for those in greatest need

- 6) Not favour one locality over others
- 7) Involve service users, staff and other stakeholders in service redesign
- 8) Coordinate action with other public agencies and the voluntary sector, and consider shared solutions
- 9) Listen to all voices, take account of all views and then we move forward to implement.

5 CAPITAL PROGRAMME

Introduction

- 5.1 In considering the Council's overall financial position, the Capital Programme is considered first. This is to ensure that any revenue implications of capital decisions can be taken into account.
- 5.2 This section of the report considers the Capital Programme and is structured as follows:
- 2011/12 Capital Programme – Monitoring as at Quarter 3
 - Capital Programme 2012/13 to 2016/17 – Current Position
 - New Capital Programme Resources and Projects
 - Overall Proposed 2012/2017 Capital Programme
 - Risk Management

2011/12 Capital Programme Monitoring - Quarter 3

- 5.3 The latest 2011/12 Capital Programme monitoring (Quarter 3 – December 2011) shows forecast expenditure of £123.7m for 2011/12 compared to actual expenditure at the end of December 2011 of £57.3m (46%). This is slightly lower than the spend profile in previous years. Appendix W1 shows the spend on the major projects in the Programme for 2011/12.

Capital Programme 2012/13 to 2016/17 – Current Position

- 5.4 The current overall 2012/17 Capital Programme includes estimated resources of £201.1m and forecast expenditure of £190.8m for the five year period 2012/13 to 2016/17. The General Fund programme is forecast to decline over this period as a result of the reductions in available resources. There is an overall under programming of £10.3m for the five year period, with significant under programming of £2.4m in 2012/13 and £6.4m in 2016/17.
- 5.5 The table below sets out the current overall Capital Programme position,

Table A1: Current 2012/13 to 2016/17 Capital Programme Position

	12/13	13/14	14/15	15/16	16/17	Overall Programme
	£m	£m	£m	£m	£m	£m
Forecast Resources	(83.0)	(46.9)	(34.1)	(30.7)	(6.4)	(201.1)

Forecast Expenditure	80.6	46.4	33.6	30.2	0	190.8
Net Over/ (Under) Programming	(2.4)	(0.5)	(0.5)	(0.5)	(6.4)	(10.3)

Capital Programme Resources 2012/13 to 2016/17

- 5.6 The forecast resources available to finance the 2012/17 Capital Programme are as set out in the table below and discussed in paragraphs 5.7 to 5.16.

Table A2: Current 2012/13 to 2016/17 Capital Programme Resources

	12/13	13/14	14/15	15/16	16/17	Overall Programme
	£m	£m	£m	£m	£m	£m
Prudential Borrowing	(8.9)	(0.8)	0	0	0	(9.7)
Capital Receipts	(26.5)	(5.7)	(5.0)	(6.8)	(6.4)	(50.4)
Grants and Contributions	(43.2)	(39.1)	(27.9)	(22.7)	0	(132.9)
Revenue	(4.4)	(1.3)	(1.2)	(1.2)	0	(8.1)
	(83.0)	(46.9)	(34.1)	(30.7)	(6.4)	(201.1)

The table illustrates that the total resources available to finance capital projects decrease over the five year term of the Programme.

Supported Borrowing (£0m)

- 5.7 The revenue costs associated with supported borrowing were previously partially reimbursed by Central Government through the Revenue Support Grant mechanism. However, the Spending Review has now removed this support and consequently no supported borrowing is included in future years' resources.

Prudential Borrowing (£9.7m)

- 5.8 The Council requires provision to be made within revenue budgets to finance the costs of servicing the debt resulting from prudential borrowing. It is funded by savings generated by the capital investment.
- 5.9 The continuing investment in highways (comprising roads, footways, bridges, street lighting, Controlled Parking Zones (CPZs) and car parks) is being financed by prudential borrowing of £3m for 2012/13. Prudential borrowing of £2.65m for vehicle replacements (including £1.7m re-phased from 2011/12) and £0.3m for Catford Town Centre Regeneration is also included in 2012/13.

- 5.10 In line with the 2011/16 Capital Programme as agreed by the Council in March 2011, and due also to the scarce nature of resources, prudential borrowing will be used to provide bridging finance for the Heathside & Lethbridge capital project until the associated capital receipts are available. Borrowing of £3.75m has therefore been included within the capital programme in 2012/13 and 2013/14 (as well as £3.05m in 2011/12), which will be repaid by the capital receipts generated by the disposal of the land in phases to the development partner.

Capital Receipts (£50.4m)

- 5.11 There is considerable uncertainty associated with the projection of capital receipts, principally because of the volatility in the residential and commercial property markets. The disposals programme is rigorously reviewed on a quarterly basis and was reviewed again in January 2012. The estimated resources in Table A2 contains officers' best, but prudent, assessment of the likely timing and value of receipts.
- 5.12 The revised programme reflects a period where investment in infrastructure by Government will be significantly reduced. Resourcing the programme in future years will require increasingly difficult decisions on capital receipt generation from asset disposals. Difficult choices are likely to be needed as traditional site disposal with an immediate receipt is likely to be replaced with an expectation of either a deferred receipt or a subsidised (or nil value) transfer.
- 5.13 In recognition of the risks associated with capital receipts, the policy is to not commit expenditure until the actual receipts have been realised.

Grants and Contributions (£132.9m)

- 5.14 The Council is currently evaluating its options for future housing management arrangements in the light of the new 'self-financing' system of housing finance. This evaluation will not be complete until after the budget is set. Therefore, the housing Programme budget for the period 2012/17 is proposed on the basis that backlog grant funding of £94.5m is received (of which £14.0m has already been received in 2011/12). The resources in Table A2 assumes that the remaining grant of £80.5m will be received. In the event that a different figure is actually received, the capital budget will be adjusted at that time.
- 5.15 Grant resources also included in Table A2 include funding for the Building Schools for the Future design and build of schools, Primary Capital Programme funding from the Department for Education and LIP funding from Transport for London (TfL). The Disabled Facilities Grants programme has been part funded by the DCLG in recent years, but no announcement has been made by DCLG as yet (it is expected in February 2012). Therefore, no grant has been assumed for the years after 2011/12.

Revenue (£8.1m)

- 5.16 Corporate revenue support to capital was maintained at £3.25m in 2011/12 and has been proposed and included at £2m for 2012/13. Schools revenue contributions to capital have been assumed at £1.2m per annum for each of the years within the Capital Programme 2012/13 to 2016/17.

New Capital Programme Resources and Projects

- 5.17 In view of the resource position set out above, the current programme expenditure has been rigorously reviewed. Current commitments, budget risks and future demand have been analysed and cash flows updated. Given the reduction in the scale of the Programme and the on-going uncertainty of future resources it is not proposed to include any new major programmes or projects. The following paragraphs set out the known changes in the Programme, propose the extension of some of the current rolling programmes, and also propose the inclusion of a number of specifically funded projects. These are listed in Appendix W2.

Deptford Town Centre and Deptford Station

- 5.18 On the Deptford Town Centre programme the new Deptford Library, Lounge and Tidemill School opened in January 2012 after a delayed completion. The Council has successfully negotiated a final cost of the building programme with the main contractor and this requires additional budget provision of £395k on a budget for the programme of £27.6m in 2011/12. This has been added to the 2011/12 Programme.
- 5.19 On Deptford Station, the Council has been working with Network Rail and the contractor to complete the build which is scheduled to open in the first quarter of 2012 when the demolition of the old station will commence. The project has faced delays as a result of additional works required to the station, a revised fire strategy and as a result of the delay additional project supervision costs. The increased costs are estimated to be £400k in 2012/13 and are additional to the last reported budget of £11.183m.

Matched Funding Bids - GLA Outer London Fund

- 5.20 Officers have been working with the GLA on bids for the Outer London Fund. Phase 1 approval was obtained for Catford in August 2010 and this enabled work to commence on a detailed Phase 2 submission. Following discussions with the GLA, a bid has been submitted for further improvement work to Deptford High Street adding to the improvements to Douglas Way and the development of the Deptford Lounge and Giffin Square. Both schemes will significantly improve the public realm and the street markets in each location. During these discussions, the GLA introduced the need to identify some match funding.
- 5.21 On 5 January 2012, the GLA wrote confirming they were seeking 30% match funding from the Council. Officers have examined how this can be resourced and have negotiated a contribution that would meet the GLA's requirements and comes close to the 30% level. Matched funding from Section 106 of £31k has been identified, but in order to proceed with these programmes additional capital funding of £590k is required for Catford (leveraging GLA capital funding of £1.346m) and £439k for Deptford (leveraging GLA capital funding of £1.399m). A final decision has yet to be made by the GLA, but it is proposed to set aside total matched funding from general capital resources of £1.029m that may be required in 2012/13. In addition, matched revenue funding of £133k from Section 106 and £10k from Economic Development will attract £258k of revenue funding from the GLA for these schemes.

Matched Funding Bids - GLA Regeneration Fund

- 5.22 Mayor & Cabinet agreed bids for a series of projects from the GLA Regeneration Fund. Following discussions with GLA officers it appears likely that funding of circa £1m will be forthcoming to enable work to commence on the Lewisham Gateway

scheme, subject to the Council identifying suitable matched funding. In order for the scheme to proceed officers therefore recommend setting aside up to £0.5m of matched funding to be made available in 2012/13.

Redesigning of the Property Estate

- 5.23 The Council is engaged in a complex programme of redesigning its property estate. This will include disposal and/or transfer of some assets and a renewed focus on the core estate. Coupled with this is a testing and ambitious regeneration programme for key areas in the borough. As part of this Programme, some judicious acquisitions of key sites as they become available may be desirable to avoid future costs, e.g. of enforcing compulsory purchase orders. There may also be opportunities to invest slightly in buildings earmarked for disposal in order to maximize their net value to the Council. For these reasons, the Asset Management budget is proposed to be increased by £0.5m in each of the five years of the Programme.

Primary Places

- 5.24 On 13 December 2011, the Department for Education (DfE) announced capital funding allocations for local authorities for 2012/13 made up of provision for school places, maintenance needs and voluntary aided schools. For Lewisham, the allocation in 2012/13 totals £18.062m. Of this, the basic need allocation for additional capacity is £12.7m. The pressure for additional primary school places will be familiar to Mayor & Cabinet and officers in CYP will be bringing forward spending proposals to maximise places and ensure essential maintenance projects are undertaken within the funding made available. The budget for this has been included in the proposed Capital Programme in full. Future reports to Mayor & Cabinet will detail proposals on how this funding will be spent.

Housing Finance Reform

- 5.25 On 18 January 2012, Mayor & Cabinet agreed a report on the future of housing in the borough. One of the changes explored in that report was the changes to housing finance that will provide local authorities with greater freedom to invest in their stock. As outlined in paragraph 5.14, total borrowing of £44m and revenue contributions of £123.4m from the HRA over the five years has been included in the proposed Programme at this stage. It is proposed that the actual phasing is delegated to the Executive Director for Resources and Regeneration to determine in due course.

Catford Town Centre Regeneration

- 5.26 Reports to Mayor & Cabinet on 13 July 2011 and Council on 12 September 2011 noted the potential funding requirement of £10m to gain vacant possession of the site and obtain outline planning permission for a full masterplan. In September 2011, Council agreed that this would be funded by prudential borrowing. As the cash flow requirement for the Programme is not yet clear, the proposed Capital Programme includes £5m in 2012/13 (including £300k already included in the Programme) and £5m in 2013/14. It is proposed that the actual phasing is delegated to the Executive Director for Resources and Regeneration to determine in due course.

On Going Housing needs

5.27 Budgets have been included in the 2016/17 Programme for the Cash Incentive Scheme and the Disabled Facilities Grants (DFG) Programme in line with previous years' budgets and expenditure incurred. At this stage, the DFG is assumed to be fully funded by Lewisham, as the DCLG have not indicated whether the grant will be made available for the year.

Other Rolling Programmes

5.28 Budgets are also proposed for inclusion in the 2016/17 Programme for Aids and Adaptations, Disabilities Scheme, ICT refresh, AMP Programme and the Schools AMP Programme (matched by Standards Fund resources), in line with previous years' budgets and expenditure incurred.

Overall Proposed 2012/2017 Capital Programme

5.29 The total resources available for the programme and the overall proposed Capital Programme budget for the period 2012/13 to 2016/17 is set out in the table below.

Table A3: Proposed 2012/2017 Capital Programme Resources and Budgets

	12/13 £m	13/14 £m	14/15 £m	15/16 £m	16/17 £m	Total £m
Current Programme						
Forecast Resources	(83.0)	(46.9)	(34.1)	(30.7)	(6.4)	(201.1)
Forecast Expenditure						
General Fund	65.7	20.5	10.7	7.3	0	104.2
Housing Revenue Account	14.9	25.9	22.9	22.9	0	86.6
Net Over / (Under) Programming	(2.4)	(0.5)	(0.5)	(0.5)	(6.4)	(10.3)
Proposed New Projects						
Resources	(52.1)	(32.0)	(29.6)	(30.8)	(55.6)	(200.1)
Expenditure						
General Fund	28.9	5.5	0.5	0.5	5.6	41.0
Housing Revenue Account	25.6	27.0	29.6	30.8	54.4	167.4
Net Over / (Under) Programming	2.4	0.5	0.5	0.5	4.4	8.3
Net Proposed Over / (Under) Programming	0	0	0	0	(2.0)	(2.0)

5.30 The overall proposed Capital Programme by Directorate is shown in Table A4. Appendix W3 shows the major projects which comprise the Programme. The Housing Revenue Account Programme is proposed to be larger than the General Fund Programme, and Appendix W2, give further details of this.

Table A4: Proposed 2012/2017 Capital Programme Expenditure Budgets

	12/13 £m	13/14 £m	14/15 £m	15/16 £m	16/17 £m	Total £m
General Fund						
Community Services	1.9	0.5	0.4	0.4	0.5	3.7
Resources and Regeneration	20.7	8.5	3.0	3.0	3.0	38.2
Children & Young People	64.2	15.3	6.1	1.2	1.2	88.0
Customer Services	7.8	1.7	1.7	3.2	0.9	15.3
	94.6	26.0	11.2	7.8	5.6	145.2
Housing Revenue Account	40.5	52.9	52.5	53.7	54.4	254.0
Total Budgeted Expenditure	135.1	78.9	63.7	61.5	60.0	399.2

Risk Management

- 5.31 The risks related to the Capital Programme are managed programme-wide and scheme by scheme. Regular meetings of Directorate Project Review Groups and the Corporate Project Board review project progress and spend to ensure that any material variances are identified promptly and appropriate remedial action taken. Officers review anticipated capital receipts quarterly and projections are updated and reported in the regular reviews of the programme to Mayor & Cabinet.
- 5.32 The Programme risks have changed over the last 12 months. The housing market risk remains with the cuts in social housing funding putting increased pressure on development in the sector. Construction prices are currently low with contractors squeezing supply chains and profit margins in order to win work. This can leave them prone to financial failure and officers will continue to assess financial risks before appointing any major contractors to schemes.
- 5.33 Primary school places remain a key concern. It is estimated that the growth in pupil numbers across the borough could lead to a requirement for up to 22 additional forms of entry by September 2015. The estimated spend to meet the predicted need for places from April 2012 to 31 March 2016 is £54.2m. Resources announced by Central Government and available towards this predicted cost total £32.5m. This would not enable all the classrooms required for September 2013 to be delivered. There is a strong probability that Lewisham will receive a share of the forthcoming £600m additional basic needs allocation expected early in 2013, and that there will be an allocation of resources for 2013/14 and on this basis demand for September 2013 primary places could be met. However, given the current financial climate there can be no certainty of significant allocations for 2014/15 and beyond.
- 5.34 The Council's Capital Programme includes a reducing number of larger complex projects such as Building Schools for the Future and the redevelopment of Deptford and Catford Town Centres, where skilled programme, project and commercial skills are required.

Summary

- 5.35 The proposed 2012/13 to 2016/17 Capital Programme totals £399m (General Fund £145m and the Housing Revenue Account £254m) and brings together all of the capital projects across the Council. It sets out the key priorities for the Council over the next 5 years and will be the subject of regular review.
- 5.36 Over the next five years the Council faces a period of financial uncertainty as revenue spending is cut and Government grants are reduced. This places increased reliance on the Council's capacity to generate capital receipts from asset sales to fund infrastructure development. For this reason, any new projects or programmes will need to clearly demonstrate a sound business case for investment.

6. HOUSING REVENUE ACCOUNT

- 6.1 This section of the report considers the Housing Revenue Account (HRA). It explains the current financial position in the context of the new financing system. It is structured as follows:
- Update on the HRA Financial Position for 2011/12
 - Update on 'self-financing' proposals and HRA Budget 2012/13
 - Medium Term Budget Strategy
 - Outcomes of the tenant consultation period

Update on the HRA Financial Position for 2011/12

- 6.2 The latest forecast on the HRA for 2011/12, is that net expenditure can be contained within budget by the year end. There are current pressures on energy, cleaning and hostel charges, but these are being mitigated by the use of reserves and revenue working balances. Expenditure against repairs & maintenance budgets is expected to be contained within the sums allocated.

Update on Self-Financing Proposals and HRA budget 2012/13

- 6.3 A new financing system for the HRA, known as 'self financing', will become effective on 1 April 2012.
- 6.4 The aim of the 'self-financing' system is to leave each local authority in a position where it can meet its liabilities through its rent and other sources of income, without the need for ongoing financial support from Government or nationally redistributed subsidies between housing authorities.
- 6.5 The changes involved would allow the Authority to keep all the rents generated, rather than contribute it to the national HRA rent pool, in order to dispense with the current subsidy system. This would allow the abolishment of the HRA subsidy system in its entirety, to be replaced by a system where the Housing Stock is 'self sustaining'.

In summary the key features of the new system are:

- There will be a one-off settlement and redistribution of existing housing debt, requiring each local housing authority to either take on new debt as at 1 April 2012 or has some of its existing housing debt repaid. Under this arrangement, Lewisham's debt will be reduced from £219.9m to £84.9m, and it will no longer receive or pay subsidies.

- Following the Settlement, local housing authorities will be free to either repay debt or take on new borrowing (up to a centrally determined cap), taking account of local priorities and housing investment needs.
- From 1 April 2012 local housing authorities will no longer be required to make contributions to, or receive contributions from, the national subsidy system.
- DCLG assumes that rents will continue to be calculated in accordance with the rent restructuring formula.
- Local housing authorities will continue to be accountable for ensuring effective housing management and investment.
- The HRA 'ring-fencing' will continue.

6.5.1 The Council is considering how it will respond to the challenges and opportunities of the self financing system. The combination of the new system and the significant housing pressures may, in due course, cause the Council to adopt new management arrangements in order to optimise delivery of policy objectives.

6.5.2 In the short-term a budget and rents for 2012/13 need to be set and, so far as it is possible, forecasts for future years should be provided. These have therefore been based on current management arrangements.

6.6 Self-financing fundamentally changes the nature and appearance of the HRA. Table B1 sets out the current budget for 2011/12 and the estimated budget for 2012/13 after applying efficiency savings noted in paragraph 6.11

Table B1 - Comparison between current HRA budget 2011/12 and proposed 2012/13 budget

	2011/12	2012/13	Comments
	£'000	£'000	
Rental income & voids	-62,961	-67,766	See 6.18
Less – provision for bad debts	800	865	
Net rental income	-62,161	-66,881	
Housing Subsidy (see table below for details)	-2,860	0	No longer applicable under new financing arrangements
PFI Credit	-10,353	-10,353	
Tenants Service charges	-4,431	-4,491	
Leasehold Service charges	-3,524	-3,796	
Hostel Income	-1,986	-1,226	
Other Income	-4405	-3,950	
Major Works Income	-524	-2,187	Reflects Decent Homes works
Total net income	-90,244	-92,904	
ALMO Management fee	18,942	18,900	
RB3 fee (PFI)	14,777	15,302	
Repairs & Maintenance	19,978	20,173	

Hostel Expenditure	1,807	1,820	
Other Management costs	5,700	5,314	
Other Misc & Energy Costs	3,070	3,862	
Interest & Debt costs	12,348	7,578	Reflects reduction in debt
Depreciation	13,001	18,149	Reflects abolition of MRA
Revenue contribution to Capital	621	1,806	Support for Decent Homes
Total expenditure	90,244	92,904	
Net surplus / (deficit)	0	0	

Calculation of Lewisham's Housing Subsidy is set out in the table below

	£'000
Housing element – contribution to National Pool	10,141
Major Repairs Allowance (MRA)	-13,001
Net subsidy received	-2,860

6.7 The key implications of the proposed budgets are as follows:

- A significant reductions in the cost of supporting debt
- Sufficient resources to support lifecycle works, repairs and maintenance and the Decent Homes programme
- A reduction in management costs

6.8 Officers have examined budgets to identify opportunities for efficiencies and improved value for money and these savings are included in the proposed budget.

2012/13 and Future Years' Forecast

6.9 Savings of £1.222m for 2012/13 were identified and put before tenants' panels in December 2011. An outline of the savings and options to achieve them are set out in Appendix 1. Residents were consulted on the proposals and resident feedback is contained in appendix 2. If all of these were adopted in 2012/13, they could be reinvested to meet key priorities, such as contributing towards bridging the financing gap on achieving the Decent Homes standard.

6.10 The current forecasts assume the implementation of Self-financing and settlement of debt as outlined in paragraph 6.5 above.

6.11 Table B2 below (which is an extract from the previous table) shows the base position for 2012/13, taking account of known factors such as changes in stock numbers and the impact of the implementation of self-financing. It then summarises the proposed savings against each relevant line. Fuller details are contained in Appendix X1.

Table B2 - Summary of proposed HRA efficiency savings 2012/13

	Proposed savings	Comments
	£'000	
Rental income & voids	-20	Rental income is essentially determined by the subsidy system, but voids could be let at target levels. See Appendix One – item 6
Less – provision for	0	It would not be prudent to adjust this in the

bad debts		light of current performance
Net rental income	0	
Housing Subsidy – PFI Credit	0	Fixed long-term contract
Tenants Service charges	-150	See Appendix One – item 7
Leasehold Service charges	0	No proposals
Hostel Income	-170	See Appendix One – item 1
Other Income	-190	See Appendix One – item 4
Major Works Income	0	No proposals
Total net income	-530	
ALMO Management fee	-321	See Appendix One – item 2
RB3 fee (PFI)	0	Fixed long-term contract
Repairs & Maintenance	0	No savings proposed
Hostel Expenditure	0	No proposals
Other Management costs	-121	See Appendix One – item 3
Other Misc & Energy Costs	-250	See Appendix One – item 5
Interest & Debt costs	0	No scope for savings
Depreciation	0	Charge based on consumption – no scope for savings
Revenue contribution to Capital	0	Investment needed for decent homes programme
Contributions to/from reserves	0	Use of HRA reserves
Total expenditure	-692	
Net agreed savings	(1,222)	

6.12 Under these proposals the Lewisham Homes management fee would reduce from £18.942m in 2011/12 to £18.900m in 2012/13.

6.13 Separate reports included as Appendix X3 and X4 to this report detail proposals in respect of service charges for Brockley and Lewisham Homes residents.

Rental Income & Allowances

6.14 The 2012/13 financial year is the 12th year of what was originally a 10-year rent restructuring programme which was due to be complete by 2011/12 financial year.

6.15 However, the Government previously extended the rent restructuring period to 2015/16. The aim of this decision was to bring the convergence programme into line with the forecasts being used for the new self financing regime.

6.16 The average weekly rent is currently £81.73 and, following the final HRA self-financing settlement expected to be issued in January 2012, it is proposed that rents will increase by 7.04% (£5.76 per week) to £87.49.

6.17 This forecast is based on rent restructuring guidance for actual rent of RPI +0.5% + £2 convergence. RPI inflation as at September 2011 was 5.6%. This is based on

the current assumed rent convergence date of 2015/16 i.e. 3 years from 2012/13, as per the self-financing settlement.

- 6.18 The rent rise noted above in section 6.16 will generate £4.542m in additional rental income. A rent rise lower than the formula calculation is likely to result in lost resources in the HRA which would need to be made up by efficiencies or savings in order to maintain a balanced account. For example, a rent rise of RPI less 1% would generate £3.896m in additional rental income, a reduction of £0.673m or £0.82 per dwelling per week. A rent rise of £1 less than the forecasted amount would result in a reduction of £0.789m in additional rental income.
- 6.19 Details of the proposed rent rise were presented to the Housing Select committee on 8 December 2011. The Committee made a referral to Mayor & Cabinet on 18 January 2012 expressing their concern about how the proposed increase may affect those not on benefit. A response from the Executive Director for Customer Services appears at Appendix X5.
- 6.20 A rent rise higher than the formula calculation is likely to result in additional recharges to the HRA via the HB subsidy limitation charges. For example, to generate £1 of additional income over and above the forecasted amount, rents would need to increase by £2.40 due to the increased limitation recharge.
- 6.21 There have been no changes in the methodology for calculating formula rents.

Other Associated Charges

Garage Rents

- 6.22 Allowance has been made for a 5.6% inflationary increase to garage rents in the Brockley area, based on the RPI rate at September 2011. This equates to an increase of £0.44 per week and raises the average charge from £7.74 to £8.18 per week.
- 6.23 Garage rents for the Lewisham Homes managed area are also proposed to rise in line with RPI inflation as at September 2011. This equates to an increase of £0.54 per week and would raise the average charge from £9.70 per week to £10.24 per week.

Tenants Levy

- 6.24 As part of the budget and rent setting proposals for 2005/6, a sum of £0.13 per week was 'unpooled' from rent as a tenants service charge in respect of the Lewisham Tenants Fund. There was no increase in 2009/10 or 2010/11 following consultation with Housing Panels.
- 6.25 Lewisham Tenants Fund (LTF) put forward proposals to leave the levy at £0.13 for 2012/13. These were submitted to Housing Panels and agreed. Therefore, the levy for 2012/13 remains at £0.13 per property per week.

Hostel charges

- 6.26 Hostel accommodation charges are set based on rent restructuring rules and will rise by around 7.18% (£3.99 per week) under the rent restructuring formula.

- 6.27 Hostel services charges are being increased to achieve a programme of ensuring full cost recovery. For 2012/13, the charge for Caretaking and Grounds Maintenance are proposed to be raised by 31.98% or £4.15 per week. In addition, the charge for Heat, Light & Power (Energy) will increase by 23.38% or £3.34 per week and for Water Charges by 64.68% or £1.22 per week. These are the first increases in two years. There are no proposals to increase the charge for council Tax. All charges are after the hostel unit numbers being reconfigured resulting in a reduction in the total number of units.
- 6.28 There are no proposals to increase support charges, as it has been assumed that Supporting People grant will not receive an inflationary increase for 2012/13. The charge for Sheltered Housing tenants will be held at £10.66 per week. The charge for Very Sheltered Housing tenants will be held at £94.53 per week. There are approximately 312 sheltered housing tenants and 37 Very Sheltered Housing tenants.

Linkline Charges

- 6.29 There are proposals to increase Linkline charges for inflation at 6.37%. This will equate to an increase of £0.32 per week for line rental and £0.05 for maintenance. The charge will therefore increase from £4.59 per week to £4.91 per week for Line rental and £0.82 per week to £0.87 per week for maintenance. There have been no increases applied for this service since 2009/10 i.e. this is the first increase for two years.

Private Sector Leasing (PSL)

- 6.30 Rent income for properties used in the Private Sector Leasing (PSL) scheme is a General Fund resource. Following consultation, the Department for Work and Pensions (DWP) announced that the threshold for 2012/13 for housing benefits subsidy allowances will be based on the January 2011 Local Housing Allowance, less 10%, plus a management fee of £40 per property, subject to a maximum capped amount of £500 per week. It is recommended that rents for private sector leased properties are kept within the 2011/12 weekly threshold, as set out in Table B3 below.

Table B3 - Local Housing Allowances for 2012/13 (used for PSL purposes)

Bed Size	Total LHA Inner Lewisham	Total LHA Outer Lewisham
1 Bed	£211.34	£180.19
2 Bed	£268.47	£211.34
3 Bed	£310.00	£246.66
4 Bed	£413.84	£310.00
5 Bed	£500.00	£393.08

Energy Charges

- 6.31 As part of last year's rent setting process the Mayor agreed to continue with the current formula methodology for calculating increases in Energy charges to tenants and leaseholders. This formula was originally approved by Mayor & Cabinet in December 2004.

- 6.32 The current charging methodology allows a limited inflationary price increase plus a maximum of £2 per week per property increase on the previous years charge. Consumption levels are also updated and included in the formula calculation.
- 6.33 The continuation of the current methodology for increases in Energy charges left a deficit in the HRA in 2010/11 and 2011/12 due to the under recovery of costs. This was off-set by the use of a reserve set-up for that purpose.
- 6.34 A new corporate contract for the supply of gas is due to be re-let on 1st April 2012. In addition, a new Electricity contract was awarded for 3 years from 1st January 2011.
- 6.35 Prices for April 2012 gas contract can not be firmly estimated at this time. Any increase in the contract price are not likely be reflected in the proposed charge until the following year.
- 6.36 Therefore the proposal for 2012/13 is for an decrease of 0.44% or £0.05 per week for energy usage for communal heating. This has been worked out after taking account of updated stock levels due to stock transfers and updated consumption data.
- 6.37 The proposal for communal lighting is an increase of 38.67% or £0.23 per week. The communal lighting charge has not been increased for two years. Officers will review the costs and actual energy usage in 2011/12 as part of the monitoring regime for 2012/13 financial year and recommendations brought forward as part of the 2013/14 budget setting process.

7. DEDICATED SCHOOLS GRANT

- 7.1 The cash level of the Dedicated Schools Grant (DSG) for 2012/13 has been frozen at last years' levels and thus there is no allowance for inflationary pressures.
- 7.2 This section of the report considers the 2012/13 Dedicated School Grant. It is structured as follows:
- Brief Review of 2010/11 Dedicated Schools Grant
 - Update on Dedicated Schools Grant
- 7.3 Since April 2006, schools' spending has no longer been financed through formula grant, but through a ring-fenced Dedicated Schools Grant (DSG).

Brief Review of 2010/11 Dedicated Schools Grant

- 7.4 The total year end school balances were £8.7m. The balance at the end of the previous year stood at £6.9m (31 March 2010). This has reversed the recent trend whereby school balances have fallen. This may be due to schools being given significant warnings of the funding difficulties that lie ahead, protecting themselves from this by increasing their balances in the short term.
- 7.5 As at 31 March 2011, six schools had a licensed deficit and recovery plans. Five of these are on target to meet their target deficit reduction. No further schools are expected to be in deficit by 31 March 2012.

- 7.6 There were no significant pressures in the Dedicated Schools Grant and at the year end the grant balanced.

Update on Dedicated Schools Grant

- 7.7 The Dedicated Schools Grant was confirmed on the 13 July at £229.3m against a forecast of £227.4m (after academy recoupment it is £226.3m) and together with £9.6m of funding provided by the Young Peoples' Learning Agency to support post 16 provision in schools and £3.7m of Pupil Premium, the total amount managed comes to £242.6m. £200.1m of this is allocated to schools. At the end of each year any balances held by schools are, under statute, rolled forward to the next financial year.
- 7.8 Since the confirmation of the DSG, it has been announced that the pupil premium has risen this year from the original £430 to £488 per pupil with a free meal entitlement. In total, Lewisham received an extra £0.5m.
- 7.9 The Dedicated Schools Grant is based on the number of pupils within our schools on the third Thursday in January ("The Count Date"). Primary pupil numbers are rising significantly and an increase between 470 and 535 extra pupils were anticipated in setting the budget for the DSG for 2011/12. As, these pupils were not in school on "The Count Date", no funding was received for them. They only attract funding from 2011/12. Some schools may have the capacity to absorb some of the pupils but when their capacity has been reached another class is needed, which of course will require extra capital works, teaching staff and associated costs. A sum of £990k was set aside to meet the costs.
- 7.10 The Schools Minimum Funding Guarantee as set by Central Government was met. This for the first time was set at a negative figure of 1.5%.
- 7.11 Current budget forecasts indicate that there is significant budgetary pressures on Special Education Needs. More pupils than expected have entered the Independent Special Schools Sector. This has resulted in an overspend of £871k. In order to better understand emerging pressures and trends an audit of all the new cases has taken place to consider why the costs are so high and the decision making process.
- 7.12 Part of the overspend has been met by management action in other spending areas (£248k) and the balance will be funded through extra resources received over and above the original forecast of the DSG. This will ensure the Dedicated Schools Grant will balance at the year end.
- 7.13 Despite these measures to address some of the difficulties the main budget pressure will be felt next year when there is a full year effect of these placements. The cost of this could be in excess of £1m, but this will depend on the number of children moving in and out of placements over the next few months. It is intended in the future that there be better analysis of the pupils that could or might go into a placement over the coming year together with a risk analysis of the likely financial outcome. This should help to not only provide better information to set the budget for next year but also help to monitor the budget in-year.
- 7.14 There was a strategic review of SEN in 2007 which looked at increasing in-house capacity both in special schools and mainstream. Drumbeat, the new ASD special school will open in September 2012. The school is also developing an outreach service to support mainstream schools. However, there is still a limit to the in-house

capacity and provision outside of Lewisham proves expensive. The current revenue contribution to capital budget can be used to support small scale increases through the use of demountables.

- 7.15 The current level of our Dedicated School Grant is £229.3m with an increase in the pupil population we expect the grant to rise to £232.1m for 2012/13. The grant is based on the actual pupil numbers in schools on the 19 January and until this data is collected the exact level of the grant cannot be confirmed. The current amount received by the Borough per pupil is £6,952.
- 7.16 The pupil premium in 2011/12 was allocated to schools on the basis of the number of children who were entitled to a free meal. For 2012/13, this method has been revised and a pupil will receive funding if they have had an entitlement to a free meal in the past six years. The rate of funding has been confirmed at £600 per child for 2012/13. This represents an increase of £112 per child from its existing level for 2011/12 level. Therefore, it is expected that Lewisham will receive £8.2m for 2012/13. The equivalent figure for 2011/12 was £4.7m. This has been summarised in Table C1 below. The change in the way the funding is calculated benefits secondary schools and junior schools while infant schools proportionally lose funding.
- 7.17 The Government plan to consult on developing and introducing a clear, transparent and fairer national funding formula based on the needs of pupils. The outcome of the consultation is not expected to the new year and even then, it is anticipated that a further consultation will be held. The earliest it is thought a new funding mechanism can be implemented is 2013/14, but it could be later.
- 7.18 The Schools Minimum Funding Guarantee has been set at a negative figure of 1.5%.

Table C1 – Pupil Premium

	2011/12	2012/13
Pupil Premium	£488	£600
Pupil On Roll	9,605	13,694
Total	£4,687,240	£8,216,400

8. GENERAL FUND REVENUE BUDGET

- 8.1 The Spending Review 2010 outlined a 26% reduction in Local Government funding over the four period from 2011/12 to 2014/15. This also indicated a heavy-front loading of revenue savings. The resultant Local Government Finance Settlement set out a two-year Settlement and confirmed the level of reduction to Local Government. This is by far the most challenging financial settlement for Local Government in a generation.
- 8.2 When officers modelled the level of cuts required over two years, it resulted in Lewisham having a General Fund revenue budget savings requirement of £33.2m in 2011/12 and £23.4m in 2012/13. Extrapolating this over four years gave Lewisham an overall savings target of £88m.
- 8.3 This section considers the 2012/13 Revenue Budget. It is structured as follows:

- Update on 2011/12 Revenue Budget
- Government Announcements impacting on the Revenue Budget
- Base Budget, Budget Savings, Budget Pressures for 2012/13
- Local Government Finance Settlement for 2012/13

Update on 2011/12 Revenue Budget

- 8.4 The Council's revenue budget for 2011/12 was agreed at Council on 1 March 2011. The budget requirement was set at £278.793m. It excludes funding for housing, which has been set out in Section 6 of this report. It also excludes funding for schools, which as discussed in Section 7 of this report, is provided by way of the Dedicated Schools Grant (DSG).
- 8.5 Officers have undertaken regular revenue budget monitoring throughout 2011/12. Significant attention has been directed towards volatile budget areas, such as Looked After Children and Adult Social Care, where a relatively small increase in the client numbers requiring high cost placements could lead to a significant increase in budget pressures. These areas of activity are also informed by risk assessments which are continually reviewed.
- 8.6 During the financial year, monthly monitoring is undertaken by officers and these monitoring reports have been presented quarterly to Mayor & Cabinet and scrutinised by the Public Accounts Select Committee.
- 8.7 Budget holders have been continually challenged to maintain controls on spending through the inception of spending panels. Such panels have been in place across the Council throughout the year. An initial projected overspend of £2.1m reported as at the end of May 2011, has been progressively managed throughout the year. As at the end of November 2011, there is a projected Council wide underspend of £0.3m.
- 8.8 A total of 95.5% of the £23.8m savings agreed in setting the 2011/12 budget are anticipated to be delivered on schedule. This figure is unlikely to change significantly between now and the year-end.
- 8.9 Table D1 sets out the latest projected budget variances following the Council's re-organisation which took effect from 24 October 2011.

Table D1: Budget Projection for 2011/12 as at end of November 2011

DIRECTORATE	Projected year-end variance as at 30 Nov' 2011 M&C 15 Feb' 2012
	£'000s
Children & Young People	(93)
Community Services	75
Customer Services	1,240
Resources & Regeneration	(1,523)
Total – Council Wide Position	(301)

- 8.10 If achieved, the forecast underspend will represent a significant achievement in managing a challenging budget. However, in a number of cases, it has been achieved by delivering planned savings early, thereby creating an underspend in 2011/12 to alleviate other structural pressures. These savings will be built into the 2012/13 budget for 2012/13 and therefore, will not be available for these purposes. Managing the 2012/13 budget within cash limits is therefore likely to be significantly more challenging than in 2011/12.

Forecast 2011/12 Outturn for Directorates

- 8.11 During the year, the Executive Director for Resources and Regeneration has maintained existing revenue budget guidance which has assisted budget holders in ensuring that a tighter control on spending could be achieved. Management have undertaken a number of actions during the year which have been successful in eliminating the initial overspending position. With continued action, spend is fully expected to be contained within existing cash limits.

Forecast Outturn for Corporate Financial Provisions

- 8.12 Corporate Financial Provisions are budgets that are held centrally for corporate purposes, 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 on Corporate Financial Provisions is expected to be contained within budget by the year end.

Government Announcements impacting on the Revenue Budget

- 8.13 This section sets out the series of Government announcements which have been made during 2011/12 and which have an impact on the revenue budgets for this year and future years. This section is structured as follows:
- Autumn Statement
 - Local Government Finance Settlement
 - Academies Funding
 - Other Grant Announcements

Autumn Statement

- 8.13 The Chancellor of the Exchequer made his Autumn Statement to the House of Commons on 29 November 2011. The Chancellor stated that there is no need to adjust the overall totals set out in the Spending Review. Furthermore, the Statement confirmed that Public Sector pay will only rise by 1% at the end of the pay freeze for the two years from 2013 to 2015. Regional pay settlements will also be examined so that pay can match the conditions of regional economies.
- 8.14 The Government will provide an additional £1.2bn for capital investment in schools in England, including:
- £600m to fund 100 additional Free Schools
 - £600m to support local authorities with greatest demographic pressures.

- 8.15 The Government will invest a further £380m a year by 2014/15 to extend its new offer of 15 hours of free education and care a week for disadvantaged two year olds, to cover an extra 130,000 children. In recognition of the increased costs of this expansion, additional funding is included in the Early Intervention Grant in 2012/13. Extra funding amounts to a total of £73m nationally, in addition to the £223m that was previously announced.

Local Government Finance Settlement

- 8.16 The Provisional Local Government Finance Settlement was announced on 8th December 2011. The Settlement is the second year of the two year settlement for 2011/12 and 2012/13.
- 8.17 The average reduction in Formula Grant across England is 7.3% in 2012/13. Average spending power reduction for 2012/13 is 3.3%, compared to last year's figure of 4.5%. An Authority's 'spending power' is defined to include Formula Grant, other grants and other sources of income which Councils get, such as Council Tax and NHS funding.

Impact on Lewisham

- 8.18 The provisional Formula Grant allocated to Lewisham is the same as was announced in the 2 year settlement in December 2010. The Government has recently estimated that business rate income for 2012/13 will exceed the amount of the Department for Communities and Local Government Formula Grant control total allocated in the 2010 Spending Review for 2012/13.
- 8.19 Therefore, 2011/12 Council Tax Freeze Grant allocations have been included in the Formula Grant control totals for 2012/13. By doing this, the Government have effectively closed the funding gap between the estimated business rate income and the national local government funding totals, and removed the need to pay any additional funding to local authorities in 2012/13.
- 8.20 The breakdown of Formula Grant is shown below:

Table D2: Provisional Local Government Finance Settlements for 2012/13 for Lewisham

Grant Calculation Element	Formula Grant Allocation 2011/12 (£m)	Formula Grant Allocation 2012/13 (£m)
Grants Rolled In Using Tailored Distributions	19.598	19.545
Relative Needs Amount	158.367	139.324
Relative Resource Amount	(24.922)	(22.427)
Central Allocation	37.354	33.506
Floor Damping	(3.835)	2.056
Sub-Total	186.562	172.004
Council Tax Freeze Compensation ¹	0	2.305
Formula Grant	186.562	174.309

¹ The Council Tax Freeze Grant announced for 2011/ 12 was paid as a specific grant in that year. For 2012/13, this grant now forms part of the overall Formula Grant allocation of £174.309m for Lewisham.

- 8.21 Whilst the Government announced a total budget cut of 26% over the 4 years of the spending review, we have only been given Formula Grant figures to 2012/13. Total cuts to Lewisham's Formula Grant in 2011/12 and 2012/13 totals 18% reflecting the frontloading of these cuts. This has been set out in Table D3.

Table D3: Grant Reduction for 2011/12 and 2012/13

	2010/11 £m	2011/12 £m	2012/13 £m
Provisional Grant Entitlement	208.60	186.562	174.309
Percentage Reduction in Grant for:			
Lewisham		-10.60%	-7.80%
Inner London boroughs incl. City		-11.20%	-7.40%
Outer London boroughs		-11.30%	-7.90%
England		-9.90%	-7.30%

Academies Funding

- 8.22 The Department for Education (DfE) is commencing a consultation with local authorities on the level of funding top-sliced from Formula Grant before it is distributed to fund academies for 2011/12 and 2012/13 and the mechanism for effecting that transfer.
- 8.23 A change to the existing top slice arrangement would require the re-opening of the two year Local Government Finance settlement for Local Government announced in December 2010, which the Government have determined would not be appropriate.
- 8.24 The Secretary of State for Education has proposed to keep the 2011/12 top-slice for the Local Authority Central Spend Equivalent Grant (LACSEG) unchanged; and calculate the LACSEG costs in each Authority towards the end of the 2012/13.
- 8.25 In those authorities where the costs of LACSEG are below the level of the top slice for 2012/13, the Government will refund the difference by making a payment through an un-ringfenced specific grant. A new mechanism will be introduced to identify the value of the transfer from 2013/14 onwards. No indication is given about the likely impact of this mechanism on future Formula Grant levels.

Other Grant Announcements

- 8.26 Individual local authority allocations for the following specific grants have also been announced. Table D4 sets out the grant announcements.

Table D4: Specific Grants

	Announced 2012/13 (£)
Early Intervention Grant	18,500,499
Extended Rights and General Duty to promote sustainable travel	23,083
Learning Disability and Health Reform Allocation	7,880,439
Housing & Council Tax Benefit Subsidy	

Administration Grant	
Main administration subsidy	3,988,067
Additional administration subsidy	402,179
Total	4,390,246
New Homes Bonus	
Year 1 Payments	705,698
Year 2 Payments	958,188
Total payment in year (inc previous delivery)	1,663,886
LSSG for Lead Local Flood Authorities	261,110
Preventing Homelessness	675,000

Base Budget, Budget Assumptions, Pressures and Savings

8.27 This section of the report sets out the 2011/12 revised budget and the construction of the 2012/13 base budget. This section is structured as follows:

- Budget Assumptions, Inflation and Pressures
- Other Budget Pressures and Risks to be managed
- Revenue Budget Savings Proposals
- Other Budget Considerations

Budget Assumptions

8.28 The Financial Survey 2012/15 contained a number of budget assumptions. Firstly, that pay and non-pay inflation would be provided at 1% and 2.5% respectively and that the level of revenue budget pressures to be funded on an annual basis that would not exceed £7.5m. Set out in Table D6, is a summary of the impact of the Formula Grant reduction and our original assumptions on the overall savings requirement. Coupled with the assumptions built into the budget strategy, these lead to a revenue budget savings requirement of £56.6m over the next two years. Savings were made to balance the budget for 2011/12. The remaining £23.4m relates to the 2012/13 financial year, of which £12.6m was agreed by Council in March 2011. Table D5 below illustrates that when extrapolating the 26% reduction over a 4 year period, this leads to a total overall budget gap of £88m.

Table D5: Budget Savings Requirement

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Formula Grant Reduction	22.1	14.6	6.9	6.6
Less: Council Tax Income	0	(2.3)	(2.3)	(2.3)
Plus: Pay Inflation @1%	1.8	1.8	1.8	1.8
Plus: Non Pay Inflation @ 2.5%	1.8	1.8	1.9	2.0
Plus: Budget Pressures	7.5	7.5	7.5	7.5
Annual Savings Requirement	33.2	23.4	15.8	15.6
Cumulative Savings Requirement	33.2	56.6	72.4	88.0

8.29 These assumptions are continually revisited and updated. Given the future Government announcements expected throughout 2012/13, officers will provide

further updates for inclusion in the Financial Survey report to members in the summer.

Inflation

- 8.30 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. From April 2011, the CPI is also being used for the indexation of benefits, tax credits and public service pensions.
- 8.31 The Retail Price Index (RPI) includes mortgage interest payments and is used for a variety of purposes including indexation of index-linked gilts. Historically the RPI has also been used for indexation of pensions and state benefits.
- 8.32 On 13 December 2011, the Office for National Statistics (ONS) reported that the rate of CPI inflation in the UK fell to 4.8% during November, down from 5% in October. The rate still remains above the Bank of England's target of 2%. RPI inflation fell to 5.2% from 5.4% for the same period
- 8.33 The fall was partly due to a slowdown in the rise in food and non-alcoholic drink prices. Slower rises in transport, clothing and furniture costs also contributed to the fall in CPI. The largest upward contributors to inflation in the retail sector were alcohol and tobacco. The ONS also said that prices of electricity, gas and other fuels rose at an annual rate of 20.9%, the fastest pace since February 2009.
- 8.34 For local authorities like Lewisham, pay rises represent a significant inflationary cost. In the Autumn Statement announced by the Chancellor, it was confirmed that Public sector pay awards which have had a two-year pay freeze will increase at an average of 1% for each of the two years after the pay freeze ends. For some workforces, the two-year pay freeze will be coming to an end next spring.
- 8.35 For financial planning purposes, the Council has previously assumed an average pay inflation of 1% per annum, which equates to approximately £1.8m. A pay award is not expected for 2012/13.
- 8.36 For financial planning purposes, the Council applies a non-pay inflation level of 2.5% per annum. Officers have taken a more sophisticated approach to inflation allocation and examined specific areas where a 2.5% allocation would not apply and adjusted accordingly.
- 8.37 Members should note that further details on the impact of the present economic situation on the Council's finances are set out in the Treasury Strategy section of the report.

Budget Pressures

- 8.38 As part of the budget strategy each year, funds are set aside in the budget model for budget pressures. The Financial Survey 2012/15 identified a range of these budget pressures. For 2012/13, these budget pressures have been reviewed by the Executive Director for Resources & Regeneration and it is recommended that a number of these pressures should be funded. Having reviewed the potential budget pressures for 2012/13, it is felt that revising the assumed allocation for budget pressures down, is realistic.

Actual Budget Pressures for 2012/13

- 8.39 Table D6 provides a summary of the Corporate budget pressures that are being recommended to be funded.

Actuarial Valuation

- 8.40 Regulations require that a formal valuation of the Pension Fund has to be undertaken by a qualified actuary every three years, to set the employer's contribution rate. A valuation was carried out at 31 March 2010 and this calculated the funding level at 75.4% and set employer's contribution rates until 31 March 2014. This represents a deterioration of 11.7% from the position at the 2007 valuation which assessed the funding level to be 87.4%. The deterioration is attributable to continuing improvements in life expectancy and reductions in investment returns. The actuary has applied a stabilisation mechanism which restricts movements in employers contributions within a 1% increase and 2% decrease range to recognise both affordability issues and the potential improvement in investment returns in the inter-valuation period. Funding of £0.5m will be provided for 2012/13 and a further £0.5m for 2013/14.

Adult Social Care – Transitional Cases

- 8.41 A net pressure of £1m has been identified for growth in numbers of Adult Social Care clients in high cost accommodation, particularly through Transition. This is based on an assumption that the costs of children leaving Children & Young People care at age 16 to 18 in 2012/13 and transferring directly into Adult Social Care will be approximately £500k. The full year effect of 2011/12 placements total a further £500k, resulting in a total pressure of £1m. There will be other new placements in residential and nursing care for Younger Adults, but overall costs are expected to be balanced either by reductions in average unit costs or by mortality.

Carbon Reduction

- 8.42 The Government's new Carbon Reduction Commitment (CRC) Scheme came into force in 2010/11. It requires the Council to purchase allowances to cover its carbon usage. The scheme has been undergoing an introductory phase, but the purchase of allowances is now due to begin in April 2012 for emissions incurred during 2011/12. Based on CSC submission for 2010/11, our estimated expenditure for 2011/12 is for a required purchase of £260k of carbon allowances. This covers both the corporate estate and schools with an approximate 50/50 split between the two. Therefore there is a General Fund pressure of £130k.

Children's Placements

- 8.43 The Looked after Children service provides social work support to all the children who are looked after by the London Borough of Lewisham. It performs all the statutory functions, including care planning and ensuring that their health and education needs are being met. At the start of 2010, the number of looked after children peaked and then they started to decline. This trend continued until the summer of 2011 when numbers started to rise again. The budget is being controlled largely through effective placement decisions and procurement work although overall there is a forecast overspend in 2011/12.

- 8.44 The current demographics indicate that the pupil population is growing by 1.5% and this roughly equates to an increase in the Looked After Children of one a month. The existing pressures on the placement budget is about £400k and efficiencies in the management of placements is intended to address this and deliver the 2012/13 budget savings. As our use of residential placements is moving closer to the average, the strategy will become more challenging leaving little scope to contribute to the demographic changes. It is estimated that this represents a budget pressure of £655k.

Concessionary Fares

- 8.45 In the Autumn of 2010, the Mayor of London and the Transport for London (TfL) withdrew from the 5 year Freedom Pass deal which had previously been agreed by Assembly Members. The withdrawal has meant that the costs to boroughs in the currently financial year were higher than in the year prior. This has been budgeted for. However, it is likely that there could be a further cost pressure of up to £300k in 2012/13.

SEN Transport

- 8.46 The service is a statutory requirement that provides transport for children with complex special education need from their home to placements. Continued pressure is being felt on the independent special schools budget. Current in-house provision with our own special schools has reached capacity necessitating the use of outside providers. The current overspend is forecast to be £871k, but is being met by the Dedicated Schools Grant. However, the children placed in the independent sector will be provided with transport, the cost of which is met by the General Fund.
- 8.47 It is harder to use Door 2 Door for out of borough placements due to the geographical spread of placements. Therefore, taxis are more frequent and an economic response to meet needs. The out of borough placements have increased by 11% leading to greater transport needs and this equates to a pressure of £120k.

Street Lighting PFI

- 8.48 A joint Street Lighting PFI scheme has been developed with the London Borough of Croydon to completely replace all the old lamp column stock and thereafter maintain that new stock. The contract commenced in early 2011/12, but at a higher cost than the current budget. An allocation of £675k was made in 2011/12, with a further £225k for 2012/13.
- 8.49 Table D6 provides a summary of the key budget pressures which can be quantified at this stage and are to being considered for funding.

Table D6: Summary of key budget pressures

Detail	£'000
Actuarial Valuation	500
Adult Social Care – Transitional Cases	1,000
Carbon Reduction	130
Children's Placements	655
Concessionary Fares	300
SEN Transport	120

Street Lighting PFI	225
Total	2,930

Further Budget Pressures – Risks

- 8.50 Following the review of budget pressures within Directorates, it is felt that there are a number of issues, which although difficult to quantify with absolute certainty, could prove to be quite significant should they materialise. These budget pressures amount to approximately £0.9m. Officers are currently undertaking further work to fully assess these risks. The Executive Director for Resources and Regeneration proposes to set this sum aside as part of the 2012/13 budget. This will provide some additional resource to alleviate these emerging pressures, which are outlined below.

Fair Employment

- 8.51 The GLA has continued in its move towards implementing Fair Employment clauses in their contract terms and conditions. To develop the Fair Employment Policy for Lewisham, officers have, over the last couple of years, been investigating the implementation of Fair Employment Living Wage clauses into contracts, particularly for those services which traditionally pay low wages, albeit in accordance with Minimum Wage legislation. Lewisham has already adopted this policy and has agreed a number of contracts on this basis. In addition, an EU directive on Agency Staff came into force in October 2011 is likely to have further substantial cost implications. At this stage, exact cost implications are yet to be confirmed.

Utilities

- 8.52 The forecast expenditure in 2011/12 across gas and electricity contracts for corporate sites, schools, street lighting and other Council sites is £3.4m. In the last four years, energy consumption across corporate sites has fallen by 20% and investment in new Automated Meter Readers is expected to improve the quality of data for schools and other large sites and enable further improvements to be targeted.
- 8.53 While the volatility of energy markets makes prices difficult to predict, the trend over the last ten years has been for continued rises. Increasing gas and electricity prices erode the benefits of improved efficiency and are forecast to continue to create pressures on budgets. Officers will monitor such pressures over the coming year.

Savings

- 8.54 It should also be acknowledged that, though limited, there remains some risk that a given saving may not be delivered. This is managed currently through the budget monitoring process and updates will be given in budget monitoring reports. The extent to which any anticipated savings are not delivered adds to future pressures.

Income

- 8.55 The strategic review of income through fees and charges was started last year. There are existing pressures on a number of income generating services, such as parking. For instance, income from pay and display (P&D) machines is still running at approximately 15% above last year's level, compared with a budgeted forecast of a 40% increase following the price rise. Given the sensitivity around these areas,

officers will continue to closely monitor the progress being made.

Summary of Budget Pressures

- 8.56 The scale of pressures facing the Council is uncertain yet likely to be substantial. Demographic pressures will grow, yet Government resources to meet such increases will be more scarce. Officers have not ruled out the further 'passporting' of cost pressures from Central Government to Local Government.
- 8.57 Assuming that the Council Tax level is frozen for 2012/13 at its existing 2011/12 levels, Table D7 provides a summary of the overall budget position reported above.

Table D7 - Overall Budget Position

Detail	Expenditure (Income) £m	Expenditure/ (Income) £m
Formula Grant for 2012/13	174.309	
Council Tax at 0% increase	93.184	
Surplus on Collection Fund	1.017	
Assumed Budget Requirement for 2012/13		268.510
Additional Resource – Council Tax Freeze Grant	2.330	
Total Resources available for 2012/13		270.840
Base Budget for 2011/12	278.793	
Less: First Round Budget Savings for 2012/13	(12.608)	
Less: Second Round Budget Savings for 2012/13	(3.946)	
Less: Savings from Strategic Reviews	(2.250)	
Plus: Non-Pay Inflation	2.359	
Plus: Budget Pressures	2.930	
Plus: Risks and Other Potential Budget Pressures	0.902	
Plus: Council Tax Futures Years' Pressures	2.330	
Total		268.510

Revenue Budget Savings Proposals 2012/13

- 8.58 Budget savings proposals have been examined in the context of our priorities and strategies, with due regard to the nine guiding principles, as set out in Section 4 of this report.
- 8.59 The aim of the Council throughout the administration will be to try to sustain positive social results and progressive service outcomes locally through smarter management and productive ways of working and reducing the costs of overheads. However, the scale of the problem is such that it has not been entirely feasible for officers to put forward savings proposals that do not have some impact on the front line.
- 8.60 Changes to our budget of this scale are not simple changes of degree. In some cases for some functions and activities, it may not be possible to lower the costs of services by more than a quarter, without changing the nature of the service or making it non-viable. Reductions of spending at this level may lead to changes in kind, such as service redundancy, merger and alternative rationalisation. This is why we need to fundamentally re-examine all costs involved in our services, while

sustaining, if not improving, as far as practicable, existing service standards and levels.

- 8.61 Members should note, that when drawing up Lewisham's budget for 2012/13, the Council was, as in previous years, keen to ensure that the proposals were fair and that the social impact of the proposed changes was taken into account and that support for those in greatest need was prioritised.
- 8.62 A total of £12.6m of revenue budget savings proposals for were previously agreed at Council on 1 March 2011. This is summarised in Appendix Y1. Since then, further savings proposals totalling £3.946m have been developed and contained in this report. These are summarised in Appendix Y2 and set out in more detailed in Appendix Y3.
- 8.63 A number of thematic reviews are in the process of being implemented. These include the Chief Executives' head office and management re-organisation.

Summary

- 8.64 There are a number of risks facing the Authority over the coming year, particularly those detailed in Section 5 of the report concerning the Capital Programme and the Chief Financial Officer's Statement which will be appended to the Budget Report Update on 22 February 2012. To be able to freeze Lewisham's Council Tax at its existing 2011/12 level and benefit from the Government's Council Tax Freeze Grant, the recommended budget requirement is £268,509,790.

9 COUNCIL TAX 2012/13

- 9.1 This section of the report sets out the calculation of the Council Tax for 2012/13 based on the recommended budget requirement. It covers the following areas:
- Projected surplus in the Collection Fund as at 31 March 2012
 - Council Tax Base for 2012/13
 - Council Tax for 2012/13 for Lewisham's Services
 - Council Tax Freeze Grant and Capping
 - Greater London Authority (GLA) precept for 2012/13
 - Lewisham's Overall Council Tax Calculation for 2012/13
- 9.2 If Members decide to set the budget requirement at a level other than that assumed, then alternative calculations of the Council Tax would have to be made. A ready-reckoner has been attached at Appendix Y12, which shows how the Council Tax will vary with changes to the budget requirement.

Projected surplus in the Collection Fund as at 31 March 2012

- 9.3 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, but also how much of the outstanding debt it expects to collect.
- 9.4 A calculation was carried out on 13 January 2012, which is the date prescribed by the relevant statutory instrument. This calculation showed there is an estimated

surplus on the Collection Fund in respect of Council Tax, for the years 1993/94 to 2011/12 of £1.319m.

- 9.5 This resulting surplus in the Collection Fund in respect of Council Tax, is shared with the precepting authority in proportion to relative shares of budgeted Council Tax income in the current financial year. This means that £1.017m of the £1.319m surplus has to be included in the calculation of Lewisham's Council Tax. The remaining balance of £0.302m will be allocated to the Greater London Authority (GLA).

Council Tax Base for 2012/13

- 9.6 The Council Tax Base is a measure of the Local Authority's ability to raise revenue from local taxation. Mayor & Cabinet agreed at its meeting on 18 January 2012 to recommend to the Council, a proposed Tax Base for 2012/13 of 89,419. The Council Tax Base was agreed by full Council at its meeting on 25 January 2012. Between 2010/11 and 2011/12, there has been an increase in recorded dwellings by 1,005. This has increased the expected income from Council Tax collection, even though there is no proposed increase in the Council Tax level for 2012/13.

Council Tax for 2012/13 for Lewisham's Services

- 9.7 The setting of the Budget Requirement and the Council Tax is a decision reserved to full Council. It is the role of the Mayor to recommend a Budget Requirement and Council Tax to the Council, after giving careful consideration to the information and advice given in this report.
- 9.8 In order to set a Budget Requirement and Council Tax, the Council must pass a resolution on the statutory determination of tax in the form prescribed by legislation. A draft statutory calculation reflecting the Budget Requirement and Council Tax will be circulated in the 2012/13 Budget Update report to Mayor & Cabinet on 22 February 2012.

Council Tax Freeze Grant and Capping

- 9.9 Following the Government's Spending Review, total national funding of £650m was set aside to help local authorities to implement a Council Tax freeze in England in 2011/12. Lewisham chose to freeze Council Tax for 2011/12 and the Council Tax Freeze Grant was £2,305,539. This funding will be provided to local authorities in subsequent years of the Spending Review and it is important to note, that from 2012/13 to 2014/15, it is to be included as part of the overall Formula Grant allocation given to Lewisham and will not be received as a specific grant, as was the case for 2011/12.
- 9.10 In October 2011, the Chancellor of the Exchequer announced that funding will be made available to help Councils freeze their Council Tax for a second year, in 2012/13. Similar to the 2011/12 allocation, the scheme announced for 2012/13 is voluntary. However, unlike the 2011/12 allocation, the Council Tax Freeze Grant for 2012/13 will involve a single one-off payment and no further grant payments will be made over the Spending Review period.
- 9.11 If an Authority sets its basic amount of Council Tax for 2012/13 at a level which is no more than its basic amount of Council Tax for 2011/12, it will be eligible to

receive a grant equivalent to a 2.5% increase in its 2011/12 basic amount of Council Tax. Members should note that the arrangements for funding the 2011/12 Council Tax freeze are unaffected by this new offer from the Government.

- 9.12 The Department for Communities and Local Government will pay a single unringfenced grant in support of the scheme to each eligible billing and major precepting authority. Payments to authorities will be made before or very soon after 31 March 2012. Should Lewisham accept this new Council Tax Freeze Grant offer from the Government, then the indicative allocation for the Council is expected to equate to £2,329,611 for 2012/13, based on an agreed Tax Base of 89,419.
- 9.13 The total indicative amounts for freezing Council Tax in 2011/12 and 2012/13 during the Spending Review Period for Lewisham are given in Table D8 below. It is important to note, that from 2015/16 onwards, any existing Council Tax Freeze Grant income will cease.

Table D8: Indicative Council Tax Freeze Grant Allocations for Lewisham

Grant payable during Spending Review			
2011/12	2012/13	2013/14	2014/15
£2,305,330	£4,634,941	£2,305,330	£2,305,330

- 9.14 Members should note the one-off nature of the 2012/13 Freeze Grant allocation and what impact accepting the Freeze Grant will have on future years. The Council Tax will remain at the same level as that of 2010/11 and 2011/12. Therefore, should the Council wish to raise the same level of Council Tax income in 2013/14, as it would do, if it had increased Council Tax by 2.5% in 2012/13 and again in 2013/14, then it would need to increase Council Tax by more than 5% in 2013/14.
- 9.15 The Localism Act has legislated that the Council Tax capping in its previous form will be abolished and instead democratic power to veto Council Tax increases will be given to the electorate. The Government has proposed that Councils that seek to increase Council Tax above 3.5%, will trigger a referendum. As such, if the Council limits its tax increases to 3.5% in 2013/14 and 2014/15, it will still not be able to raise as much money in Council Tax income as it would do through an annual 2.5% increase over the period. If the local electorate vote against that increase, the Local Authority will have to revert to a Council Tax level that is compliant.
- 9.16 The final principles on capping for 2012/13 will be set out in a report for the approval of the House of Commons in the coming weeks, at the same time as the final report on the Local Government Finance Settlement.

Greater London Authority Precept for 2012/13

- 9.17 The Council Tax has to be set at a level that will not only cover the cost of services provided by the Council, but also the precept issued by the Greater London Authority (GLA). The GLA issues an overall precept that includes core services such as the Metropolitan Police Authority (MPA), the London Fire and Emergency Planning Authority (LFEPA), Transport for London (TfL), and the newly created Olympic Park Legacy Company (OPLC). The London Assembly will meet on 9 February 2012 to consider the final budget and precept.

- 9.18 On 1 February 2012, the Mayor of London announced his intention to reduce the proposed Band D Council Tax by £3.10 to £306.72 in 2012/13. This represents a 1% decrease from 2011/12. The Band D amount for the financial contribution to support the cost of staging the 2012 Olympic and Paralympic Games in London remains at £20. It is not yet possible for the Council to agree to set a Council Tax until the precept is confirmed. However, the calculations in this report assume that the GLA precept will be £306.72. If the actual figure is different, a revised set of calculations will be submitted to Members as part of the Budget Report Update on 22 February 2012.

Lewisham's Overall Council Tax Calculation for 2012/13

- 9.19 If the GLA precept were set as assumed for Lewisham residents in a Band D property, this would mean that the total Band D Council Tax for 2012/13, including the GLA precept, would be £1,348.83.
- 9.20 Table D9 shows Lewisham's overall Council Tax Calculation for 2012/13 and the calculation of the Council Tax at Band D for 2012/13, assuming the Council agrees to the recommended budget of £268,509,790.

Table D9: Council Tax Calculation for 2012/13 on Spend of £268,509,790

	£
Assumed Budget Requirement for 2012/13	268,509,790
Less: Revenue Support Grant	3,314,679
Less: Redistributed Business Rates	170,994,026
Less: Surplus in Collection Fund	1,016,610
Council Tax requirement	93,184,475
Divide by: Council Tax Base (Band D)	89,419.04
Council Tax for Lewisham Services (Band D)	1,042.11
Add: Precept demand from GLA (estimated)	306.72
Total Council Tax (Band D)	1,348.83

- 9.21 The calculation of Council Tax for different Council Tax bands is shown in Table D10, based on the Band D Council Tax calculated in Table D9. The full details of alternative Council Tax levels are set out in the Council Tax Ready Reckoner which has been attached at Appendix Y12.

Table D10: Council Tax For Different Council Tax Bands In 2012/13

	Property Value	Fraction	Lewisham Council Tax	GLA Precept	Total Council Tax
	£'000		£	£	£
A	Up to 40	6/9	694.74	204.48	899.22
B	40-52	7/9	810.53	238.56	1,049.09
C	52-68	8/9	926.32	272.64	1,198.96
D	68-88	9/9	1,042.11	306.72	1,348.83
E	88-120	11/9	1,273.69	374.88	1,648.57
F	120-160	13/9	1,505.27	443.04	1,948.31

G	160-320	15/9	1,736.85	511.20	2,248.05
H	Over 320	18/9	2,084.22	613.44	2,697.66

9.22 The Council will be required to make statutory calculations under the Local Government Finance Act 1992. These include the calculation of gross expenditure, income and net expenditure and the Council Tax for each band. A draft of these calculations based on Members agreeing the assumed Budget Requirement for 2012/13 will be attached as an appendix in Budget Report Update to Mayor & Cabinet on 22 February 2012.

10. FUTURE YEARS' GENERAL FUND BUDGETS

10.1 This section of the report sets out the prospects for revenue budgets for 2013/14 onwards. It makes an assessment of the Council's medium to long term costs, together with the benefits of such expenditure and it touches on the wider environmental, social and economic issues facing the Council's finances.

10.2 There still remains great uncertainty about the scale and duration of the difficult financial climate which affects the forecasts for Council expenditure and income. It is proposed that the assumptions made below be reviewed during the Spring of 2012 and then reported in a revised Financial Survey covering the period 2013/16, in the early Autumn.

General Fund Formula Grant 2013/14

10.3 On 8 December 2011, the Government provisionally announced the final year of the two-year Final Local Government Finance Settlement for 2011/12 and 2012/13. The Formula Grant allocation for 2012/13 is £174.309m.

10.4 No allocation has been announced for 2013/14 and 2014/15. Members should therefore note that the officers' forecasts for Formula Grant for this period remains speculative. With the overall assumption of a 26% reduction for Local Government over the 4 year Spending Review period 2011/12 to 2014/15, it was assumed that grant reductions would average about 4% per annum in those two years.

10.5 Taking into account the Chancellor's Autumn Statement, and the views expressed by the Office for Budget Responsibility, officers feel that it is prudent to revise these costs which will be reviewed and discussed in further detail in the Financial Survey 2013/16, in the Summer.

Council Tax

10.6 In October 2011, the Chancellor of the Exchequer announced that funding will be made available to help Councils freeze their Council Tax for a second year, in 2012/13. Similar to the 2011/12 allocation, the scheme announced for 2012/13 is voluntary.

10.7 The Mayor has continually re-iterated his continued commitment to limiting the annual increase in Council Tax for Council insofar as is possible. For budget planning purposes, an increase of no more 2.5% for Lewisham's Council Tax is being assumed for 2013/14.

General Update

- 10.8 Local Government Finance has changed significantly over the past two years with severe reductions in funding, grants either cut completely or un-ringfenced and rolled into Formula Grant. There are still a number of large scale changes that are still to come in the next 18 months and this makes it incredibly difficult to predict what situation the Council will be in financially beyond March 2013.
- 10.9 There are a number of legislative changes currently being proposed which will affect Local Government and its available resources. April 2013 is likely to see a number of major reforms to Local Government funding, such as Business Rates Retention, Council Tax Benefit localisation, the transfer of public health responsibilities and education finance reforms. This will happen along with continued spending reductions and an unpredictable national economy.

Local Government Resource Review and Local Government Finance Bill

- 10.10 On 18 July 2011, the Department for Communities and Local Government published proposals for the Local Government Resource Review: Proposals for Business Rates Retention. The Government is proposing to change how it funds Local Government revenue spending. This will not affect schools funding (DSG) or housing (HRA).
- 10.11 The proposed model will no longer fund Local Government based on need, but instead on the principle of incentivising local economic growth. The Local Government Finance Bill introduces a rates retention scheme, enabling local authorities to retain a proportion of the business rates generated in their area.
- 10.12 Authorities will still bill and collect business rates. However, instead of contributing business rates into a central pool and receiving Formula Grant, under these proposals, some business rates would be retained locally. This will not change the way businesses pay tax or the way the tax is set.
- 10.13 If Councils kept all business rates generated in their areas, some areas would have a much larger amount than they need, whilst some others would have much less than they need. To try to create a fair starting position for the new system, the Government will take an amount of business rates away from those with too large an amount in comparison to their current spending (a tariff) and top up those authorities with too little in comparison to their current. In future years, the amount of business rates that Central Government gives or takes from each local authority will remain fixed. Any growth in business rates an Authority achieves will be kept by them.
- 10.14 In the future, the Government could choose to 'reset' the fixed amounts of business rates that were either taken from or given to Councils. This would probably involve a new assessment of local authorities' need.

Localising support for Council Tax in England

- 10.15 In August 2011, the Government consulted on proposals for the localisation of support for council tax in England. This followed the announcement at Spending Review 2010 that support for council tax would be localised from 2013-14 and expenditure reduced by 10% from the same date.
- 10.16 The outcome of the consultation was published on 16th December and states how the Government plans to enable local authorities to introduce localised schemes in England from 2013/14.

- 10.17 From April 2013, instead of receiving a reimbursement from Central Government to cover Council Tax Benefit costs, Local Authorities will instead be provided with a fixed grant. Local Authorities will have to design, run and administer local council tax support schemes along with managing an overall 10% national funding cut. There are no details of how the funding cut will be distributed across Local Authorities.
- 10.18 The Local Government Finance Bill contains provisions for the establishment of localised council tax support schemes in England. The detail of the framework for local schemes will be set out in regulations, which the Government intends to publish in draft form while the Bill is in passage through Parliament.
- 10.19 There are a number of principles which the Government has set to underpin the local schemes. These include:
- Protecting low-income pensioners from these changes.
 - Local schemes should not undermine the incentive to work.
 - Vulnerable groups should be supported by local schemes. (The definition of vulnerable groups has not yet been provided).

Public Health Responsibilities

- 10.20 The public health reform will result in the transfer of directors of public health to local government. The health, social care and localism bills currently going through parliament collectively hand councils the major responsibility for community wellbeing and public health. There is still a lot of uncertainty as the legislation is still going through and there are many unresolved issues regarding roles and responsibilities.

Education Finance Reform

- 10.21 Significant reforms have been proposed for both school revenue and capital funding. The objectives of the reforms currently being considered is to move to a simpler, more transparent funding system where schools with similar characteristics get similar levels of funding.
- 10.22 The first stage of consultation which closed on 25 May 2011 considered the extent to which there should be local discretion in allocating school funding. The second stage of consultation, which closed on 11 October 2011, contained more detailed proposals. No exact date has yet been proposed for implementation.
- 10.23 Proposals for School capital funding introduce a centralised procurement process with robust data on school places and physical condition of buildings being collected as a proposed replacement of Building Schools for the Future.

11 TREASURY STRATEGY

- 11.1 This section of the report summarises the key policy issues arising from the Treasury Strategy and follows on from the Budget Report 2011/12, reported to Mayor & Cabinet and Council in February and March 2011.
- 11.2 The Local Government Act 2003 and supplementary regulations requires the Council to produce three strategy statements to support the Prudential Indicators which ensure that the Council's capital investment plans are affordable, sustainable and prudent. The three statements may be summarised as:

- A Treasury Management Strategy which sets out the Council's proposed borrowing for the financial year and establishes the parameters within which officers under delegated authority may undertake such activities;
- An Annual Investment Strategy, which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments and;
- A Policy Statement on the basis on which provision is to be made in the revenue accounts for the repayment of borrowing.

Treasury Management Strategy for 2012/13 to 2014/15

11.3 The Council's borrowing and investments as at the 30 December 2011, are as set out in Table E1 below.

Table E1: Treasury Portfolio as at 30 December 2011

		£m	Average Rate of Interest
Fixed Rate Borrowing	Public Works Loans Board	223.992	6.06%
	Commercial Banks	114.214	4.98%
		338.206	
	Other Long Term Liabilities	0	
	Gross Debt	338.206	
Investments	Internally Managed	227.452	1.11%
	Cash Managers	0	
	Total Investments	227.452	
	Net Debt	£110.75	

*It should be noted that the average rates reflect actual borrowing and investment at rates prevailing in the earlier part of the financial year and not those currently obtainable.

Economic Context

- 11.4 The outlook for the global economy remains clouded with uncertainty with the UK economy struggling to generate sustained recovery that offers any optimism for the outlook for 2011 and 2012, or possibly even into 2013. Consumer and business confidence levels are low and with little to boost sentiment, it is not easy to see potential for a significant increase in the growth rate in the short term.
- 11.5 At the centre of much of the uncertainty, is the ongoing Eurozone sovereign debt crisis which has intensified, rather than dissipated throughout 2011. The main problem has been Greece, where even with a 'bailout' package and the imposition of austerity measures aimed at deficit reduction, the lack of progress and the ongoing deficiency in addressing the underlying lack of competitiveness of the Greek economy, has seen an escalation of their problems.

- 11.6 There is growing concern about the situation in Italy and the risk that contagion has not been contained. Italy is the third biggest debtor country in the world, but its prospects are limited given the poor rate of economic growth over the last decade and the need for fundamental reforms in the economy.
- 11.7 The UK Government's austerity measures, aimed at getting the public sector deficit into order over the next four years, have yet to fully impact on the economy. However, coming at a time when economic growth has virtually flatlined and concerns at the risk of a recession in 2012, it looks likely that the private sector will not make up for the negative impact of these austerity measures given the lack of an export led recovery due to the downturn in our major trading partner – the EU. The housing market, a gauge of consumer confidence, remains weak. The outlook is for house prices to be little changed for a prolonged period.
- 11.8 GDP has not significantly grown since the election of 2010 and the economic forecasts for 2011 and 2012 have been revised lower on a near quarterly basis as the UK recovery has stalled. With fears of a potential return to recession, the Bank of England embarked on a second round of Quantitative Easing to stimulate economic activity.
- 11.9 With the impact of the Government's austerity strategy impacting the trend for 2011 of steadily increasing unemployment, there are limited prospects for any improvement in 2012, given the deterioration of growth prospects.
- 11.10 For the last two years, the Monetary Policy Committee's (MPC) contention has been that high inflation was the outcome of temporary external factors and other one offs (e.g. changes in VAT). That view remains in place with CPI inflation standing at 5.2% at the start of quarter 4 2011. They remain of the view that the rate will fall back to, or below, the 2% target level within the two year horizon.
- 11.11 The ratings agencies have recently reaffirmed the UK's AAA sovereign rating and have expressed satisfaction with Government policy at deficit reduction. They have, though, warned that this could be reviewed if the policy were to change, or was seen to be failing to achieve its desired outcome. This credit position has ensured that the UK Government is able to fund itself at historically low levels. With the safe haven status from Eurozone debt also drawing in external investment, the pressure on rates has been down, and looks set to remain so for some time.

Economic Forecast

- 11.12 Economic forecasting remains troublesome with so many external influences weighing on the UK. However, there does appear to be consensus among analysts that the economy remains weak and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2011. Key areas of uncertainty include:
- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
 - the impact of the Eurozone crisis on financial markets and the banking sector;
 - the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;

- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that increasingly seem likely to be undershot;
- a continuation of high levels of inflation ;
- the economic performance of the UK's trading partners. In particular, the EU and US, with some analysts suggesting that recession could return to both;
- stimulus packages failing to stimulate growth;
- elections due in the US, Germany and France in 2012 or 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

11.13 The overall balance of risks remains weighted to the downside. Lack of economic growth, both domestically and overseas, will impact on confidence putting upward pressure on unemployment. It will also further knock levels of demand which will bring the threat of recession back into focus.

11.14 It is likely that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

11.15 Given the weak outlook for economic growth, the prospects for any interest rate changes before mid-2013 is very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Borrowing

11.16 Any new borrowing is undertaken each year to fund expenditure from the Capital Programme and to replace temporary borrowing which has matured. The Council is required to set and monitor a number of indicators to ensure that the level of borrowing to fund capital investment is affordable. It is these indicators which set the parameters within which treasury operations are undertaken.

11.17 The indicators effectively summarise the expected activity and provide a limit on the delegated authority of officers to undertake treasury operations. They have been compiled in an attempt to balance the need for sufficient flexibility to enable treasury operations to be conducted effectively with the need for Members to be satisfied that such activity does not expose the Council to material risk. The indicators relating to treasury management, are as set out below:

- Debt Limits
- Limits on fixed and variable rate debt.
- Upper limit for Long Term investments
- Debt maturity profiles

Debt Limits

11.18 Two Prudential Indicators control the aggregate level of borrowing:

- **The Authorised Limit** – which represents the limit beyond which any additional borrowing cannot be undertaken unless the limit is revised by Full Council.

- **The Operational Boundary** - which is based on the probable external debt during the year. It is not a limit and actual borrowing can vary round this boundary.

11.19 The determination of the Authorised Limit is essentially a mechanistic exercise determined by a number of factors including the level of existing debt, projected borrowing to partially finance the Capital Programme and to provide temporary support to the Council's cashflows. In addition, there is provision to replace temporary borrowing from the Council's balances with external borrowing. The authorised limit essentially provides an upper limit on the level of borrowing. However, the decision on whether to actually undertake the borrowing will be determined by treasury related issues, such as anticipated movements in future interest rates. Whilst the indicators provide scope to undertake borrowing, this might not be exercised. Consequently there will inevitably be considerable variations between the limits and the level of borrowing.

11.20 The operational boundary is calculated by deducting the provision for replacement of temporary borrowing from balances from the authorised limit. This provides a control on the management of the existing debt whilst allowing scope for additional borrowing should the Executive Director for Resources and Regeneration consider market conditions be conducive for this. The derivation of the Operational Boundary is as set out in Table E2 below:

Table E2: Debt Projections 2011/12 to 2014/15

	2010/11 Actual	2011/12 Projection	2012/13 Projection	2013/14 Projection	2014/15 Projection
	£m	£m	£m	£m	£m
Balance at 1 April	384.035	338.206	208.645	204.417	195.663
Maturing Debt	-5.000	0.000	-5.000	-9.560	-15.102
Debt Redemption		-130.300			
Overhanging Debt Relating to Housing Transfer	-41.537	0.000	0.000	0.000	0.000
Actual New Borrowing	0.708	0.000	0.000	0.000	0.000
Outstanding Debt	338.206	207.906	203.645	194.857	180.561
Projected New Borrowing	0.00	0.739	0.772	0.806	0.842
External Borrowing 31st March	338.206	208.645	204.417	195.663	181.403
Margin below Capital Financing Requirement	34.442	32.523	47.543	59.071	70.546
CFR	372.648	241.168	251.960	254.734	251.949
Balance at 1 April	384.035	338.206	208.645	204.417	195.663
Projected New Debt	0.00	6.572	19.122	11.256	5.542
Maximum Notional PFI Debt in Year	177.972	313.244	305.132	297.021	288.909
Operational Boundary	562.007	658.022	532.899	512.694	490.114
Margin below Capital Financing Requirement	54.442	52.523	67.543	79.071	90.546
	616.449	710.545	600.442	591.765	580.660

Authorised Limit					
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Limits on Fixed and Variable Rate Debt

- 11.21 Variable rate debt provides a facility to benefit from short term falls in interest rates but with the associated risk that unanticipated increases in rates will result in considerable volatility in interest costs. Conversely, fixed rate debt provides the protection from increases in interest rates. The guidance requires Councils to consider the exposure to variable and fixed rates on the basis of net debt i.e. borrowing less investments. The “upper limit” for variable and fixed interest rate debt i.e. borrowing less investments attempts to define the limits of these risks.
- 11.22 The proposed limit for fixed rate exposure provides scope for both debt and the projected investment balance to be at fixed rates. The upper limit for fixed interest rate exposure is as set out in Table E3 below.

Table E3: Proposed Fixed Rate Limits for 2011/12 to 2013/14

	2010/11 Actual	2011/12 Projection	2012/13 Projection	2013/14 Projection
	£m	£m	£m	£m
Authorised Debt Limit	616.449	710.545	600.442	591.765
Investments	-129.000	-70.000	-70.000	-70.000
Upper Limit	487.449	630.545	530.442	521.765

- 11.23 The Council’s current investment portfolio is currently 35% fixed rate with the residual 63% represented by call account and money market investments which currently offer advantageous rates.
- 11.24 The Council’s current debt portfolio is 65% fixed rate and consequently the proposal is to limit the variable rate debt to existing debt only . The upper limit for variable interest rate exposure is as set out in Table E4 below:

Table E4: Proposed Variable Rate Limits for 2011/12 and 2013/14

	2010/11 Projection	2011/12 Projection	2012/13 Projection	2013/14 Projection
	£m	£m	£m	£m
Variable Rate Debt	82.500	77.500	72.500	72.500
Variable rate Investments	-75.00	-130.00	-130.00	130.00
Net Upper Limit	82.500	77.500	72.500	72.500

Upper Limit for Long Term Investments

- 11.25 The level of the Council’s investments is determined by a number of factors including the available revenue and capital reserves and the extent to which capital investment has been financed by internal borrowing. The Council’s medium term Capital Programme anticipates utilising a number of the cash reserves which will reduce the scope to undertake longer term investment. However, longer term

investments potentially provide stability of income and enhanced investment returns, particularly in an environment in which interest rates are low or falling.

- 11.26 In the current economic environment, the primary consideration when investing Council funds is counterparty credit risk. Longer term investment obviously increases this risk particularly in the current volatile economic environment. The Executive Director for Resources and Regeneration in response to the current uncertainty has restricted investment terms to a maximum of three months with the exception of the UK Government owned banks (Lloyds TSB and Royal Bank of Scotland) which have a maximum duration of one year.

Debt Maturity Profiles

- 11.27 Volatility of interest rates represents a risk, particularly when the Council requires to refinance its debt portfolio when debt matures. To mitigate this risk, the debt maturity profile is structured to ensure that there is a spread of maturities. However, there must be flexibility in this to enable advantage to be taken of low rates or alternatively to ensure that the Council does not lock into relatively high long term rates. The proposed limits of the maturity structure of long term debt attempts to accommodate these competing requirements, as set out in Table E5 below:

Table E5: Fixed Rate Borrowing Maturity Limits

	Upper Limit	Lower Limit
	%	%
Maturity Structure for New Fixed Rate Borrowing during 2012/13.		
Under 1 Year	15%	
1-2 Years	15%	
2-5 Years	50%	
5-10 Years	50%	
10 Years and Over	95%	50%

- 11.28 There are a number of additional non-treasury related prudential indicators which need to be adopted which are as set out in Appendix Z1.

Borrowing Strategy 2012/13

- 11.29 New borrowing is potentially undertaken each year to fund expenditure from the capital programme, to replace maturing debt (Net Replacement Borrowing) and potentially to replace temporary borrowing from internal balances with external debt.
- 11.30 The decision to borrow is determined by a number of factors including:
- interest rate projections
 - the availability of internal cash resources to finance borrowing in the short to medium term
 - The affordability of borrowing and the tension between the potential short term revenue savings from using cash balances to finance borrowing and the long term savings accruing from borrowing at current historically low interest rates.

- 11.31 The Council has appointed 'Sector Treasury Services' to provide treasury advice and part of these services involve the formulation of a view on interest rates. These views on interest rates are considered by officers when engaging in treasury management activities.
- 11.32 An Audit Commission study had identified that Councils had both substantial cash balances and external borrowing. To substantiate this position Councils are required to comment on both the gross and net debt positions and establish a policy on borrowing in advance of need.
- 11.33 The current and projected net debt positions are as set out in Table E6 below:

Table E6: Comparison of Projected Gross and Net Borrowing Positions

	2010/11 Actual £m	2011/12 Projection £m	2012/13 Projection £m	2013/14 Projection £m
External Debt	338.206	208.645	204.417	195.663
Investment Balances	-204.000	-200.000	-175.000	149.000
Net Borrowing	134.206	8.645	29.417	46.663

- 11.34 The Council has a projected net borrowing position of -£8.645m which is principally attributable to the redemption of the Housing debt due in March 2012.
- 11.35 In the context of the treasury strategy:
- An objective of the treasury strategy is to minimise the level of the investment balances to reduce counterparty credit risk associated with investment.
 - The medium term economic outlook continues to be one of historically low interest rates with investment rates being significantly below long term borrowing rates. Value for money considerations indicate that additional borrowing should be avoided and any borrowing requirement be funded from internal balances to minimise the impact on revenue balances.
 - However such savings should be considered in the context of the potential to borrow at relatively low rates which are forecast to increase significantly in later years
 - The Council has examined the potential for prematurely redeeming debt to reduce the net debt position but has concluded that the premiums payable are not affordable or cost effective.
- 11.36 The Executive Director for Resources and Regeneration will continue to monitor the interest rate position and adopt a pragmatic approach to changing circumstances.
- 11.37 The Council will not 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 considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

- 11.38 In determining whether borrowing will be undertaken in advance of need the Council will:
- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
 - Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
 - Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
 - Consider the merits and demerits of alternative forms of funding
 - Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- 11.39 The Executive Director for Resources and Regeneration will continue to consider options to reschedule and restructure the Council's debt portfolio, having due regard for the broad impact of such exercises, ensuring that any such restructure will provide financial benefit to the Council.

Annual Investment Strategy

- 11.40 The Investment Strategy for 2012/13 is compiled in the context of continuing uncertainty and volatility in global money markets relating to concerns over sovereign debt and the impact of governmental austerity measures on economic growth. This has created instability in money markets with a concentration on low risk quality orientated investments.
- 11.41 Members are recommended to adopt a counterparty credit criteria which whilst continuing to reflect a low risk profile is based on a stable market. It is proposed that the Executive Director for Resources and Regeneration be provided with scope to operate counterparty criteria up to this level according to market conditions. Effectively, Members will agree a wider list and the Executive Director for Resources and Regeneration operate narrower lists up to this level in response to market conditions.
- 11.42 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.
- 11.43 In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agency. Using the Sector ratings service, banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
- 11.44 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in

relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “Credit Default Swaps” and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Sector.

- 11.45 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.
- 11.46 Investment instruments identified for use in the financial year are listed under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits are set through the Council’s Treasury Management Practices.
- 11.47 Specified Investments must be sterling denominated, with maturities up to maximum of 1 year, have “high” credit ratings as determined by the Council itself. Non-Specified Investments are any investments which do not meet the Specified Investment criteria.
- 11.48 These involve a relatively higher element of risk, and consequently the Council is required to set a limit on the maximum proportion of their funds which will be invested in these instruments.

Creditworthiness Policy

- 11.49 This Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies;
 - CDS spreads to give early warning of likely changes in credit ratings;
 - sovereign ratings to select counterparties from only the most creditworthy countries.
- 11.50 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 duration for investments. The Council will therefore use counterparties within the following durational bands (please amend as appropriate):
- 11.51 The Council’s credit policy combining the Council determined investment credit limits on with the Sector approach to counterparty risk categorisation is as set out in Table E7 below: -

Table E7: Lewisham Credit Criteria

Sector Band	Credit Limit (£m)	Duration Limit (Months)
Purple	25	24
Orange	20	12
Red	15	6

Green	10	3
Blue	30	12

- 11.52 This methodology does not apply the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.
- 11.53 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalent) of Short Term rating F1, Long Term rating A-, Individual of Viability ratings of C- (or BB+), and a Support rating of 3. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
- 11.54 All credit ratings will be monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.
- 11.55 If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- 11.56 In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Country limits

- 11.57 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- (from Fitch Ratings (or equivalent from other agencies if Fitch does not provide) and the UK. The current list of countries that qualify using this credit criteria as are set out in Appendix Z5. This list will be added to or deducted from by officers should ratings change in accordance with this policy. The country limits have been set out in Table E8 below.

Table E8 - Approved countries for investments

AAA		AA+	AA	AA-
Australia	Netherlands	Belgium	Kuwait	Japan
Canada	Norway	Hong Kong	UAE	Qatar
Denmark	Singapore	U.S.A.		Saudi Arabia
Finland	Sweden			
France	Switzerland			
Germany	U.K.			
Luxembourg				

- 11.58 The Executive Director for Resources and Regeneration considers however that in current market conditions it is appropriate to continue to apply the narrower range of

counterparties and the maximum term duration of three months for all counterparties except the semi nationalised banks for which a twelve month duration applies. This approach essentially involves excluding the comparatively lower rated counterparties (Sector category Green) from the list. The indicative counterparty list on this basis is as set out in Appendix Z5.

Investment Strategy

In-house Funds

- 11.59 The Council's in house investments are principally related to cashflow. Investments will accordingly be made with reference to the core balance and cashflow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
- 11.60 In order to maintain sufficient liquidity, the Council will seek to utilise its Instant Access Call Accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest. The remainder of investments will be placed in deposits of up to 12 months to generate maximum return.

Investment returns expectations

- 11.61 Our treasury advisors (Sector) have indicated that Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are:
- 2011/ 2012 0.50%
 - 2012/ 2013 0.50%
 - 2013/ 2014 1.25%
 - 2014/ 2015 2.50%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

- 11.62 The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years have been set out in Table E9 as follows:

Table E9: Projected Investment Returns

	Projected Investment Returns
2012/13	0.70%
2013/14	1.00%
2014/15	1.60%
2015/16	3.30%
2016/17	4.10%

- 11.63 At the end of the financial year, the Council will report on its investment activity's part of its Annual Treasury Report.

Investment Strategy External Fund Managers

- 11.64 Following a review of the effectiveness of the Cash Managers in conjunction with the Council's treasury advisor Sector, the Council withdrew the investments with the two External Fund Managers and has placed as a year long investment with Natwest and the balance in Money Market Funds to be placed long term once economic conditions improve.

Policy On Use Of External Service Providers

- 11.65 The Council uses Sector Treasury Services as its external treasury management consultants.
- 11.66 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. The information provided by Sector is one source of information will be supplemented with other sources to enable the Executive Director for Resources and Regeneration to make decisions on treasury issues.

12. CONSULTATION

- 12.1.1 As in previous years, tenants consultation was in line with the Residents Compact arrangements. This provided tenant representatives of Lewisham Homes with an opportunity in December at the Joint Housing Panel meeting to consider the position and to feedback any views to Mayor & Cabinet. Tenants representatives of Brockley convened their Brockley Residents Board in December to hear the proposals and feedback.
- 12.1.2 Details of comments from the resident meetings have been summarised at Appendix X2. Some concerns of tenants representatives appear to be common across the meetings. These included -
- Rents continuing to rise with an apparent reduction of service, local discretion on rises have been removed.
- 12.1.3 The Council directly clients Excalibur TMO and officers presented the rent report to the TMO Committee members in January. The general comments from the Committee members included:-
- 12.1.4 The Excalibur TMO Committee followed this session up by sending out a comments form to the tenants on the estate, giving them the opportunity to feed back. Eighteen responses were received and a summary of these comments are detailed in Appendix X2.

Select Committees

- 12.2 The Select Committees considered the savings proposals at their meetings in November and December 2011. The referrals from the Select Committees to the Public Accounts Select Committee on the Budget Savings proposals have been attached at Appendix Y10.

Public Accounts Select Committee

- 12.3 The Public Accounts Select Committee first considered the savings proposals in December 2011. The Committee considered the full annual budget at its meeting on 9 February 2012.

Business Ratepayers

- 12.4 Representatives of business ratepayers were consulted on budget proposals on 2 February 2012.

13. FINANCIAL IMPLICATIONS

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

14 LEGAL IMPLICATIONS

Capital Programme

- 14.1 Generally, only expenditure relating to tangible assets (e.g. roads, buildings or other structures, plant, machinery, apparatus and vehicles) can be regarded as being expenditure for capital purposes. (Section 16 Local Government Act 2003 and regulations made under it).
- 14.2 The Local Government Act 2003 introduced a prudential system of financial control replacing the previous 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 authority is to take into account the issues of affordability, prudence and sustainability, value for money, stewardship of assets, service objectives and practicality.
- 14.3 The Local Government Act 2003 also introduced pooling arrangements in relation to capital receipts replacing the set aside requirement under the previous capital finance regime. Under the pooling arrangements authorities are required to pay to the Secretary of State a proportion of capital receipts from disposals of housing land, the proportions being 75% for land which includes dwelling-houses and 50% for other land. The Local Authorities Capital Finance and Accounting) (England) Regulations 2003 as amended, allow authorities to reduce the amount to be paid to the Secretary of State by the aggregate of:
- the authority's administrative costs of the disposal
 - amounts spent within the preceding 3 years in improving the land
 - the authority's "total capital allowance".
 - Social Home Buy Allowance (for provision of affordable housing)

- 14.4 The “total capital allowance” for this purpose is made up of expenditure incurred by the authority on various types of projects and items specified in the Regulations including regeneration projects, acquiring interests in land and other improvements to facilitate disposal and expenditure on buying back properties previously sold under the RTB.

Housing Revenue Account

- 14.5 Section 24 of the Housing Act 1985 provides that a local housing authority may make such reasonable charges as they determine for the tenancy or occupation of their houses. The Authority must review rents from time to time and make such changes as circumstances require. Within this discretion there is no one lawful option and any reasonable option may be looked at. The consequences of each option must be explained fully so that members understand the implications of their decisions.
- 14.6 Section 76 of the Local Government and Housing Act 1989 provides that local housing authorities are under a duty to prevent a debit balance in the HRA. Rents must therefore be set to avoid such a debit.
- 14.7 Section 103 of the Housing Act 1985 sets out the terms under which secure tenancies may be varied. This requires -
the Council to serve a Notice of Variation at least 4 weeks before the effective date;
the provision of sufficient information to explain the variation;
an opportunity for the tenant to serve a Notice to Quit terminating their tenancy.
- 14.8 Part III of Schedule 4 of the Local Government and Housing Act 1989 provides that where benefits or amenities arising out of the exercise of a Housing Authority’s functions, are provided for persons housed by the authority, but are shared by the community as a whole, the authority shall make such contribution to their HRA from their other revenue accounts to properly reflect the community’s share of the benefits or amenities.
- 14.9 Where as an outcome of the rent setting process, there are to be significant changes in housing management practice or policy, further consultation may be required with the tenants affected in accordance with section 105 of the Housing Act 1985.

Balanced Budget

- 14.10 Members have a duty to ensure that the Council acts lawfully. The Council must set and maintain a balanced budget and must take steps to deal with any projected overspends and identify savings or other measures to bring budget pressures under control. If the Capital Programme is overspending, then this may be brought back in to line by savings, slippage of other schemes or contributions from revenue. If a level of over-programming is built into the programme to reflect likely slippage, then officers will need to manage the programme to ensure that actual expenditure does not exceed the resources available. The proposals in this report identify reductions which go to meet this requirement in 2012/13.

- 14.11 Where there are particular savings proposals in this report they are considered in detail and the legal implications where appropriate have been set out against each of the individual proposals.
- 14.12 Members are reminded in this context of their fiduciary duty to the Council Taxpayer, effectively to act as trustee of the Council's resources and to ensure proper custodianship of the Council's resources.

Localism Act

- 14.13 Sections 72 to 79 Localism Act 2011 and Schedules 5 to 7 were commenced in December 2011. They amend the legislation governing the calculation of council tax. Schedule 5 provides for a council tax referendum to be held if an authority increases its relevant basic amount of council tax in excess of principles determined by the Secretary of State. Draft regulations about the conduct of such referenda have been laid before Parliament and are expected to be passed by the end of February. Even if the regulations are not in place, authorities will not be able to exceed the Secretary of State's principles without having held such a referendum. The Secretary of State has proposed principles for council tax increases by principal authorities (including Lewisham) of 3.5%, and 4% for the GLA.
- 14.14 By definition, any authority taking up the council tax freeze grant for 2012/13 will not be subject to a council tax referendum in that year. Only those not accepting it and increasing council tax by over 3.5% would have to hold a referendum. The result of the referendum would be binding, and it would have to be held not later than the first Thursday in May. Substitute calculations which comply with the principles laid down by the Secretary of State would also have to be drawn up. These would apply in the event of the increases in excess of 3.5% not being approved in the referendum.

Calculation of Council Tax Requirement

Section 31A Calculation of council tax requirement by authorities in England

- 14.15 In relation to each financial year a billing authority in England must make the calculations required by this section.
- 14.16 The authority must calculate the aggregate of:
- (a) the expenditure which the authority estimates it will incur in the year in performing its functions and will charge to a revenue account, other than a BID Revenue Account, for the year in accordance with proper practices,
 - (b) such allowance as the authority estimates will be appropriate for contingencies in relation to amounts to be charged or credited to a revenue account for the year in accordance with proper practices,
 - (c) the financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure,
 - (d) such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for,

- (e) any amounts which it estimates will be transferred in the year from its general fund to its collection fund in accordance with section 97(4) of the 1988 Act, and;
- (f) any amounts which it estimates will be transferred from its general fund to its collection fund pursuant to a direction under section 98(5) of the 1988 Act and charged to a revenue account for the year.

14.17 The authority must calculate the aggregate of:

(a) the income which it estimates will accrue to it in the year and which it will credit to a revenue account, other than a BID Revenue Account, for the year in accordance with proper practices,

(b) any amounts which it estimates will be transferred in the year from its collection fund to its general fund in accordance with section 97(3) of the 1988 Act,

(c) any amounts which it estimates will be transferred from its collection fund to its general fund pursuant to a direction under section 98(4) of the 1988 Act and will be credited to a revenue account for the year, and

(d) the amount of the financial reserves which the authority estimates it will use in order to provide for the items mentioned in subsection (2)(a), (b), (e) and (f) above.

14.18 If the aggregate calculated under subsection (2) above exceeds that calculated under subsection (3) above, the authority must calculate the amount equal to the difference; and the amount so calculated is to be its council tax requirement for the year.

14.19 In making the calculation under subsection (2) above the authority must ignore payments which must be met from its collection fund under section 90(2) of the 1988 Act or from a trust fund.

14.20 In estimating under subsection (2)(a) above the authority must take into account:

(a) the amount of any expenditure which it estimates it will incur in the year in making any repayments of grants or other sums paid to it by the Secretary of State, and

(b) the amount of any precept issued to it for the year by a local precepting authority and the amount of any levy or special levy issued to it for the year.

14.21 But (except as provided by regulations under section 41 below or regulations under section 74 or 75 of the 1988 Act) the authority must not anticipate a precept, levy or special levy not issued.

14.22 For the purposes of subsection (2)(c) above an authority's estimated future expenditure is:

(a) that which the authority estimates it will incur in the financial year following the year in question, will charge to a revenue account for the year in accordance with proper practices and will have to defray in the year before the following sums are sufficiently available—

(i) sums which will be payable for the year into its general fund and in respect of which amounts will be credited to a revenue account for the year in accordance with proper practices, and

(ii) sums which will be transferred as regards the year from its collection fund to its general fund, and

(b) that which the authority estimates it will incur in the financial year referred to in paragraph (a) above or any subsequent financial year in performing its functions and which will be charged to a revenue account for that or any other year in accordance with proper practices.

14.23 In making the calculation under subsection (3) above the authority must ignore:

(a) payments which must be made into its collection fund under section 90(1) of the 1988 Act or to a trust fund, and

(b) subject to paragraphs (b) and (c) of subsection (3) above, sums which have been or are to be transferred from its collection fund to its general fund.

14.24 The Secretary of State may by regulations do either or both of the following:

(a) alter the constituents of any calculation to be made under subsection (2) or (3) above (whether by adding, deleting or amending items);

(b) alter the rules governing the making of any calculation under subsection (2) or (3) above (whether by deleting or amending subsections (5) to (9) above, or any of them, or by adding other provisions, or by a combination of those methods).

14.25 Calculations to be made in relation to a particular financial year under this section must be made before 11th March in the preceding financial year, but they are not invalid merely because they are made on or after that date.

14.26 This section is subject to section 52ZS below (which requires a direction to a billing authority that the referendum provisions in Chapter 4ZA are not to apply to the authority for a financial year to state the amount of the authority's council tax requirement for the year).

14.27 In this section "BID Revenue Account" has the same meaning as in Part 4 of the Local Government Act 2003.

31B Calculation of basic amount of tax by authorities in England

14.28 In relation to each financial year a billing authority in England must calculate the basic amount of its council tax by applying the formula:

R/T

where:

R is the amount calculated (or last calculated) by the authority under section 31A(4) above as its council tax requirement for the year;

T is the amount which is calculated by the authority as its council tax base for the year and, where one or more major precepting authorities have power to issue precepts to it, is notified by it to those authorities ("the major precepting authorities concerned") within the prescribed period.

14.29 Where the aggregate calculated (or last calculated) by the authority for the year under subsection (2) of section 31A above does not exceed that so calculated under subsection (3) of that section, the amount for item R in subsection (1) above is to be nil.

14.30 The Secretary of State must make regulations containing rules for making for any year the calculation required by item T in subsection (1) above; and a billing authority must make the calculation for any year in accordance with the rules for the time being effective (as regards the year) under the regulations.

14.31 Regulations prescribing a period for the purposes of item T in subsection (1) above may provide that, in any case where a billing authority fails to notify its calculation to the major precepting authorities concerned within that period, that item must be determined in the prescribed manner by such authority or authorities as may be prescribed.

14.32 The Secretary of State may by regulations do either or both of the following:

(a) alter the constituents of any calculation to be made under subsection (1) above (whether by adding, deleting or amending items);

(b) provide for rules governing the making of any calculation under that subsection (whether by adding provisions to, or deleting or amending provisions of, this section, or by a combination of those methods)."

Robustness of estimates and adequacy of financial reserves

14.16 The Local Government Act 2003 s25 requires, when the authority is making its calculations under s32 of the Local Government Finance Act 1992, the Chief Finance Officer to report to it on:-

(a) the robustness of the estimates made for the purposes of the Calculations; and

(b) the adequacy of the proposed financial reserves.

Treasury Strategy

- 14.17 Authorities are also required to produce and keep under review for the forthcoming year a range of indicators based on actual figures and these are set out in the report. The Code 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.
- 14.18 Under Section 5 of the 2003 Act the prudential indicator for the total Authorised Limit for external debt is deemed to be increased by an amount of any unforeseen payment which becomes due to the authority within the period to which the limit relates which would include for example additional external funding becoming available but not taken into account by the authority when determining the Authorised Limit. Where Section 5 of the Act is relied upon to borrow above the Authorised Limit the Code requires that this fact is reported to the next meeting of the Council.
- 14.19 Authority is delegated to the Executive Director for Resources to make amendments to the limits on the Council's counterparty list and to undertake Treasury Management in accordance with the CIPFA code of practice and the Council's Treasury Policy Statement.

Constitutional provisions

- 14.20 Legislation provides that it is the responsibility of the full Council to set the Council's budget. Once the budget has been set, it is for the Mayor to make decisions in accordance with the statutory policy framework and that are not wholly inconsistent with the budget. It is for the Mayor to have overall responsibility for preparing the draft budget for submission to the Council to consider. If the Council does not accept the Mayor's proposals it may object to them and ask him to reconsider. The Mayor must then reconsider and submit proposals (amended or unamended) back to the Council which may only overturn them by a two-thirds majority.
- 14.21 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).
- 14.22 Authorities are advised by the statutory guidance to adopt an inclusive approach to preparing the draft budget – to ensure that councillors in general have the opportunity to be involved in the process. However, it is clear that it is for the Mayor to take the lead in that process and that proposals to be considered should come from that quarter. The report sets out the actions taken by the Council to comply with the statutory guidance to include non-executive members in the budget setting process.

Statutory duties and powers

- 14.23 The Council has a variety of statutory duties which it must fulfil by law. It cannot lawfully decide not to carry out those duties. Even where the Council is under a

statutory duty to provide a service there is often a discretion available to the Council about the level of service provision. Where there is an impact on statutory duty this has been identified in relation to the particular proposals. For other activities, the Council provides services in pursuance of a statutory power rather than a duty, and though not bound to carry out those activities, decisions about them must be taken in accordance with the decision making requirements of administrative law.

Reasonableness and proper process

- 14.24 Decisions must be made reasonably, taking into account all relevant considerations and disregarding irrelevancies. These are particular to the service reduction proposed and are set out in the body of the report. It is also imperative that decisions are taken following proper process. Depending on the particular service affected, this may be set down in statute, though not all legal requirements are set down in legislation. For example, again depending on the nature of the service, there may be a requirement to consult before making a decision. Members will see from the body of the report, that consultation has taken place in relation to budget reductions as appropriate. The outcome is detailed in the report. If consultation, where required, is not yet complete then a final decision may not be taken now. In that event either a report must be brought back to the Mayor, or he must delegate that decision to an officer. Responses to consultation must be considered with an open mind before coming to any decision. Whether or not consultation is appropriate, decisions to discontinue service must be accompanied by appropriate notice. In some circumstances, the Council has published a procedure for handling service reduction, and in those circumstances, there would be a legitimate expectation that such procedures are followed.
- 14.25 The Council is under a duty to budget annually, and it is clear that there are proposals in the report for reductions to be made in 2012/13 and beyond. The nature of these savings proposals varies. If agreed now they are all subject to proper process. Staffing changes would for example be subject to consultation under the Council's employment procedures, with final decisions in that respect delegated to officers. Others relate to proposed changes in service provision and may require consultation with service users and/or others before a final decision could be taken. In those cases, decisions may only be in principle now, with further reports to be brought back for a final decision when that proper process has been completed.

Staff consultation

- 14.26 Where proposals, if accepted, would result in more than 100 redundancies within a 90 day period, an employer is required by Section 188 Trade Union and Labour Relations (Consolidation) Act 1992 to consult with the representatives of those who may be affected by the proposals, the consultation period is at least 90 days. Where the number is more than twenty but 99 or less this period reduces to 30 days. This consultation is in addition to consultation with individuals affected by redundancy and/or reorganisation under the Council's own employment procedures. Where the number of redundancies in the 90 day period is 20 but not more than 99, the consultation period is 30 days.
- 14.27 Implicit in some of the proposals for budget reductions is the need to re-organise staffing structures and or create redundancies. If the budget reductions are agreed and re-organisations/redundancies are necessary, decisions will be taken by

officers in accordance with the Council's re-organisation and personnel procedures.

Equalities Legislation

- 14.28 The Equality Act 2010 (the Act) brings together all previous equality legislation in England, Scotland and Wales. The Act includes a new public sector equality duty (the equality duty or the duty), replacing the separate duties relating to race, disability and gender equality. The duty came into force on 6 April 2011. The new duty 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.
- 14.29 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.
- 14.30 As was the case for the original separate duties, the new duty continues to be a "have regard duty", and the weight to be attached to it is a matter for the Mayor, bearing in mind the issues of relevance and proportionality. It is not an absolute requirement to eliminate unlawful discrimination, advance equality of opportunity or foster good relations.
- 14.31 The Equality and Human Rights Commission issued guides in January 2011 providing an overview of the new equality duty, including the general equality duty, the specific duties and who they apply to. The guides cover what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guides were based on the then draft specific duties so are no longer fully up-to-date, although regard may still be had to them until the revised guides are produced. The guides do not have legal standing unlike the statutory Code of Practice on the public sector equality duty, However, that Code is not due to be published until April 2012. The guides can be found at: <http://www.equalityhumanrights.com/advice-and-guidance/public-sector-duties/new-public-sector-equality-duty-guidance/>

The Human Rights Act 1998

- 14.32 Since the introduction of the Human Rights Act 1998 (HRA), the rights set out in the European Convention of Human Rights (ECHR) have been incorporated into UK legislation and can be enforced in the domestic courts without having to have recourse to the European courts.
- 14.33 Those Articles which are particularly relevant to public services are as follows:-
- Article 2 – the right to life
 - Article 3 – the right not to be subject to ...degrading treatment
 - Article 5 – the right to security of the person

Article 6 – the right to a fair trial

Article 8 - the right to respect for private and family life, home and correspondence

Article 9 - the right to freedom of thought, conscience and religion

Article 10 - the right to freedom of expression

Article 11 – the right to peaceful assembly

Article 14 – the right not to be discriminated against on any ground

The first protocol to the EHCR added:-

Article 1 - the right to peaceful enjoyment of property

Article 2 - the right to education

14.34 Some of these rights are unconditional, such as the right not to be tortured or subject to degrading treatment. Others may be limited in finite and well defined circumstances (such as the right to liberty); others are qualified and must be balanced against the needs of the wider community or state interest – such as the right to a private and family life. Where there are human rights implications associated with proposals in this report, these have been identified in the body of the report and regard must be had to them before making any decision.

Crime and Disorder

14.35 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.

Best Value

14.36 Under S3 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.

Environmental Implications

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

14.38 The legal comments for the individual savings proposals are attached at Appendix 8 to this report.

15 HUMAN RESOURCES IMPLICATIONS

15.1 This section of the report sets out the human resources implications for the current spending review period. It is structured as follows:

- Update on the implementation of 2011/12 savings
- Summary of staffing implications
- Summary of leavers

- Outplacement support
- Staffing implications for 2012/13

Update on the Implementation of the 2011/12 Savings

- 15.2 In November 2010, the Mayor agreed to the first phase of budget savings relating to 62 proposals. This resulted in the net deletion of 240 posts and a 156 redundancies. Table 1 provides a breakdown of the first round proposals by directorate including deleted posts, vacancies and total redundancies.

Table 1 Breakdown of First Round Restructures by Directorates

Directorate	Total proposals PH1	Total posts deleted	Total posts created	Net posts deleted	Retirement/ TUPE /vacant posts	Total Redundancies
Resources	9	106	54	52	19	41
Community	7	66	32	34	9	24
Customer	18	61	3	58	32	23
CYP	24	59	0	59	33	32
Regeneration	4	37	0	37	8	36
Total	62	329	89	240	101	156

- 15.3 The second round of budget savings were agreed by Mayor & Cabinet in February 2011 with the aim of these savings to be implemented over the next three financial years. There were 57 proposals which had a direct people impact. Table 2 provides a breakdown of outcomes of the second round proposals identifying posts, vacancies and potential total redundancies.

Second Round Budget Proposals

Table 2 Breakdown of Second Round Restructures by Directorates

Directorate	Total proposals PH2	Total posts deleted	Total posts created	Net posts deleted	Retirement/ TUPE /vacant posts	Total redundancy
Resources	7	37	19	18	0	18
Community	6	179	35	144	0	144
Customer	15	53	3	50	4	46
CYP	27	141	8	133	19	114
Regeneration	2	46	26	20	11	9
Total	57	456	91	365	**34	331

** Please note 34 posts are not redundancies due to Retirement, TUPE or Vacancies

- 15.3 Of the 57 reorganisations in the second round, a total of 41 reorganisations have been identified for 2011/12 and for the financial year 2012/13, there are 11 budget proposals planned and the remainder will occur in 2013/14.
- 15.4 In the current financial year 2011/12, at total of 34 reorganisations have been competed. A further 5 budget proposals were achieved by releasing staff under the Voluntary Severance scheme and two budget proposals remain outstanding.

- 15.5 A total of 301 notices of redundancy have been issued to employees up to and including 31 March 2012.

Summary of Staffing Implications

- 15.6 There are a total of 119 budget proposals across phase 1 & 2 to date which have resulted in the deletion of 605 posts and 457 staff being made redundant across the Council to March 2012.
- 15.7 Of the 457 staff made redundant, 97 (21.23%) were male and 360 (78.77%) were female, as detailed in table 3 below. This has resulted in a disproportionate number of female employees being made redundant. This is predominately due to the discontinuation of the Domiciliary Service where 108 staff were made redundant. This also has also impacted on the number of leavers at the grade range SC3 to SC5 207 (45.3%).
- 15.8 It should also be noted that over both budget rounds for 2011/12, there are a higher number of leavers in the age range 45 to 54, 174 (38.07%) and for those aged 55 plus, 151 (33.04%) which does reflect the higher numbers of staff across this age range in the Council as a whole.
- 15.9 Over both phases there is a reduction of 43.5% of black and minority ethnic staff against a population of 39% for this group.
- 15.10 The following series of five tables provides summary information on gender, ethnicity, grade, disability and age.

Table 3 Breakdown of restructures by Gender

Gender	Staff as at 31/03/10	% of staff as 31/03/10	Total staff redundant Phase 1	% of staff redundant Phase 1	Total staff redundant Phase 2	% of staff redundant Phase 2	Total staff redundant	% of total staff redundant
Male	1427	35.70%	55	35.26%	42	13.95%	97	21.23%
Female	2570	64.30%	101	64.74%	259	86.05%	360	78.77%
Total	3997	100%	156	100%	301	100%	457	100%

Table 4 Breakdown of restructures by Ethnicity

Ethnic Origin	Total staff as at 31/3/10	% of staff	Total Redundancies Phase 1	% Staff Redundant Phase 1	Total Redundancies Phase 2	% Staff Redundant Phase 2	Total Redundancies	% Total Staff Redundant
BME	1559	39.00%	58	37.18%	141	46.84%	199	43.54%
White	2438	61.00%	98	62.82%	156	51.83%	254	55.58%
Not disclosed	48	0%	0	0.00%	4	1.33%	4	0.88%
Total	3997	100%	156	100%	301	100%	457	100%

Table 5 Breakdown of restructures by Grade

Grade	Staff as at 31/03/10	% of staff as 31/03/10	Total staff redundant Phase 1	% of staff redundant Phase 1	Total staff redundant Phase 2	% of staff redundant Phase 2	Total staff redundant	% of Total staff redundant
SC1-2	395	9.88%	0	0.00%	7	2.33%	7	1.53%
SC3-5	940	23.52%	31	19.87%	176	58.47%	207	45.30%
SC6-SO2	779	19.49%	38	24.36%	34	11.30%	72	15.75%
PO1-PO5	1282	32.07%	72	46.15%	69	22.92%	141	30.85%
PO6-SMG3	328	8.21%	15	9.62%	15	4.98%	30	6.56%
Others	273	6.83%	0	0.00%	0	0.00%	0	0.00%
Total	3997	100%	156	100%	301	100%	457	100%

Table 6 Breakdown of restructures by Disability

Disability	Total staff as at 31/3/10-	% of staff	Totals redundancies Phase1	% Staff Redundant Phase 1	Totals redundancies Phase 2	% Staff Redundant Phase 2	Totals redundancies	% Total Staff Redundant
Yes	217	5%	9	5.77%	13	4.32%	22	4.81%
No	3780	95%	147	94.23%	288	95.68%	435	95.19%
Total	3997	100%	156	100.00%	301	100.00%	457	100.00%

Table 7 Breakdown of restructures by Age

Age	Staff as at 31/03/10	% of staff as 31/03/10	Total staff redundant Phase 1	% of staff redundant Phase1	Total staff redundant Phase 2	% of staff redundant Phase 2	Total staff redundant	% of Total staff redundant
16-20	40	1.00%	0	0.00%	0	0.00%	0	0.00%
21-24	101	2.53%	1	0.64%	3	1.00%	4	0.88%
25-34	700	17.51%	24	15.38%	31	10.30%	55	12.04%
35-44	976	24.42%	31	19.87%	42	13.95%	73	15.97%
45-54	1360	34.03%	62	39.74%	112	37.21%	174	38.07%
55+	820	20.52%	38	24.36%	113	37.54%	151	33.04%
Total	3997	100%	156	100%	301	100%	457	100%

Summary of Leavers

- 15.11 Over the two rounds of budget reductions for 2011/12 and the completion of the Voluntary Severance scheme a total of 496 employees will have left Lewisham by 31 March 2012. This will mean an overall headcount reduction of 3,501 or 12.4% of the total workforce.
- 15.12 The following table summarise the total numbers of staff leaving by either redundancy or voluntary severance by Directorate and broken down by equalities categories.

Table 8 - Redundancy and voluntary severance leavers

Directorate	Total Phase 1 Redundancies	Total Staff Leaving on Redundancy Phase 2	Total Staff Leaving on Voluntary Severance	Total staff Leaving
Resources	41	15	3	59
Community	24	141	11	176
Customer	23	12	8	43
CYP	32	118	13	163
Regeneration	36	15	4	55
Total	156	301	39	496

Outplacement Support

- 15.13 Lewisham Council has been running Outplacement Support (OPS) for staff in conjunction with Capita and other providers, since January 2011. The value of providing good outplacement services to those leaving the Council cannot be underestimated. Not only does it provide timely support for those facing the uncertainty of finding a new job, but it also sends a strong message to those remaining in the organisation that Lewisham is a caring employer.
- 15.14 To date, OPS has been offered to 85 staff displaced under the second round. Of these individuals, the following have attended, or expressed an interest in attending, one or more of the sessions available:

Provision	Numbers attended from Round 2

CV Writing and job search skills	44 attended (4 booked for future sessions)
Interview skills	33 attended (4 booked for future sessions)
1:1 advisory sessions	33 attended (4 booked for future sessions)
Becoming an agency worker	26 attended (0 waiting for future sessions)
Working For Yourself	20 attended (4 invited for future sessions)
Job Search Skills (wef Oct 11)	6 attended (4 invited for future sessions)

15.15 Until August 2011, the Council was using Capita to provide a range of OPS courses with spend so far this year of £17,810. Statistics showed that uptake of these courses was less than 50% in most instances, so as not in contract with Capita, we secured the services of a local provider to provide some of the OPS courses. GGT Solutions, also work with Southwark Council and are funded via the Next Step programme. They are providing CV, Job Search and Interview Skills workshops to employees and feedback from attendees has been excellent. We continue to use Capita for 1 to 1 support sessions and Money Advice Service, a government funded body, provide individual financial advice sessions to all staff and have indicated that they will also provide advice on working for yourself via the OPS offering.

15.16 The table below gives a breakdown of proposals by Directorate and potential staffing implications, where known for the package of savings proposals contained in this report for 2012/13.

Budget Implication 2012/13

Directorate	Overall Total No of Budget Savings 2012/13	No of Budget Proposals affecting staff 2012/13	Staffing Implications
Customer Services	3	2	3x SC4 - all vacant posts
Community	11	2	Details unknown at present
Children and Young People	14	7	1x SC5 – vacant post 2x SC5 - vacant post 1x P06-SMG3 1x Sc4 – vacant post 2x proposals unknown at present
Resources & Regeneration	13	1	Details unknown at present
Total	41	12	8 posts to be deleted, 7 of which are vacant. Plus awaiting staffing implications on 5 budget proposals

15.17 Appropriate consultation processes in accordance with the management of change guidelines and protocols issued to the unions will continue to take place in Directorates. Views have been sought on the proposals from the Unions either through Directorate Joint Consultative Committees or via managers. The trade

unions also had the opportunity to submit comments to the Mayor & Cabinet meeting on 16 November 2011.

- 15.18 Each service area affected will conduct an impact assessment of their reorganisation with particular emphasis on ethnicity, gender and disability, the council is also monitoring the impact of the savings proposals on the grade profile of the council.
- 15.19 Following consultation and prior to implementing proposals the council has a process to identify staff to be selected for redundancy. This will be undertaken through a combination of interviews, testing and management selection in accordance with the council's change guidelines, however from the known proposals there will only be one redundancy and this will be in the Schools Improvement Team.

16 CRIME AND DISORDER IMPLICATIONS

- 16.1 There are no specific crime and disorder implications relating to this report.

17 EQUALITIES IMPLICATIONS

- 17.1 The Race Relations Act 1976, Sex Discrimination Act 1975, Disability Discrimination Act 1998 (all as amended), and the promotion of best practice in relation to other equality areas, require the local authority to ensure that their policies and actions do not discriminate and that the authority promotes equal opportunity and good relations among people from different groups.
- 17.2 An initial assessment of the equalities implications of the 2012/13 budget savings proposals has been undertaken to ensure that they do not unfairly impact upon particular vulnerable groups, sections of the local community or the Council's workforce.
- 17.3 The Council has a legal duty to have regard to the need to eliminate discrimination and promote equality of opportunity and this analysis has been undertaken with regard to that duty. Our comprehensive equality scheme encompasses the six strands of race, disability and gender age, sexual orientation and religion/belief. We have therefore had regard for all six equality strands, race, disability, gender, age, sexual orientation and religion/belief in our equalities analysis.

Savings proposals which affect staff

- 17.4 Where budget savings proposals have staffing implications, and these proposals are approved, services will be required to undertake an equalities impact assessment (EIA) as part of their restructuring process. This is stipulated within the Council's Employment / Change Management policies. Equalities impact assessment guidance recommends that a full equalities impact assessment is undertaken if a review of service or a restructure will result in a major service change; involve a considerable amount of money (large capital project); impact on a large number of people; or result in a major organisational change. As part of their operational business processes, services will monitor the impact of any staffing implications on service delivery and where necessary, take action to mitigate any resultant impacts.

- 17.5 An equalities impact assessment will be conducted on the 2012/13 Budget Savings process. This will mean that all savings proposals which have staffing implications will be considered to assess the overall impact on the organisation.
- 17.6 Council tenants include a higher than average proportion of elderly people and black and ethnic minorities. Many tenants are unemployed or on low income. The service has specific provision for more vulnerable groups within the community. A significant proportion of new allocations are made to families and women with young children.
- 17.7 In undertaking consultation and examining potential options, the equalities impact for different groups of people will be considered, particularly black and ethnic minorities, women, disabled people and young people.

18 ENVIRONMENTAL IMPLICATIONS

- 18.1 There are no specific environmental implications relating to this report.

19 CONCLUSION

- 19.1 This report sets out the information necessary for the Mayor to make recommendations to Council to set the 2012/13 budget. Additional information and updates will be made to this report for Mayor & Cabinet on 22 February 2012. This will include finalising statutory requirements and comments from consultation undertaken to allow Council on 29 February 2012 to make final decisions.

20. BACKGROUND DOCUMENT AND FURTHER INFORMATION

Short Title of	Date	Location	Contact
Financial Survey 2012/15	14 September 2011 (M&C)	1 st Floor Town Hall	Selwyn Thompson
Budget Savings Proposals	16 November 2011 (M&C)	1 st Floor Town Hall	Selwyn Thompson
Setting the Council Tax Base & Discounts for Second Homes and Empty Properties	18 January 2012 (M&C)	1 st Floor Town Hall	Selwyn Thompson

For further information on this report, please contact:

Janet Senior – Executive Director for Resources and Regeneration on 020 8314 8013
 Selwyn Thompson – Group Manager, Budget Strategy 020 8314 6932

Appendices

Capital Programme

W1 – Capital Programme – Progress on Major Projects 2011/12

W2 – Proposed New Capital Projects and Resources – 2012/13 to 2016/17

W3 – Capital Programme – Major Projects 2012/13 to 2016/17

Housing Revenue Account

- X1 – HRA Savings Proposals for 2012/13
- X2 – Tenants Rent Consultation for 2012/13
- X3 – Brockley – Leasehold and Tenant Changes Consultation
- X4 – Lewisham Homes – Rent Setting Consultation
- X5 – Housing Select Committee – Comments on Consultation

General Fund

- Y1 – Budget Savings Proposals 2012/13 – Agreed in March 2011 (Summary)
- Y2 – Budget Savings Proposals 2012/13 – Additional (Summary)
- Y3 – Budget Savings Proposals 2012/13 – Additional (Detail)
- Y4 – Additional Budget Savings 2012/13 – Policy Analysis
- Y5 – Legal Implications of Additional Budget Savings Proposals 2012/13
- Y6 – Review of Fees & Charges
- Y7 – Supporting Paper for CYP 14 – Special Educational Needs
- Y8 – Supporting Paper for COM3 – Commissioning Supporting People Services
- Y9 – Supporting Paper for COM6 – High Cost Placements
- Y10 – Supporting Paper for COM7 – Day Services Reviews
- Y11 – CYP15 – Early Years Childhood Centres
- Y12 – Select Committee comments on the Budget Savings Proposals 2012/13
- Y13 – Ready Reckoner for Council Tax 2012/13
- Y14 – Local Government Resources Review Consultation

Treasury Management

- Z1 – Prudential Indicators and Authorised Limits
- Z2 – Minimum Revenue Provision (MRP) Policy
- Z3 – Sovereign Credit Ratings
- Z4 – Specified and Non-Specified Investments
- Z5 – Counterparty Lists