KEY DECISION*

Lewisham

Council

Report title: 2022/23 Budget Report

Date: 02 March 2022

Key decision: No

Class: Part 1

Ward(s) affected: All

Contributors: Executive Director for Corporate Resources

Outline and recommendations

The purpose of this report is to set out the overall financial position of the Council in relation to 2021/22 and to set the Budget for 2022/23. It also sets the Capital Programme for the next three years and the Council's Treasury Strategy for 2022/23.

The report provides summary information on the revenue budget reduction proposals that were presented at Mayor & Cabinet on the 2 February 2022. The approval and successful delivery of these measures is required in order to help balance the budget for 2022/23 and prepare to address the budget requirement for 2023/24.

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

Timeline of engagement and decision-making

Budget reduction proposals totalling £10.4m were approved by Mayor and Cabinet on the 9 December 2020 and the 3 February 2021.

The Council Tax Base was approved by Council on the 19 January 2022.

Budget reduction proposals totalling £1.4m were approved by Mayor and Cabinet on the 2 February 2022.

2022/23 Housing Revenue Account Budget Report approved by Mayor and Cabinet 12 January 2022.

Treasury Management Strategy 2022/23 approved by Mayor and Cabinet on the 2 February 2022.

Capital Programme Budget Report approved by Mayor and Cabinet on the 2 February 2022.

The 2022/23 Budget Report approved by Mayor and Cabinet on the 9 February 2022.

1. Summary

1.1 This report sets out the context and range of budget assumptions that Council is required to agree to enable it to set a balanced budget for 2022/23. These include the following:

1.2 General Fund

- In respect of the General Fund, the assumed net revenue expenditure budget is £248.610m. This is made up of provisional Settlement Funding from government (revenue support grant and business rates), forecast Council Tax receipts including an increase in Council Tax of 2.99%, an estimated deficit in the Collection Fund from a reduction in the eligible Council Tax base and lower collection rates (both due to the impacts of Covid-19), and similar deficits in business rates collection offset by including specific S31 grants provided such as the Tax Income Guarantee grant and Business Rates relief grants with the detail set out in section 6.
- The changes to the prior year General Fund position to meet the 2022/23 net revenue budget of £248.610m are proposed on the basis of the following assumptions:
  - £11.835m of revenue budget reductions have been agreed for 2022/23, of which £10.410m were agreed in 2020/21 and £1.425m agreed 2 February 2022;
  - £1.950m of uplift in the Social Care Grant and £0.923m Market Sustainability and Fair Cost of Care Fund;
  - An assumed 2.99% increase in Band D Council Tax for Lewisham's services for 2022/23; including the 1.99% increase in the core Council Tax as announced in the provisional Local Government Finance Settlement and 1% increase for the Social Care precept;
  - £6.500m of corporate budget for risks and pressures in 2022/23;
  - £2.710m of pay inflation, £2.735m on non-pay inflation and £1.300m of increased National Insurance contributions costs;

1.3 Grants

- In addition to the Public Health grant, the Council will continue to receive the other main grants - New Homes Bonus (£1.011m), share of the Better Care Fund (est. £9m), improved Better Care Fund including winter pressures (£14.941m), and Social Care Grant (£14.622m) as part of the one year settlement for 2022/23. In respect of the £3.852m of additional Social Care Grant for 2022/23, it is proposed this is put towards the recognised risks and pressures for 2022/23 in Adult and Children Social Care, with £1.950m built into base budget and £1.899m funding held for once off pressures. The Lower Tier Service Grant of £0.818m has also been continued, unexpectedly, for 2022/23.
- The new Services Grant of £6.560m will be used to fund once off pressures and will not form part of the base budget as government has stated that this will be once off funding and not be considered when setting any future funding arrangements.
- The new Market Sustainability and Fair Cost of Fund Grant of £0.923m is proposed to be put towards the recognised risks and pressures in Adult Social Care arising from recent reforms announced in 2021.

1.4 External Audit

- The Public Sector Audit Appointments (PSAA) subsidiary of the Local Government Association (LGA) is now undertaking a procurement for the next appointing period, covering financial statement and value for money audits for 2023/24 to 2027/28. It is proposed Lewisham join this procurement with a decision to 'opt-in' by 11 March 2022 and local audit regulations require this to be a decision of Full Council.

1.5 Dedicated Schools Grant, Pupil Premium and grant to support Social Care Levy uplift

- Schools Funding - The provisional 2022/23 Dedicated Schools Grant (DSG) allocation is £316.49m. This is a net increase of £3.222m on the 2021/22 budget, but includes a variety of changes in the separate sub-blocks of funding.
- Special Needs Funding - Net increase in High Needs Block of £5.54m for 2022/23 following additional funding from government, but that this remains under extreme pressure and a circa £0.7m transfer from the DSG was approved by Schools Forum on the 20 January 2022.
- Early Years Funding – positive settlement for Early Years (EY) including increases of 17p per hour for 3 and 4 year olds (3%), 21p per hours for 2 year olds (3%), and EY pupil premium of 7p per hour (13%).
- Central Schools Services Block – this funding is for services that support schools including admission. The overall reduction is £0.56m, which is £60k greater than anticipated reflecting movement in pupil numbers.
- Pupil Premium - funding rates will remain the same as at present and the final allocation will be advised in summer 2022. For reference, the allocation for 2021/22 was £13.066m.
- Social Care Levy Support Grant - in addition to the funding noted above, for 2022/23 the Department for Education (DfE) has agreed a new grant to support schools towards the 1.25% National Insurance uplift. Overall funding is expected to be approximately £8.8m

1.6 Housing

- A proposed rent increase of 4.1% (an average of £4.07 per week) in respect of dwelling rents, 4.1% (average £3.27 per week) in respect of hostels, and a range of other proposed changes to service charges. The proposed annual expenditure for the Housing Revenue Account is £304.0m, including the capital and new build programme, for 2022/23;

1.7 Treasury

- The report updates the Council's Treasury Management Strategy for both borrowing and investments. The proposed approach and levels of risk the Council takes in its Treasury functions remain prudent in line with last year, and officers continue to explore alternative investment options and further opportunities to undertake debt restructuring in order to reduce balance sheet risk and best fund the capital plans set out.

1.8 Capital

- The proposed Capital Programme (General Fund and Housing Revenue Account) budget for 2022/23 to 2024/25 is £600.4m; split £59.1m (10%) for the General Fund and £541.3m (90%) for the Housing Revenue Account. Of this programme, £244.8m is for 2022/23 with £35.2m on the General Fund and £209.6m on the Housing Revenue Account.

2. Recommendations

2.1 It is recommended that Council approves the recommendations shown below in respect of the 2022/23 Budget;

2.2 That, having considered the views of those consulted on the budget, and subject to proper process, as required, Council:

General Fund Revenue Budget

2.3 note the projected overall variance of £2.9m (or 1.2%) against the agreed 2021/22 revenue budget of £243.100m as set out in section 6 of this report and that any year-end overspend will be met from corporate provisions and reserves;

2.4 endorse the budget reduction measures of £11.835m as per the Mayor and Cabinet meeting of the 2 February 2022, as set out in section 6 of the report and summarised in Appendix Y1 and Y2;

2.5 agree the allocation of £6.500m in 2022/23 be set aside for corporate risks and pressures;

2.6 agree the allocation of £21.329m of resources from the corporate risks and pressures, social care precept, new homes bonus, social care grant, lower tier grant, market sustainability and Fair cost of care grant, services grant and legacy s31 monies in 2022/23 to be invested in funding quantified budget pressures and opportunities, both recurring and once-off and that within this £1.877m is held in corporate provisions for the Executive Director for Corporate Resources to apply as necessary to the identified but as yet unquantified risks as set out in section 6;

2.7 agree a General Fund Budget Requirement of £248.610m for 2022/23 be approved;

2.8 agree to a 2.99% increase in Lewisham's Council Tax element. This will result in a Band D equivalent Council Tax level of £1,421.22 for Lewisham's services and £1,816.81 overall. This represents an overall increase in Council Tax for 2022/23 of 4.2% and is subject to the GLA precept for 2022/23 being increased by £31.93 (i.e. 8.78%) from £363.66 to £395.59, in line with the GLA's budget proposals;

2.9 note the Council Tax Ready Reckoner, which for illustrative purposes sets out the Band D equivalent Council Tax at various levels of increase. This is explained in section 6 of the report and is set out in more detail in Appendix Y4;

2.10 consider the Section 25 Statement from the Chief Finance Officer. This is attached at Appendix Y5;

2.11 agree the draft statutory calculations for 2022/23 as set out at Appendix Y6;

2.12 note the prospects for the revenue budget for 2022/23 and future years as set out in section 6;

Other Grants (within the General Fund)

2.13 note the adjustments to and impact of various specific grants for 2022/23 on the General Fund as set out in section 7 of this report;

External Audit

2.14 accept the Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors for five financial years from 1 April 2023.

Dedicated Schools Grant and Pupil Premium

Schools Block

2.15 note that the provisional Dedicated Schools Grant allocation of £221.069m be the Schools' Budget (Schools Block) for 2022/23 covering both maintained schools and academies;

2.16 agree (as recommended by Schools Forum) the once-off transfer of circa £0.7m of Dedicated Schools Grant to the High Needs Block;

2.17 agree (as recommended by Schools Forum) the once-off transfer of £0.15m to fund the shortfall in the School Improvement and Brokerage Grant;

Central Schools Services Block (CSSB)

2.18 note the construct and allocation of £3.693m for the CSSB block allocation for 2022/23, significantly reduced from the £4.261m 2021/22 allocation;

High Needs Block (HNB)

2.19 note the provisional HNB £67.608m to support the Council's statutory duty with regards Special Education Needs (SEN). This is a net increase of £5.54m relative to 2021/22, The HNB will be finalised in March for deductions arising for institutions funded by the Education and Skills Funding Agency (ESFA);

Early Years Block (EYB)

2.20 note the provisional Dedicated Schools Grant allocation of £24.12m to the block; and that the Department for Education has increased funding for "3 and 4 year old" from £5.76 to £5.93 (i.e. 17p per hour), and hourly rate for 2 year olds increase from £6.66 to £6.87, an 3% increase (i.e. 21p per hour) for 2022/23.

Pupil Premium

2.21 note that the pupil premium will continue in the 2022/23 financial year. The funding rates in the year will be same as 2021/22 and the funding is based on data over a six year census period. It is expected that the DfE will provide updated final allocations in summer 2022;

Social Care Levy Grant

2.22 note the new grant to support the increased costs of the 1.25% increase in schools National Insurance contributions of £8.8m.

Housing Revenue Account

2.23 note the consultation report on service charges to tenants' and leaseholders in the Brockley area, presented to area panel members on 10th November 2021, as attached at Appendix X3;

2.24 note the consultation report on service charges to tenants' and leaseholders and the Lewisham Homes budget strategy presented to area panel members on 24th November 2021 as attached at Appendix X4;

2.25 agree to set an increase in dwelling rents of 4.1% (an average of £4.07 per week) – as per the formula rent calculations outlined in section 9 of this report;

2.26 agree to set an increase in the hostels accommodation charge by 4.1% (or £3.27 per week), in accordance with formula rent calculations;

2.27 approve the following average weekly increases/decreases for dwellings for:

2.27.1 service charges to non-Lewisham Homes managed dwellings (Brockley) to ensure full cost recovery and 5.90% inflationary uplift for 2022/23;

• caretaking	5.90%	(£0.29)
• grounds	5.90%	(£0.13)
• communal lighting	5.90%	(£0.08)
• bulk waste collection	5.90%	(£0.09)
• window cleaning	5.90%	(£0.01)
• tenants' levy	0.00%	(£0.00)

2.27.2 service charges to Lewisham Homes managed dwellings:

• caretaking	4.00%	(£0.27)
• grounds	4.00%	(£0.09)
• window cleaning	8.00%	(£0.01)
• communal lighting	20.00%	(£0.21)
• block pest control	15.00%	(£0.27)
• waste collection	0.00%	(£0.00)
• heating & hot water	10.00%	(£1.05)
• tenants' levy	0.00%	(£0.00)
• bulk waste disposal	4.00%	(£0.03)
• sheltered housing	0.00%	(£0.00)

2.27.3 approve the following average weekly percentage changes for hostels and shared temporary units for;

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

2.27.4 approve an increase in garage rents by 4.9% (£0.77 per week) for Brockley and Lewisham Homes residents as outlined in Appendix X6;

2.27.5 note that the budgeted expenditure for the Housing Revenue Account (HRA) for 2022/23 is £304.0m, split £94.4m revenue and £209.6m capital, which includes the decent homes and new build programmes;

2.27.6 agree the HRA budget strategy savings proposals in order to achieve a balanced budget in 2022/23, as attached at Appendix X1;

Treasury Management Strategy

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

2.29 approve the Annual Investment Strategy and Creditworthiness Policy, set out in further detail at Appendix Z2;

2.30 approve the Investment Strategy as set out in section 10 of this report;

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

2.32 agree to delegate to the Executive Director of Corporate Resources authority during 2022/23 to make amendments to borrowing and investment limits provided they are consistent with the strategy and there is no change to the Council's authorised limit for borrowing;

2.33 approve the overall credit and counterparty risk management criteria, as set out at Appendix Z2, the proposed countries for investment at Appendix Z3, and that it formally delegates responsibility for managing transactions with those institutions which meet the criteria to the Executive Director for Corporate Resources;

2.34 approve a minimum sovereign rating of AA- for non-UK investments;

Capital Programme

2.35 note the capital programme position and approve the 2022/23 to 2024/25 Capital Programme of £600.4m as set out in section 11 of this report and Appendix W1.

3. Policy Context

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

<u>Corporate Priorities</u>

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

<u>Values</u>

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

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

Future Lewisham

3.3 As the Council seeks to support the borough and its businesses and residents through the COVID-19 pandemic and beyond, this recovery is based on the four key themes of Future Lewisham, these are:

- A Greener Lewisham;
- A healthy and well future;
- An economically sound future; and
- A future we all have a part in.

3.4 The setting of a balanced budget for 2022/23 directly supports the theme of an economically sound future for the borough and its residents.

3.5 As noted in the 2021/22 budget, the Council's strong and resilient framework for prioritising action has served the organisation well in the face of austerity and on-going cuts to local government spending. This continues to mean, that even in the face of the most daunting financial challenges facing the Council and its partners, we continue to work alongside our communities to achieve more than we could by simply working alone.

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

3.7 It remains clear that the Council cannot do all that it once did, nor meet all those expectations that might once have been met, for we are in a very different financial position than just a decade ago. Severe financial constraints have been imposed on Council services with budget reductions to be made year on year on year, and this on-going pressure is addressed in this report, incorporating further budget reduction proposals for 2022/23 and noting the continued outlook for austerity to at least 2024/25. This is pending the outcome of the Fair Funding Review (FFR) and Business Rates Retention (BRR) consultations now expected to be announced in 2022/23 at the earliest.

3.8 The impact of COVID-19 has been significant in terms of additional costs and lost income. At the end of November 2021 the impact for this year was estimated at £23.6m. To date, the committed government support covers the full impact, however this may be insufficient as new variants of concern emerge and if further restriction measures are brought in before the end of year with the position continuing to change. The collection fund continues to be impacted as well with a gap of £12m built into assumptions for future years.

3.9 At the same time, as set out at section 6 of the report, the use of resources to address risks and pressures through positive investments is an opportunity. These investments are also supported via the capital programme at section 11. This spending deals with existing pressures and supports the Council in refocusing and changing services where new opportunities and expectations for how the Council can better deliver them to support the community are identified. Being forward looking will support Lewisham's recovery from the Covid-19 pandemic and help the Borough thrive again.

3.10 Infection rates continue to remain high (in our borough, across London and the UK as a whole) and we are again ensuring that those critical services can continue to be delivered with minimal interruption, whilst accepting that non-critical service delivery may be impacted. We continue to face the challenge of needing to simultaneously respond to the pandemic, continue to implement the Future Lewisham plan for the long-term recovery of the borough, set a balanced budget for next year, and set the financial basis for the internal recovery of the Council in the coming years.

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

4.1 The 2022/23 Budget Report is structured as follows:

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

Section 22 Appendices

5. Background

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

National Context

5.2 The economic recession triggered by the pandemic in 2020 continued into 2021 and the Omicron variant caused a further economic slump. In December 2021 the Bank of England figures confirmed a rate rise to 0.25% from 0.10%, quantitative easing totalling £895bn, and inflation at 4.6%*.

5.3 There was unprecedented pressures on global supply chains, created by the pandemic and subsequent series of lockdowns and restrictions which varied in their timing and severity from country to country. This has resulted in geographical shifts in supply and demand which has made known trends of driver and other skills shortages even more apparent than before the pandemic. For the UK, the economic and business environment has become more challenging with regards to supply chain pressures due to Brexit, and the increase of cross-border checks and red tape for companies and their employees.

5.4 Similarly to the previous financial year, the government has continued to borrow to meet the costs of supporting businesses and individuals through the pandemic. As at November 2021, the office of budget responsibility forecasts were for £136bn for borrowing in this financial year, but this was before new restrictions were imposed for December and January.

5.5 The government has used these funds to continue to support the economy. The furlough scheme was extended until 30 September 2021, along with various grant schemes for businesses to help combat losses that may be felt due to loss of income and potential closures as a result of lockdown or restrictions.

5.6 Despite this, compared to 2020 the economy has improved in 2021. In December 2021, it was reported that there are now over 315,000 more people in employment than at the start of the year. The UK economy surpassed its pre-pandemic level of gross domestic product (GDP) in November 2021, for the first time since February 2020, due mainly to a jump in hospitality bookings and a turnaround in construction output. That being said, the impact of variants of coronavirus, for example Omicron, could restrict this growth and exacerbate worker shortages across critical sectors that the UK economy is reliant upon to support its economic recovery.

5.7 The national recovery plan for how the public finances will be stabilised and debt repaid was set out in the Chancellor's 2021 three year Comprehensive Spending Review. However, the detail of how this will change how local government is financed in the future remains unclear as the planned funding changes have been deferred until at least 2022/23. This uncertainty makes it very difficult for the Council to plan effectively for the medium term.

*December figures announced on 19th January, 4.6% was November figures published in December.

Local Government

5.8 The provisional Local Government Finance Settlement was announced on 16 December 2021, with the final settlement provided on 7 February 2022. This is another one year only settlement pending the fair funding review, business rates reset and other local government finance changes pushed back again until at least 2022/23.

5.9 The settlement has provided a potential increase of 6.9% in council core spending power in cash terms nationally and 6.7% across London boroughs. This increase is estimated (subject to inflation) to be under 4.0% in real terms, after including the new government grants, to support vital local services. All existing funding streams will continue with two new funding streams announced being the Market Sustainability and Fair Cost of Care Fund and the Services Grant. The government expects these will support councils to meet the extra cost and demand-led pressures to keep providing services at pre-pandemic levels. This despite continuing widespread concern from the Local Government Association and others that there remains a significant funding gap for the sector to meet all its statutory service requirement, for social care in particular.

5.10 In 2021, the Government launched the “Levelling Up Fund” along with rebranding the Ministry of Housing, Communities and Local Government (MHCLG) to the Department for Levelling Up, Housing and Communities (DLUHC). The view behind “levelling up” is to invest in towns, cities, rural and coastal areas along with giving those areas more control of how investment is made. A single levelling up plan should also draw together the government’s existing programmes for infrastructure spending, skills, devolution, a net zero strategy and industrial strategy. It is expected that this will see money flow out of London and into the counties.

5.11 Along with the settlement announcement, the Government confirmed the continuation and an increase of 1% to the Social Care (SC) precept on Council Tax in 2022/23, created to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on Adult Social Care. In 2021/22, the Council applied a SC precept of 3%. In 2022/23, the Council is permitted to apply a maximum precept of 1% which will generate an extra £1.227m of revenue for Adult Social Care.

5.12 The Government also announced that the limit by which Councils can increase their core Council Tax (inclusive of levies) without a referendum, remains at the maximum level of 2%. This is will generate approximately £2.4m of revenue for the Council.

5.13 The Government decided not to continue with the 75% Business Rates Pilot Pools, including the London pool for 2020/21. London Government through decisions made collectively by the London Councils Leaders Committee and the London Mayor agreed to extend its business rates retention pool in 2020/21 covering the GLA and the 33 London billing authorities. However, with the current uncertainties in the business rates base across London and without any ‘no detriment’ guarantees from government, London confirmed that it would stop the pooling arrangement for 2021/22. Given the national Covid impact on both income levels and collection rates it would be impractical to re-instate pooling under the previous guise and the Leaders Committee agreed in September 2021 not to reconstitute the pan-London business rates pool for 2022/23.

5.14 With 2022/23 effectively being another roll forward year with some additional grants, the Government has deferred the fundamental review of the way local government is financed until at least 2022/23 financial year, but potentially later. The fair funding review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence and not indices from 2013/14. Sitting alongside this is a review of the Business Rates retention arrangements, which aims to reform the elements of the business rates retention system in England.

5.15 While this position is confirmed for one year only, officer’s medium term assumptions are that this recognises this higher funding baseline, including the housing, health, social care and market sustainability grants, as the starting point for the fair funding review, but excluding the new services grant. Nonetheless, due to the uncertainty surrounding the public finances overall, levelling up and the local government fair funding review in particular, combined with the expectation that there still remains significant pressure in future years on the Council's limited resources to meet the growing demands of the people it serves; the Council fully expects to have to continue to seek further savings for future year's budgets. The use of reserves will need to be considered in 2022/23 to meet any additional cost of recovery from Covid-19 not funded by government and for 2023/24 if sufficient measures are not found to set a balanced budget each year.

5.16 Last year the Council was able to set its budget without needing to use reserves. This year again, the Council has identified the £11.835m of savings necessary to set a balanced budget, being £10.410m identified in setting the budget for 2021/22 and the further £1.435m identified and brought before Mayor and Cabinet on the 2 February 2022. These budget reduction measures were identified using a thematic approach sponsored by Members and led by the Executive Management Team. Assuming the measures proposed and the 2022/23 budget as set out in this report are agreed, the Council can set a balanced budget for the next financial year without using its reserves.

Covid-19 and the Council

5.17 Over the past twenty-one months, the day to day lives of Lewisham's residents and the Council's business, have been turned on its head. In March 2020, Council activity simultaneously ground to a halt and ramped up in equal measure. With "non-critical" services wound down almost overnight and a new, urgent focus on "critical services", the Council's leadership team, members, and vast range of services faced new demands, challenges, pressures and opportunities.

5.18 The pace, scope and scale of change has been immense: the pandemic has demanded agility, creativity, pace, leadership, organisational and personal resilience, strong communications and an unerring focus on the right priorities. Within the Council, the impact of the COVID-19 pandemic is felt acutely across all of our service areas and we are grappling with real challenges in how we keep services running for our residents and how we protect the most vulnerable. Across the borough, residents are looking afresh at our borough, their neighbourhoods, and seeing where they live through new eyes.

5.19 While we do not yet fully understand what all of the long-term implications of COVID-19 will mean for the borough, there have been many clear and visible impacts of the pandemic on our residents, Lewisham the place, and also the Council. We know that coronavirus has disproportionately affected certain population groups in Lewisham, matching patterns that have been identified nationally and internationally: older residents, residents born in the Americas & the Caribbean, Africa or the Middle East & Asia, and residents in the most deprived areas of the borough have considerably higher death rates. We know that more Lewisham residents are claiming unemployment benefits than in previous years and that food insecurity has increased in the borough.

5.20 The Council's finances have also been severely affected by the ongoing pandemic. The direct cost of coronavirus for Lewisham was £38m in 2020/21, is currently estimated to be £23.6m this year, which will most likely exhaust the current government funds provided. Furthermore, there is forecast to be long-term demand increases, also termed 'Covid scarring' for which government has not provided funding for 2022/23. The impact of diverting resources into the continued efforts against the impact of the pandemic has meant that there have been delays in the delivery of the previously agreed budget reduction measures for 2021/22 and hence an in year overspend of £2.9m is forecast. Officers have taken management action to make in-year savings to reduce the business as usual overspend or else this may need to be funded from reserves at year end, reducing our ability to manage further budget shocks in 2022/23.

5.21 Alongside managing the impact of the pandemic on services, and re-focusing resources to best deliver government support schemes for health, residents and businesses, the Council had started implementing its recovery plan of Future Lewisham (see further detail below). However, with the rise of new variants such as Delta and now Omicron, coupled with winter pressures, the Council is once again facing significantly increased demand and reassessing non critical service delivery to ensure that those most critical services continue to be delivered to our most vulnerable residents. This will likely cause delay to the Council's post Covid recovery plans.

5.22 Lewisham's recovery from coronavirus will be underpinned by the following anchoring principles which will continue to be at the heart of all decision-making, planning and action over the coming months:

- Tackling widening social, economic and health inequalities;
- Protecting and empowering our most vulnerable residents;
- Ensuring the Council's continued resilience, stability and sustainability;
- Enabling residents to make the most of Lewisham the place; and
- Collaborating and working together with our communities and partnership across the borough.

5.23 Recovery will mirror the Council's successful response structure, with two perspectives: internal (the Council's recovery) and external (the Borough's recovery).

5.24 The Council's internal recovery is to be driven by the lessons learned from responding to COVID-19, the known and emerging impacts on our communities and the need to deliver transformation at the scale needed to meet the current financial challenge. The 2021/22 budget-setting process was the first step in an internal transformation programme to deliver cuts as set out on the Medium Term Financial Strategy (MTFS).

5.25 Officers will be applying a programme management approach to deliver the strategic budget proposals as set out in this report and the preceeding budget reduction report considered by Mayor and Cabinet on 2 February. Officers will be supported to ensure that the proposals identified are realistic and taken through the new Programme Management Office (PMO) assurance and governance processes, giving rigour to the structure and delivery of the individual projects including the important financial, legal, equalities and other implications.

5.26 This internal recovery approach is inherently linked to the 'external' recovery of the borough, the recovery of Lewisham the place. For Lewisham, a post-pandemic future should bring opportunities and it is vital our communities are able to make the most of what's on their doorstep. We look ahead to a huge opportunity to recover positively in partnership with our communities and partners and neighbours, to support community development and resilience, to nurture and develop Lewisham's vibrant cultural scene using the platform of Borough of Culture, to promote a sustainable and thriving local economy, to tackle health inequalities, to achieve a fairer zero-carbon future, and to support our borough's children and young people maximise their potential. The borough's long-term recovery, 'Future Lewisham' has been set out by the Mayor and is based on four key themes:

- A Greener Lewisham;
- A healthy and well future;
- An economically sound future; and
- A future we all have a part in.

Borough of Culture

5.27 Lewisham was named the Mayor of London's Borough of Culture for 2022. London boroughs submit bids to receive more than £1m funding to deliver a programme of ambitious cultural activities celebrating the unique character of local people and places, and to develop a plan to make culture an integral part of the borough's future.

5.28 Called We Are Lewisham, the programme is a call to action for a more equal future that celebrates the borough's history of activism, its modern-day trailblazers and diverse communities. Jointly led by Lewisham Council and the Albany, We Are Lewisham will bring together all of the borough's neighbourhoods, communities and stories.

5.29 Developed in collaboration with local residents, artists, community groups, the programme will celebrate Lewisham's rich history of cultural activism through music, dance, public art and more, putting culture on every corner, highlighting that art is everywhere, from venues to parks and street corners, with hundreds of thousands of people participating across the year.

5.30 The We Are Lewisham programme draws on the borough's rich history of activism, to bring communities together and inspire positive change. With a call to action on the climate emergency and a celebration of our diverse communities, We Are Lewisham will put critical issues at its heart, amplifying trailblazing voices past and present and inspiring positive change by bringing together our neighbourhoods, communities and stories.

5.31 The three key themes of protection, diversity and inclusivity are interwoven in every event and activity that will take place across the year.

- We will protect this place we love: A call to action on the climate emergency
- We are strengthened by our diversity: A celebration of our Borough of Sanctuary
- We will be happy here: Working together to build an inclusive society

5.32 Throughout the year we'll be making sure that we create a lasting legacy and that our residents, creatives, businesses and local organisations benefit as much from our time as London Borough of Culture as possible. From training and employment opportunities, to funding for local projects and the chance to learn and experience something new.

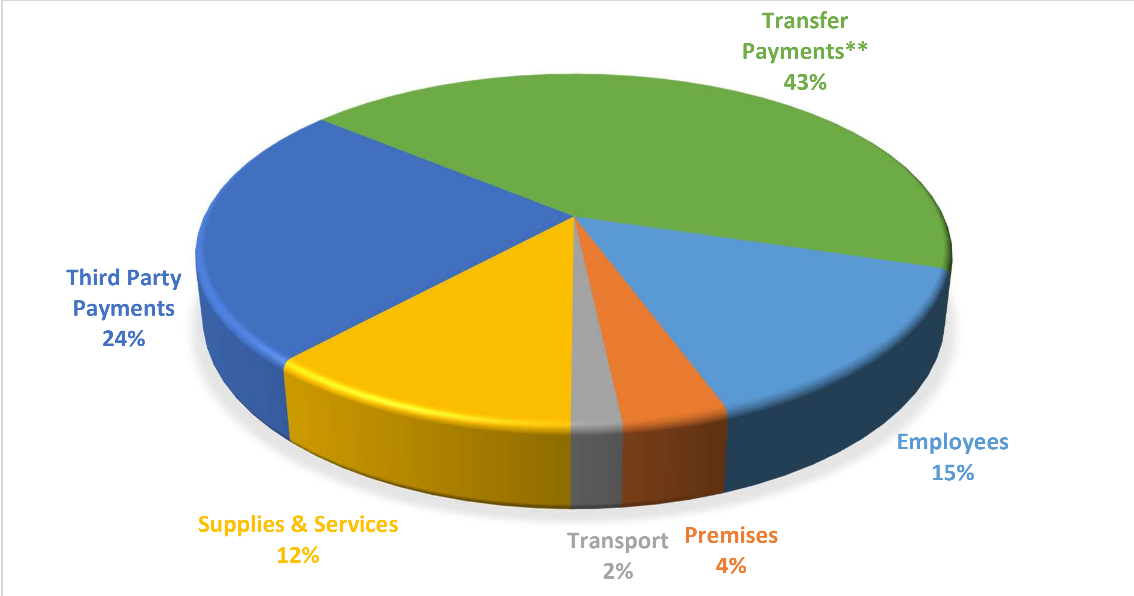
5.33 The year will put Lewisham on the map as a creative destination, re-energising our local economy and assisting with Covid recovery, with increased foot traffic to local businesses. This year will create jobs from project management and event staff to Kickstarter roles for young people. We plan to have over 5000 hours of paid employment for young people at London Living Wage in Lewisham as part of our year as London Borough of Culture.

5.34 The Council was awarded £1.35m funding from the Mayor of London to deliver the programme and has committed a further £0.500m of funding to support this alongside and ambitious fundraising target to ensure that the borough can deliver on the ambition of We Are Lewisham.

Budget context

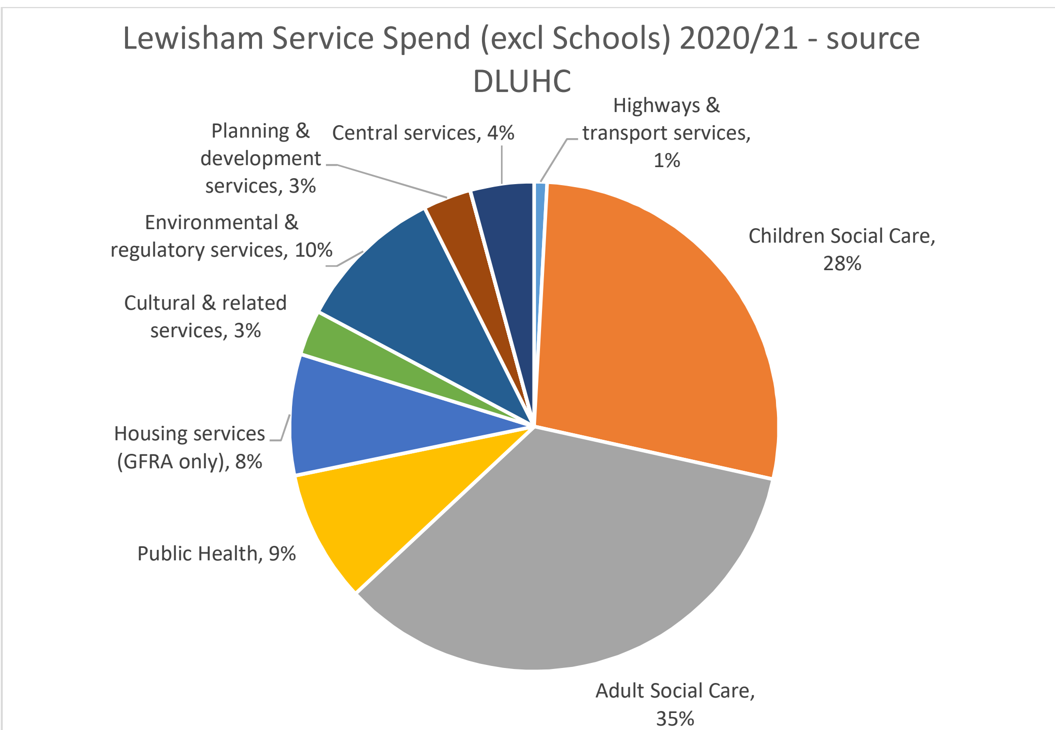
5.35 The Council spends over £1.2bn annually on services for residents. Using the Chartered Institute of Public Finance (CIPFA) categories, this splits is as follows:

<u>2021/22 Gross Expenditure of £1.2bn</u>



***83% of the transfer payments represent grants, e.g. Housing benefits being transferred to claimants and DSG being transferred to schools.*

5.36 In respect of the £294m services element of this annual spend, this is the gross spend built from the £243m general fund budget and income from grants, fees and charges, the money is directed as follows:



5.37 The Council serves an estimated population of 306,000 people who live in 130,400 households. Residents of Lewisham are diverse, with people of more than 70 nationalities speaking over 170 languages. The number of residents is also growing; over 12% since the last census in 2011 and growth is forecast to continue with the population rising by 61,000 to 372,000 (or 20%) by 2050. These numbers will be reassessed once the results of the 2021 census are available.

5.38 The Council works hard to be available for residents when they need it. Through the Customer Services access point, the Council responds to over 500,000 items of correspondence and receives over 18,000 visits a year. In addition, through the registry office, the Council processes over 7,500 births, deaths and marriages. While these activities moved on-line for 2020/21 due to the Covid-19 pandemic, and many remain on-line where feasible, the Council has continued to support residents with these core services while also handling a significant rise in other customer services needs for businesses and residents in these challenging times.

5.39 In addition to supporting a diverse and growing population, the budget contributes to the Council's commitment to extend local democracy. With the Covid-19 pandemic the Council is jointly sponsoring research with the University of Birmingham into the impact on BAME communities alongside wider socio-economic factors. While the resettlement of refugees was paused due to the pandemic in 2020/21, in line with the corporate strategy Lewisham has resumed this work and continues to welcome more of those seeking asylum in the UK, including the introduction from 2022/23 of a new 25% 'sanctuary' discount for Council Tax to ensure residents eligible for a single person discount are not financially worse off as a result of housing a refugee.

5.40 The budget supports a wide range of age groups across more than 600 individual services.

5.41 For young people, the schools' budget provides for 75 maintained schools from nursery level through to secondary. With 76% of children achieving a good level of development at early years.

5.42 Our Strategic Housing service benefits a large number of residents. The work done with partners to deliver Social Housing and Temporary Accommodation helps provide for the accommodation needs of a quarter of our households with 72,100 households in various forms of social housing and temporary accommodation. The numbers in temporary accommodation has been supplemented in 2021/22 through the pandemic to ensure everyone on the street was offered a place to stay.

5.43 The Borough has over 10,000 businesses registered and, in line with our corporate priority to assist with access to high-quality job opportunities, the budget funds adult education and apprenticeships. During 2020/21 and 2021/22 over £76m of grants have been administered by the Council and passed to businesses along with a further £58m of business rates relief. At the same time the Council established a Business Taskforce with Member, partner, and senior officer representation to lead on improving and planning for economic recovery and employment as the Borough recovers from the Covid-19 pandemic. This includes support for kick start programmes and extending the opportunities for local apprenticeships.

5.44 The Adult Social Care service provides a range of support to vulnerable users that helps them remain active and independent: 2,350 (or 8%) of those over 65 and 1,265 (or 1%) of the 18-64 population received a service from Lewisham in 2019/20. As well as physical care needs, these services provide support to those with mental health or disability needs. The work of these services has been under particular scrutiny with the Covid-19 pandemic and the Council has worked closely with the NHS to help manage pressures in the system (in particular hospital discharges), as well as working with care providers in the Borough to support the safety of patients and workers, provision of protective equipment, guidance on infection control, and financially where needed to ensure the stability of the market. The new Social Care reforms will impact how we deliver services to residents and the provisional Local Government Settlement includes some funding towards the implementation of this in 2022/23, although more will be required in future years as the full impact of the change in legislation is understood and quantified.

5.45 The budget also maintains key universal services such as libraries; arts and entertainment centres and sports and recreation facilities. For much of 2020/21 these services were closed or reduced due to the pandemic with staff redeployed to support the critical services response. However, these services are by and large operating as normal in 2021/22 (albeit with changes for social distancing and increased infection control measures), and January 2022 saw the start of the Lewisham Borough of Culture.

5.46 Maintaining a clean and green environment is beneficial for all. The amount of waste recycled, composted or re-used is growing year on year. Each week Lewisham waste services collect 2,500 tonnes of waste from households. And thanks to the efforts of residents, the Council are currently able to keep 25% of that waste from being incinerated. These efforts have also resulted in over 18,000 tonnes of waste being recycled this year. The level of waste collected in the Borough rose in 2020/21 with lockdown and more working from home. The service responded and continued collecting without a break through the pandemic. This rise has continued in 2021/22 with levels unlikely to return to pre-pandemic levels as more people are expected to continue to work from home permanently.

5.47 The Council is also responsible for maintaining 397km of roads and 12km of footpaths. The Council also manages the parking service, including permits and enforcement. These are service areas which will play a significant part in supporting the delivery of a zero-carbon borough. Through the Covid-19 pandemic the Council has continued to support key workers by offering parking permits in response to health needs.

5.48 Residents enjoy the Borough's green spaces and the budget supports the work that the Green Scene service does to maintain the high standard of Lewisham's parks. There are 47 parks in the borough and 15 of these have the coveted 'Green Flag' rating. Our achievements in this service area have been recognised by our residents with 74% of residents who responded to the 2018 'Parks and Open Spaces survey' felt the standard of the parks in Lewisham has been maintained at a good or fair level. The Council also ranked first in the recent "Good Parks for London" group. These outdoor spaces continue to be a valued lifeline for exercise and wellbeing activities for residents through the Covid-19 pandemic.

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

- General Fund Revenue Budget for 2022/23;
- Council Tax level for 2022/23;
- Other Grants for 2022/23;
- Dedicated Schools Grant (DSG) for 2022/23;
- Housing Revenue Account (HRA) and level of rents for 2022/23;
- Treasury Management Strategy for 2022/23; and
- Capital Programme for 2021/22 to 2024/25.

6. General Fund Revenue Budget And Council Tax

6.1. This section considers the General Fund revenue budget and Council Tax. The General Fund budget for 2022/23, assuming a Council Tax increase of 2.99%, is

£248.610m. Details of the budget reduction measures approved for 2022/23 are provided at Appendices Y1 and Y2.

6.2. It is structured as follows:

- Update on 2021/22 Revenue Budget;
- The Budget Model;
- Budget Reduction Proposals;
- Council Tax for 2022/23; and
- Overall Budget Position for 2022/23.

Update on 2021/22 Revenue Budget

6.3. The Council's revenue budget for 2021/22 was agreed at Council on 3 March 2021. The general fund budget requirement was set at £243.100m.

6.4. The financial position of the council is monitored on a monthly basis by officers with support from the Finance team, these monitoring reports have been presented quarterly to Mayor and Cabinet and scrutinised by the Public Accounts Select Committee.

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

6.6. The first Quarter's financial performance was reported to Mayor and Cabinet in September 2021, this report presented a pressure of £9.3m on General Fund budgets after the application of grant funding to support the Council's response to Covid. The key driver of the reported pressure was challenges delivering the savings programme due to the Council's response to demands arising from the Covid pandemic. The Executive Management team alongside Directors and Council Officers committed to mitigating this pressure by finding alternative permanent savings where possible and where this was not possible one off mitigations have been sought.

Directorates

6.7. Table A1 sets out the latest forecast budget variances on the General Fund by Directorate, separately identifying the Covid pressures from the non Covid directorate pressures. The Council has a business as usual pressure of £2.9m after utilising £23.6m of grant funding to fund the Council's response to Covid.

Table A1: Forecast outturn for 2021/22 as at end of December 2021

General Fund	Net budget 2021/22	Forecast Outturn 2021/22	Forecast Variance 2021/22	Forecast Outturn Covid-19 related Variance 2021/22	Forecast Outturn Non Covid-19 related Variance December 2021/22
	£m	£m	£m	£m	£m
Children & Young People	58.4	66.2	7.8	4.4	3.4

General Fund	Net budget 2021/22	Forecast Outturn 2021/22	Forecast Variance 2021/22	Forecast Outturn Covid-19 related Variance 2021/22	Forecast Outturn Non Covid-19 related Variance December 2021/22
Corporate Funding Adjustment	0	-3	-3	0	-3
Community Services	81.1	95.5	14.4	11.5	2.9
Housing, Regeneration and Public Realm	21.9	26.2	4.3	4.7	-0.4
Corporate Resources	32.5	35.5	3	2.9	0.1
Chief Executives	11.2	11.2	0	0.1	-0.1
Directorate Totals	**205.1**	**231.6**	**26.5**	**23.6**	**2.9**
Covid-19 Grant Income - Applied	N/A	-23.6	-23.6	-23.6	0
Corporate Items	38.1	38.1	0	0	0
Net Revenue Budget	**243.2**	**246.1**	**2.9**	**0.0**	**2.9**

6.8. Officers are working hard to reduce the financial pressure further between now and the end of the financial year. The final position will be declared in the outturn report to Members.

Corporate Financial Provisions

6.9. Corporate Financial Provisions are budgets that are held centrally for corporate purposes and which do not form part of the controllable expenditure of the service directorates. They include Capital Expenditure charged to the Revenue Account (CERA), Treasury Management budgets such as Interest on Revenue Balances (IRB) and Debt Charges, Corporate Working Balances and various provisions for items such as early retirement and voluntary severance. Spend of the Corporate Financial Provisions is expected to be contained within budget by the year-end, with £3m of monies held corporately for service risks released against the CYP overspend in line with the previously agreed budget reduction measures to reduce the persistent overspend.

6.10. Consideration is now being given to employing the use of corporate measures to balance the budget at year end. This will be to address any shortfall in support for Covid-19 costs if this arises as well as underlying service overspending. It is proposed to meet the 2021/22 budget overspend from provisions if available and then reserves if required, with the final position declared in the outturn report to Members.

The Budget Model

6.11. This section of the report sets out the construction of the 2022/23 base budget. This section is structured as follows:

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

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

6.12. The Council has made substantial reductions to its expenditure over the last ten years. Subject to the outcome of the multi-year Comprehensive Spending Review (CSR) and the outcome of the government's fair funding review, now not expected earlier than 2022/23, the Council expects to continue to need to make further reductions for at least the next three to four years. This section of the report summarises a series of proposals that would enable the Council to set a balanced budget for 2022/23 as part of a sustainable financial strategy to 2025/26.

Council Tax

6.13. Since 2016/17, the government has allowed councils with social care responsibilities to apply a percentage increase on council tax (the Social Care precept), the funds of which are ring-fenced to Adult Social Care (ASC) services. To date, Lewisham has applied a 13% increase over the six year period. The government is once again allowing councils to apply a precept for 2022/23 of 1%. For 2022/23 this will generate £1.227m of additional income for ASC services. This report proposes that the Mayor recommends that Council approve the 1% ASC precept for 2022/23 to obtain the maximum benefit permitted.

6.14. The assumption used in the model for preparing the 2022/23 budget, subject to confirmation by Council, is for a total Council Tax increase (Lewisham element) of 2.99%. A 1% increase for the social care precept and a 1.99% increase in the core element under the revised referendum principle announced along with the provisional Finance Settlement on 16 December 2021.

6.15. Should Council choose to set a different Council Tax increase, Members will need to be mindful that any increase below this recommendation will result in additional budget pressures, resulting in greater use of resources in the short term and a higher budget reduction requirement going forward. Any increase in the core element above this recommendation would require support in a local referendum due to the limit set by the Secretary of State.

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

Inflation

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

6.18. For financial planning purposes, the Council has previously assumed an average pay inflation of 2% per annum, which equates to approximately £2.7m for 2022/23. 2020/21 is the last year of the current pay settlement via the National Joint Council (NJC) for Local Government which saw an increase of 2.75%. There has been no agreement on what the pay award for 2021/22 will be as yet. Lewisham's lowest pay band exceeds the national and London living wage amounts.

6.19. In September 2021 the Government announced a 1.25% increase in the national insurance contributions payable by employers from April 2022. This equates to approximately £1.3m for 2022/23.

6.20. The Council has budgeted for a non-pay inflation rate budget of 3% per annum to reflect the Council's commitment for contracted goods, works and services. This is lower than the forecast CPI inflation rates for 2022 of 4.6% and equates to approximately £2.7m (net) in 2022/23.

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

Budget Pressures to be funded

2021/22

6.22. In 2021/22, the funds set aside in the budget model to meet specific identified budget pressures and potential budget risks was £6.500m. This was allocated in full to identified risks and pressures.

2022/23

6.23. The MTFS for 2022/23 sets aside a further £6.500m for budget pressures and risks. To this it is recommended that £1.950m of the £3.852m of additional social care grant (on top of the £10.77m received in 2021/22 and continuing for 2022/23) be used to address current pressures. It is also recommended that the new Market Sustainability and Fair Cost of Care Fund grant of £0.923m be included, albeit held to meet new pressures emerging. These actions will provide £9.373m to be allocated to selected budget pressure and growth areas that will present as challenges in future budgets if not corrected. See section 7 below for more detail on these grants for 2022/23.

6.24. To the funding of these pressures can be added the NHB of £1.011m, lower tier baseline grant of £0.818m, the remainder of the uplift in Social Care grant of £1.899m, a modest increase of £0.44m in the Improved Better Care Fund, and the new Services Grant of £6.56m for 2022/23.

6.25. In terms of accounting for these, it is proposed that these investments and pressures are allocated in line with the decisions of this budget from the corporate risk and pressures monies and £1.227m from the Social Care precept to the relevant Directorates when determining their cash limits for 2022/23.

6.26. Using cash budgets (in particular grants such as the Social Care Grant and Sustainability and Fair Cost of Care Fund) presents a risk for future years, although the medium planning assumptions are that this level of funding for 2022/23 from government is in recognition of the pressures faced by local authorities and will effectively form the baseline pending fair funding review.

6.27. The budget pressures anticipated in 2022/23 have been reviewed and it is recommended that the following identified pressures are funded now, set against the Corporate Strategy priorities. These exclude pressures associated with services experiencing persistent overspends as these have been addressed via the budget reductions process.

6.28. Table A2 provides a summary of the corporate risk and pressures budget and those pressures and risks that are being recommended to be funded. The detail of these and the allocation between once off and ongoing funding is in Appendix Y7.

Table A2: Summary of 2022/23 budget pressures to be funded

Description	£'000	£'000
Social Care precept	1,227	1,227
Ongoing		
Risk & Pressures budget available in 2022/23	6,500	
Market Sustainability and Fair Cost of Care	923	

Description	£'000	£'000
Social care grant (additional)	1,950	9,373
<u>Once-off</u>		
New Homes Bonus	1,011	
Lower tier grant	818	
Social care grant (additional)	1,899	
Improved Better Care Grant (additional)	441	
Services Grant	6,560	10,729
Total Resources Available for Risks and Pressures in 2022/23		**21,329**
Recommended Allocations		
Corporate Strategy priorities		
Open Lewisham	-630	
Street Lighting		
Parking		
Council Events		
Tackling the Housing Crisis	-1,000	
Strategic housing		
Giving Children the best start	-2,100	
Children Social Care		
Schools and School Transport		
Adoption Services		
Building an inclusive economy	-550	
Economy and partnerships		
Street markets		
Defending health & social care	-2,623	
Changes in care needs and demand		
Market Sustainability and Fair Cost of Care		
Making Lewisham greener	-1,414	
Environment Services - waste		
Street Management		
Energy		
Building a safer community	-150	
Traffic management		
Total Corporate Strategy priorities		**-8,467**
Organisational value for money		**-2,150**
Corporate Estate		
Corporate Services		
Technology and Audit		
Exempt Housing		
Transformation investment		**-500**
IT and Digital Roadmap		**-2,500**

Description	£’000	£’000
Implementation of the findings from the Adults Social Care Review		**-5,835**
Additional service investment, transformation and contingency for budget reduction non delivery		**-1,877**
Grand Total Funded Pressures		**-21,329**

Open Lewisham – £0.630m

6.29. The commitments to this priority include additional resource to support the provision of street lighting in the borough as the inflationary increases in the PFI contract cannot be contained within existing budgets. The impact of Covid on the borough has meant that the way in which people utilise parking has changed to the extent that additional support is required to supplement this service. As 2022 is the year of Borough of Culture we will also provide increased support for Council run events.

Tackling the housing crisis – £1.000m

6.30. This is directed to an emerging pressure on the housing service budget, due to increased demand in housing services, including rough sleeping and nightly paid accommodation, not met by existing grant allocations.

Giving Children the best start - £2.100m

6.31. There is a statutory requirement to provide home to school transport for children with Educational Health & Care Plan where the plan specifies a transport service. From 2015 to 2019 the number of EHCPs in Lewisham increased by 65.5% from 1,408 to 2,344. The number of ECHPs in Lewisham now stands at 2,873, representing a further 22.5% increase since the January 2020 SEN2 census date. The service has committed to reduce the persistent overspend in this service, but it is proposed that this is part funded to enable a base budget that better reflects the increased level of need. In addition, changes to schools funding means that more provision is required under the current policy of support for maintained schools. The Government placed a requirement on all local authorities to be part of regional agreements with relation to adoption, the basis was that this widened the adoption agency area and allowed in theory for efficiencies in the process. There are increased costs within the regional agreement which cannot be met within existing budget due to increased demand. The volume of referrals to children’s social care services have increased by a forecast 43% between 2020/21 and 2021/22 with a resultant expected increase in caseload and service cost which exceeds current budget and cannot be contained without increased funding.

Building an inclusive economy - £0.550m

6.32. The long term impact of Covid on the economy and its residents and businesses has meant that it’s vital that we increase the investment in the economy and partnerships team to promote employment and support our local business base. This budget is required to enable the continuation of the service at current levels as government grants currently supporting this team are withdrawn or spent. This impact has been particularly severe on Lewisham’s street market traders, an integral part of our town centres, street scene and micro economy, a market strategy will be brought forward in 2022/23 to seek to re-instate activity to its previous levels if possible.

Defending Health & Social Care - £2.623m

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

Making Lewisham Greener - £1.414m

6.34. The risk and pressures to be invested against this priority aim to support the Council's commitment to be carbon neutral by 2030 in line with the declared climate emergency. This includes investing in the Council's waste collection services, an outcome of Covid and the various restrictions has been a structural reduction in the levels of commercial waste generated which has reduced the income that can be generated. A further Covid impact is that the classification of waste taken to civic amenities has now been changed to 'hazardous', leading to an increase in disposal costs. Finally, there is a global increase in the cost of energy (gas, electricity and water) and whilst the Council continues to reduce its energy consumption towards carbon neutrality by 2030, the above inflationary tariff increases outstrip any consumption savings and require funding.

Building a Safer Community - £0.150m

6.35. This funding for 2022/23 will be invested in road safety measures to ensure that our road network remains safe for all users and residents, and that the Council is able to enforce against those contravening highways regulations.

Organisational value for money - £2.150m

6.36. In addition to the corporate strategy the Council is a large and complex organisation. Through the decade of austerity to 2021 the Council's support services have borne a significant proportion of the budget cuts. This was recognised in the 2019/20 and 2020/21 budget round and this investment is to reverse some previously agreed cuts and enhance the resourcing for some of these services. In particular; resident services and technology – which has underpinned the Council's ability to continue to work effectively during the pandemic. In addition work as part of the capital strategy is underway to assess the level of capital investment required to sustain the Council's technology infrastructure in a secure, resilient, and optimal state. There is also the need to provide once off funding for the cost of the 2022 election. Whilst the Council has moved to home working for those staff able to do so, the consolidation of office space and the increased cleaning and maintenance regime now required exceeds the budget provision. There is also funding required to meet the pressure arising as a result of our not being subsidised for housing benefit awards made to tenants living in supported accommodation. For benefit awards, the Council only receive the amount of the independent rent service valuation plus 60% of the amount paid above the valuation so are liable for 40% of any housing benefit paid above the valuation. Work continues to try and mitigate the pressure through encouraging providers to change their status (to registered providers), seeking rent service re-valuations and monitoring the probity and integrity of new housing providers entering the scheme.

Implementation of the findings of the Adult Social Care Review - £5.835m

6.37. In 2021 a service-wide diagnostic was undertaken by Newton Europe with a view to establishing a programme to transform and modernise Adult Social Care. Phase 1 included the initial diagnostic which concluded in the summer of 2021 with Phase 2 comprising a series of work streams to transform services, empower residents and develop the capabilities of our staff. This phase will run from November 2021 until the summer 2022. As part of this service transformation between £8.6m and £11.5m of recurrent savings is anticipated to be delivered. These savings will meet the budget reductions made in 2021/22 and proposed for 2022/23, however, the delay in the timing of the budget reductions being made, and the actual savings emerging has meant that the Council will need to provide once off funding in 2022/23 to effectively smooth the budget impact in 2022/23.

Transformation investment - £0.500m

6.38. The Council's internal recovery is to be driven by the lessons learned from responding to COVID-19, the known and emerging impacts on our communities and the need to deliver transformation at the scale needed to meet the current financial challenge. This transformation will require investment and the continued (albeit reduced) availability of the New Homes Bonus to be invested to support improvement and change work.

6.39. This transformation investment is needed to improve the Council's effectiveness and efficiency going forward. This transformation will enable; a better critical mass of key services to be marshalled together, inject some capacity where it can have the most impact; and enable different approaches to be adopted to tackle key issues.

IT and Digital Roadmap - £2.500m

6.40. As discussed and presented to Audit Panel in 2021, security sits at the heart of our IT design, and in order that performance is not compromised, it is important that our IT infrastructure is kept up to date.

6.41. At the request of all three partners, the Shared Technology Service have developed a comprehensive investment plan for the next 5 years to cover all aspects of infrastructure. This plan covers of two main areas that are both business critical:

- Refresh of our existing hardware and software assets. This includes end user devices such as laptops, but also back end upgrades to the network and infrastructure.
- Continuous improvement and "hardening " of our infrastructure, to improve performance and to strengthen our security

6.42. The plan requires significant investment and due to the gradual move towards cloud based services will also require additional revenue funding.

Additional service investment, transformation and contingency for budget reduction non delivery- £1.877m

6.43. There have been a number of pressures which have been identified as likely to arise within 2022/23 but as which yet cannot be quantified and therefore should not be funded in advance of need and the impact of service mitigations is assessed.

Nonetheless, it is prudent to ensure that funding is available to meet these should they arise and once costed.

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

6.45. Officers continue to undertake work to fully assess and monitor these risks. These risks and other potential budget pressures are discussed in more detail below:

- Service Investment
- Adult Social Care and Transition;
- National / London Living Wage;
- Redundancy;
- Unwinding Covid-19 critical response and recovery;
- Unachieved budget reduction; and
- Inflation linked to National Insurance contribution increase for suppliers.

Service Investment

6.46. It may be that in addition to the broader, macro-economic pressures set out below, that specific service pressures will arise in year that cannot be contained within existing budget and will require specific and additional funding.

Adult Social Care, including Transition demands

6.47. As noted above this is an area of continuing pressure for the Council. This is expected to continue into future years. However, the impact of service configuration changes underway through the review of ASC, national policy priorities and changing legislation are not yet fully known or assessed so it is not possible to fully evaluate the risk at this time. Additional funding has been provided in 2022/23 through the Adult Social Care precept and Market Sustainability and Fair Cost of Care fund, and the continued assessment of the service costs underpins the current implementation of the outcomes of the service review undertaken in 2021 and 2022.

National / London Living Wage

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

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

Redundancy

6.50. The Council will seek to minimise the impact of cuts on services and jobs. However, a significant proportion of the Council's budget goes on staff salaries and wages, so it will not always be possible to make significant investments in service transformation and redesign to achieve budget cuts over the next four years without an impact on jobs. The cost of redundancy depends on age, seniority, and length of service of the individuals affected, and it is not possible to calculate the overall financial impact at this stage. For these reasons the risk cannot be easily quantified at this time.

Unwinding Covid-19 critical response and recovery

6.51. The Covid-19 pandemic has significantly impacted the Council's finances and continues to change service priorities to enable resources to focus on critical services. The estimates for 2021/22 are for cost implications of £23.6m. Whilst the government funding for 2021/22 is sufficient, the costs and lost income will continue in 2022/23 with no indication of funding being made available. These financial implications along with the operational challenges and opportunities to focus the recovery work in the Borough on community needs and improvements to the place are complete, will involve the whole Council, and take time. As such the risks and associated costs and investments cannot be easily quantified at this time, officers have estimated that the ongoing financial impact could be in excess of £9m per annum, without further restrictions, variants or new burdens. In setting the budget it is proposed that approximately 50% of these pressures are funded, which means that in the event that these pressures materialise in full that the Council will be forced to use provisions and reserves to meet these costs in Government funding is not forthcoming..

Unachieved Budget Reductions

6.52. The strategic governance process for monitoring the delivery of agreed budget reduction measures, overseen by EMT, will provide visibility of progress, risks, challenges and robust governance of the programme as a whole. Alongside, the PMO will be monitoring and reporting on programme-wide delivery of cuts, risks and equalities impact. Clear roles and responsibilities (between the PMO and service Directors) have been drawn up in order to ensure there are clear lines of accountability.

6.53. In the event that this approach cannot ensure the full delivery of the budget cuts and pressures arise in the year and are not able to be contained with Directorate budgets, they may become an additional call on corporate provisions and reserves until alternative cuts are agreed and implemented.

Inflation linked to National Insurance Contribution Increases

6.54. It is not yet clear to what extent third party providers will attempt and be successful in passing on the costs of the 1.25% increase in employers national insurance contributions to the Council via contracted services. Whilst funding has been provided in part for these pressures in social care and considered in the allocation of the new Services Grant, the Council's budget allocation for contract inflation attempts to mitigate CPI pressures only (and on a net basis), therefore these pressures may not be able to be contained within the proposed inflation allocations and pressures funding.

Summary of Budget Pressures and Investment

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

6.56. There are some pressures to be funded, which can be quantified within a reasonable range. These fully commit the available £6.5m allocation and additional resources received for 2022/23. Including the use of some funding to invest in change and support the transformation work necessary to redesign services and improve the Council's culture to further collaborative working.

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

2022/23 Budget Reduction Proposals

6.58. On the 2 February 2022, the Mayor and Cabinet agreed £11.835m of budget reduction proposals for 2022/23, of this £10.410m are proposals which were considered as part of the 2021/22 budget setting exercise and a further £1.425m of proposals which were identified in 2021. A summary of these cuts is attached as Appendix Y1 and Y2 to this report.

6.59. These budget reduction measures have been included in the 2022/23 budget calculation. They must be achieved in order to maintain a balanced budget and manage the persistent overspend. The delivery of these cuts will be monitored, any shortfall will have to be covered, in the short term pending services offering alternative proposals, through the use of reserves.

6.60. No estimates for Settlement Funding Assessment (SFA) in 2023/24 have been provided by the Government. 2022/23 is effectively a roll forward year for the SFA, and the outcome of the fair funding review is expected later on in 2022. The prospects for future funding remain uncertain.

2022/23 Council Tax

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

Collection Fund

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

6.63. The statutory calculation was carried out for the 15 January (date prescribed by the relevant statutory instrument). This calculation showed there is an estimated deficit on the Collection Fund in respect of Council Tax, for the years to 2021/22 of £3,011,226. This reflects the ongoing work of the Public Services team to carefully collect all monies owing to the Council but also the impact of Covid-19 to collection and rise in those eligible for the Council Tax Reduction scheme.

6.64. This deficit is shared with the precepting authority, the Greater London Authority (GLA), in proportion to relative shares of budgeted Council Tax income in the current financial year. This means that £2,407,320 of the total deficit has to be included in the calculation of Lewisham's budget as the additional Council Tax owed and collected in year. The remaining balance of £603,906 is allocated to the GLA.

Council Tax Reduction Scheme

6.65. Members should note that the Council agreed on the 19 January 2022 that no changes are to be made to the Council Tax Reduction Scheme (CTRS) for 2022/23 and that the Council should continue to pass on the government cuts in funding to working age claimants. Members agreed that the fixed percentage reduction in liability for the working age claimants of the scheme should remain at 25% for 2022/23. This means that everyone of working-age has to continue to pay a minimum of 25% of their council tax liability.

Council Tax Levels

6.66. In the 2022/23 provisional Local Government Finance Settlement, the Government announced a 2% limit to the amount by which Councils can increase their Council Tax (inclusive of levies) without a referendum. In addition, there is also the opportunity to increase Council Tax by up to a further 1%, for the Social Care Precept in 2022/23. The government's assumptions in the local government finance settlement 2022/23 include the raising of both Council Tax and the Social Care precept in each and every year to meet the recognised funding pressures faced by the sector.

6.67. In 2022/23, the recommendation is that the Council approve a 1% Social Care precept which will provide additional funding of £1.227m, ring fenced for Adult Social Care spend. If implemented this charge has to be identified on the face of the Council Tax bill and made clear in the accompanying guidance for rate payers.

6.68. At the same time an increase in core Council Tax of 1.99% (i.e. within the limit of the 2% referendum threshold) would provide additional funding of approximately £2.4m.

6.69. In considering budget reduction proposals and the level of Council Tax, Members make political judgements, balancing these with their specific legal responsibilities to set a balanced budget for 2022/23 and their general responsibilities to steward the Council's finances over the medium term.

6.70. In 2021/22, the Band D Council Tax in Lewisham is £1,743.62 on a base of 88,614.3 Band D equivalent properties. Of this, £363.66 relates to the activities of the GLA which the Council pays over to them on collection, Lewisham's element is £1,379.96.

6.71. The GLA is consulting on a precept of £395.59 (Band D equivalent) for 2022/23, an increase of £31.93 or 8.781%, and a final decision is expected from them on or after the 24 February 2022.

6.72. For 2022/23, the Band D Council Tax in Lewisham is recommended to be £1,816.81 on a base of 88,904.9 Band D equivalent properties (the base was approved by Council on the 19 January). Of this, £395.59 relates to the activities of the GLA which the Council will pay over to them on collection. Lewisham's element will therefore be £1,421.22, which includes a 2022/23 increase of £41.26 (2.99%).

6.73. Table A3 below shows, for illustrative purposes, the Council Tax payable by a Lewisham resident in a Band D property in 2022/23 under a range of possible Council Tax increases, and the financial implications of this for the Council. A full Council Tax Ready Reckoner is attached at Appendix Y4.

6.74. The starting point is for an assumed 2.99% increase in Lewisham's Council Tax for 2022/23, which includes the maximum core increase permissible without a referendum. Any reduction from this level of increase will reduce the level of income the Council collects and will increase the draw on reserves for 2022/23 and the budget gap in future years.

Table A3 – Band D Council Tax Levels for 2022/23

Amounts payable by residents - Band D					
Change in Lewisham Council Tax	Lewisham element	GLA element	Total Council Tax	Increase in overall Council Tax	Lewisham Annual income forgone
	£	£	£	%	£m
2.99% increase	1,421.22	395.59	1,816.81	4.20	-
2.50% increase	1,414.46	395.59	1,810.05	3.81	-0.60
2.00% increase	1,407.56	395.59	1,803.15	3.41	-1.21
1.50% increase	1,400.66	395.59	1,796.25	3.02	-1.83
1.00% increase	1,393.76	395.59	1,789.35	2.62	-2.44
0.50% increase	1,386.86	395.59	1,782.45	2.23	-3.05
Council Tax Freeze	1,379.96	395.59	1,775.55	1.83	-3.67

6.75. In January 2022 at the Council meeting, Council set the Council Tax base for 2022/23 and agreed the maximum incentives available to bring properties back into use (increasing the premium to 300% for properties that remain empty for 10 years or more), charge for second homes, and complete works in the shortest possible time. Council also agreed to continue the Council Tax exemption for Care Leavers up to the age of 25 in the Borough and the introduction of a 25% sanctuary discount to residents currently in receipt of a single person discount who accommodate a refugee in their home.

Levies

6.76. There are three bodies which charge a levy against Lewisham's Council Tax: the London Pensions Fund Authority (LPFA); the Environment Agency; and the Lee Valley Park Authority. Formal notification from these bodies has been received, and the details of these levies are provided in Appendix Y6.

Overall Budget Position for 2022/23

6.77. For 2022/23, the overall budget position for the Council is an assumed General Fund Budget Requirement of £248.610m, as set out in Table D6 below:

Table A4 - Overall Budget Position for 2022/23

Detail	Expenditure / (Income) £m	Expenditure / (Income) £m
Settlement Funding Assessment (SFA) for 2022/23	(124.171)	
Council Tax 2022/23 at 2.99% increase	(126.353)	
Deficit on Collection Fund	2.407	

Detail	Expenditure / (Income) £m	Expenditure / (Income) £m
NNDR pressure	7.719	
Business Rates S31 Grant Applied*	(8.212)	
Assumed Budget Requirement for 2022/23		**(248.610)**
Base Budget for 2021/22	243.100	
Plus: Additional Pay inflation	2.710	
Plus: Non-pay Inflation	2.735	
Plus: National Insurance Uplift	1.300	
Plus: Budget pressures to be funded	6.500	
Plus: Adult Social Care Precept	1.227	
Plus: Uplift in Social Care Grant	1.950	
Plus: Market Sustainability and Fair Cost of Care Fund	0.923	
Less: Budget reductions proposed for 2022/23	(11.835)	
Total		**248.610**

***Note:** the S31 grants applied include the Council's Tax Income Guarantee grant provided to recognise the impact of Covid on the council tax and business rates collection funds for 2020/21, as well as specific S31 grants for additional business rates reliefs.

6.78. The statutory calculation for the 2022/23 budget requirement is attached to this report at Appendix Y6.

6.79. At this time, on the budget assumptions for the General Fund set out above, no use of reserves is required for 2022/23 to enable the Council to set a balanced budget.

Use of Provisions and Reserves

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

6.81. In addition to the above, as part of the accounts closing process, the ability for the Council to replenish reserves for ongoing work planned for over more than one year and the impact of any risks will be reviewed and assessed and reported on. These risks include:

- Government funding support for the impact of Covid-19 may be insufficient;
- Agreed budget reduction proposals experience delays or are not delivered;
- Service pressures cause overspends;
- Transformation and change projects overrun;
- Capital programme overruns hit revenue; and
- Further savings are not identified, putting strain on future budgets.

6.82. Further discussion of the use of reserves and planning for future budgets will be reviewed and brought back for Member consideration as part of the next Medium Term Financial Strategy update in July 2022.

External Audit Arrangements

6.83. The current auditor appointment arrangements cover the period up to and including the audit of 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

6.84. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. There are options for Councils to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

6.85. Sector-wide procurement conducted by PSAA provides some benefits compared to that undertaken locally. Collective procurement potentially reduces costs and there is no need to establish our own auditor panel with an independent chair.

6.86. Authorities must 'opt-in' by 11 March 2022 and local audit regulations require a Full Council decision.

7. Other grants and future years' budget strategy

7.1. This section of the report considers the other funding streams which the Council currently receives and implications for future years. The critical point for the budget is that spend of these grants is managed by the Council to ensure commitments are maintained within the resources available. This is to avoid putting pressure on the General Fund.

7.2. These other funding streams are Public Health, Better Care Fund, and various other grants. This section of the report is structured as follows:

- New Homes Bonus;
- Better Care Fund and improved Better Care Fund 2022/23;
- Public Health Grant 2022/23;
- Social Care Grant;
- Adult Social Care Precept;
- Lower Tier Services Grant;
- Market Sustainability and Fair Cost of Care Fund; and

- Services Grant

New Homes Bonus

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

7.4. In the provisional Local Government Finance Settlement statement, the Secretary of State announced that for 2022/23 the NHB would 'roll forward' for one more year but without legacy payments.

7.5. The final allocation for 2022/23 in Lewisham is £1.011m, this is a reduction on the 2.652m received in 2021/22 as a result of the loss of legacy payments. Given the reducing and uncertain nature of this funding the NHB is being treated as one off monies to be used to support 'task and finish' activities, not recurring spend. For 2022/23 this will be for supporting Covid recovery work to make the most of the opportunities to deliver the place and community support needed in the Borough.

Better Care Fund and improved Better Care Fund

7.6. The national Better Care Fund (BCF) was announced by the Government in the June 2013 Spending Round, to support transformation and integration of health and social care services to ensure local people receive better care. The BCF is a pooled budget paid to the National Health Service (NHS) that shifts resources into social care and community services for the benefit of the NHS and local government. The BCF does not represent an increase in funding but rather a realignment of existing funding streams with new conditions attached.

7.7. For Lewisham the value in 2021/22 is £24.581m, increased from £23.287m in 2020/21. The allocation for 2022/23 is expected to be at least the same although local allocations have yet to be confirmed. The local plan must be agreed with the Clinical Commissioning Group (CCG), currently the Lewisham CCG but which will in future be the South East London (SEL) CCG, and will require the approval of NHS England.

7.8. The Fund must be used in accordance with the final approved plan and through a section 75 pooled fund agreement. The full value of the element of the Fund linked to non-elective admissions reduction target is be paid over to Lewisham CCG at the start of the financial year. However, the CCG may only release the full value of this funding into the pool if the proposed admissions reduction target is met. If the target is not met, the CCG may only release into the pool a part of that funding proportionate to the partial achievement of the target. Any part of this funding that is not released into the pool due to the target not being met must be dealt with in accordance with NHS England requirements. The partners have agreed contingency arrangements to address this risk and they will continue into 2022/23.

7.9. In 2017/18, the government also introduced the improved Better Care Fund (iBCF) to work alongside the BCF. The iBCF in 2021/22 is £14.502m with the formerly separate winter pressures funding included. This grant has increased to £14.941 for 2022/23, this is intended to fund adult social care activity. Plans for its use in 2022/23 will also require the agreement of local CCG. The grant is likely to be spent in substantially the same way as in 2021/22.

Public Health Grant

7.10. In 2021/22, the Council's allocation for Public Health Grant is £25.4m, increased from the £24.8m allocation in 2020/21. The 2021 Spending Review indicated that this is expected to rise by inflation in 2022/23 and the final settlement awarded a 2.8% (less than inflation) increase for 2022/23, being £26.06m.

7.11. The grant remains ring-fenced and the agreed commitment of these funds will therefore need to be reviewed annually by the Director of Public Health in consultation with the section 151 officer.

Social Care Grant

7.12. The provisional Local Government finance settlement in December 2022 committed £636m more for Social Care grant nationally for 2022/23. This has increased Lewisham's final grant from £10.773m in 2021/22 to £14.622m (a 35.7% increase) with the discretion to spend this on both adults and children social care. The budget proposes that of the increase of £3.852 for 2022/23, £1.95m be taken into base budget considerations to support new pressures in Children's and Adult's Social Care and that the remaining £1.9m be utilised to support once off pressures within these services. The detail is set out in the allocation of resources to pressures in section 6 above.

Social Care Precept

7.13. The 1% precept on Council Tax for social care (expected to be £1.2m in 2022/23) will be used to address the increased levels of packages of care required in Adult Social Care as well as the changing and increased complexity of the care needs.

Lower Tier Services Grant

7.14. The Lower Tier Services Grant for 2022/23 is £0.818m, increased slightly from the £0.7m allocation in 2021/22, consistent with 2021/22 this grant will be used to fund once off pressures across the General Fund.

Market Sustainability and Fair Cost of Care Fund

7.15. In 2021 Government announced wide-ranging and ambitious reform of the adult social care system, intended to protect people from unpredictable costs, offer more choice and control over care received, offers outstanding quality and is accessible to those that need it. This reform must be underpinned by a sustainable care market. To support this ambition and fund the implementation of the reforms government announced an additional £1.4bn of funding over the next three years. For Lewisham in 2022/23 this is a grant allocation of £0.923m. This funding will be ring-fenced for Adult Social Care pressures arising from the implementation of the reforms to support the care market.

Services Grant

7.16. The new one off Services Grant of £6.56m will be used to offset demand led pressures, increased hospital discharges and other COVID costs that are highly likely to continue into 2022/23. The Department of Levelling Up Communities and Housing (DLUCH) have explicitly stated that the Services Grant is a once-off funding source and will not be taken into consideration for transitional protection or as part of our core funding when the Fair Funding Review takes place, with likelihood of funding to be directed out of London. As such, this funding cannot be used to support our baseline funding requirement but can provide us with once-off capacity to manage the financial risks we are carrying as set out in section 6 above.

8. Dedicated schools grant and pupil premium

Update on 2021/22 Dedicated Schools Grant

8.1. The gross level of the Dedicated Schools' Grant (DSG) for 2021/22 is £313.268m, following the adjustment undertaken by the DfE to recoup funding for Academy Schools and the adjustment necessary for the inter-borough use of high needs places, the net budget is £273.4m.

8.2. Overall, the 2021/22 DSG outturn is currently expected to be overspent by between £5m to £6m as a consequence of the pressure on the High Needs Block, this increases to £11m as £5m has been brought forward from 2020/21. Officers within the CYP directorate are progressing a detailed mitigation plan, the basis of which will be used to develop a Management Action Plan for submission to the DfE, this is a requirement where an overspend is forecast. The mitigation plan is being progressed in partnership with the Schools Forum, and this includes a working group of Head teacher representatives and Officers.

8.3. Schools have faced enormous challenges this year to deliver the School's Curriculum whilst complying with the necessary Covid regulations. It was noted with extreme disappointment that very limited funding support has been provided to schools, and there are now 12 schools with deficits.

8.4. The Schools Finance Team (SFT) will continue to work with schools in developing sustainable budget plans. These plans now incorporate management metrics which have been developed to enable schools to be more strategic in their approach to setting and managing budgets. For example, these metrics allow schools to compare and benchmark their resource deployment on leadership, teaching, support administration, and contact time to name a few. In 2020/21, the SFT launched a process known as Deficit Prevention Plans which enable schools to work effectively towards a 3 year balanced budget position, and the feedback from schools has been very positive, this approach continues.

Dedicated Schools' Grant and Pupil Premium for 2022/23

8.5. This section of the report considers the Dedicated Schools' Grant (DSG) and the Pupil Premium Grant for 2022/23.

8.6. The Dedicated Schools Grant is the main source of funding for Schools and Early Year Providers. The grant is constituted of four parts, the Schools Block, Central Services Schools Block (CSSB), High Needs Block (HNB), and the Early Years Block (EYB). There is a national funding formula which determines each of the blocks and collectively determines the overall DSG. The provisional allocation of DSG for 2022/23 is £316.49m, an increase of £3.222m on the 2021/22 budget.

8.7. It should be noted that this is the gross DSG allocation before the adjustment undertaken by the DfE to recoup funding for Academy Schools and the adjustment necessary for the inter-borough use of high needs places.

8.8. The Schools Block is the main basis to support the Schools Delegated budget share, and overall this is lower relative to 2021/22. The funding per pupil increased by 2% for primary and 2.5% for secondary school pupils, however a 4.2% fall in the number of primary school pupils has meant that the overall allocation is lower than the current year.

8.9. The High Needs Block which supports SEND remains under continued financial strain, despite the net increase in funding of circa £5.5m. This increase is made up of £3.8m uplift in the base (an 8% increase) as well as increases in price, pupil numbers and the hospital element of funding. A point to note is that the pupil led funding is based on pupils in special schools and units. As the Council's mitigation strategy progresses towards more in house provision, funding should also improve which is a double benefit as costs would also reduce from in house provision.

8.10. The Central School Services Block has again been reduced in 2022/23, with a reduction of £0.567m from 2021/22. This reduces the funding available to support Local Authority Statutory functions. The service is currently working with Schools to consider how the delivery of Statutory and Regulatory services can be met within the reduced funding levels.

8.11. Early Years Funding – the funding for this area remains provisional subject to a pupil data cleansing exercise in January 2022 and January 2023, as such the final budget will not be known until the summer of 2023, which is in line with previous years. The DfE utilised the estimated 2021/22 position data for the indicative settlement. This included an increase in hourly rates of 17p (per hour) for 3 and 4 year olds and an increase of 21p (per hour) for 2 year olds. Schools forum at its meeting of the 16th December 2021 approved the distribution of the funding between hourly rate paid to providers, inclusion fund, deprivation fund and central holdback, in compliance with the current local determination. The increased funding is mainly targeted to support providers whilst continuing to build on support for an inclusion fund, which plays an important part in the Early Help and prevention strategy.

8.12. The pupil premium will continue in the 2022/23 financial year. Funding rates for the Pupil Premium in financial year 2022/23 are assumed to stay the same as for 2021/22, which is £13.066m. However, for 2022/23, the DfE has also confirmed that the methodology for distribution will change from the January schools census to the October school census, with no transitional support provided. Further information is expected in summer 2022.

8.13. The autumn 2021 spending review confirmed £1.6 billion funding for schools and high needs, for the period 2022 to 2023. In 2022/23, schools will be allocated £1.2 billion of this additional funding, to provide support for the costs of the Health and Social Care Levy and wider costs. This funding will be allocated through the schools supplementary grant 2022 to 2023. The Council has yet to receive detailed information on the school by school allocation, however we have been advised as follows:

- £6,211,008 for schools (unclear whether this is just for 5 to 16 year olds)
- 2,632,908 for High Needs Block

8.14. The schools supplementary grant will fund the following providers:

- maintained nursery schools
- primary and secondary maintained schools
- primary and secondary academies and free schools
- all through maintained schools
- all through academies
- 16 to 19 maintained schools
- 16 to 19 academies
- city technology colleges

8.15. The schools supplementary grant will only be payable to public sector employers. This means that further education colleges, sixth form colleges, independent learning providers, as well as private and voluntary sector early years providers will not be eligible to receive this funding, creating a risk that certain providers remain unfunded. Schools Forum will continue to assess and consider this as part of decision making with regards to the high needs block.

8.16. Whilst there is extra funding in the settlement, many costs are rising by more than funding, exasperated further where pupil numbers are falling, and the ongoing impact of Covid continues to remain unfunded by government. Schools continue to face pressures in their budgets, for example, salary increments, non-teaching pay increase, contract price increases including utilities, and the Apprenticeship Levy.

8.17. Table B1 below sets out the gross DSG provisional allocation.

Table B1: DSG Allocation

	Schools block (£m)	Central school services block (£m)	High needs block (£m)	Early years block (£m)	Total DSG allocation (£m)
	A	B	C	D	E=A+B+C+D
2022/23	221.069	3.693	67.608	24.119	316.489
2021/22	222.769	4.261	62.072	24.166	313.268
Movement	-1.700	-0.568	5.536	-0.047	3.221

Pupil Numbers

8.18. The total changes in pupil numbers are as shown in table B2 below. Overall there is a reduction in numbers of 949 which, whilst relatively small at present, is the fourth consecutive year of falls and an increase from the prior year, and a risk for the schools concerned as funding for schools is driven by pupil numbers and associated characteristics (e.g. Free School Meals). This reduction in numbers could potentially have implications for those schools directly affected.

Table B2: Pupil Numbers

	Oct-21	Oct-20	Change No	Change %
Primary	23,003	24,000	-997	-4.15%
Secondary	11,404	11,356	48	0.42%
Net	**34,407**	**35,356**	**-949**	**-2.68%**

High Needs Block

8.19. In recognition of the pressures facing high needs, the Government has increased funding to Local Authorities to support high needs. The 2022/23 allocation for Lewisham is an overall net increase of £5.536m, which against the 2021/22 allocation of £62.072m is an 8.2% increase. This is partially due to an increase of 120 funded pupils.

8.20. It is expected that the High Needs Block will overspend for 2021/22 by up to £6m which will be the first call on this budget, this is after an increase in funding in the High Needs Block of £6.8m, plus £1.1m from schools block. In addition to this there remains a £5m overspend brought forward from 2020/21, providing a revised cumulative overspend position of £11m. There is a mitigation plan in place that is being progressed with Schools Forum.

Potential Risks

8.21. As set out in this section, there remain a number of risks in respect of funding for schools. These include:

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

9. Housing Revenue Account (HRA)

9.1. The budgeted expenditure for the HRA in 2022/23 is £304.0m, including the capital and new build programme.

9.2. It is structured as follows:

- Update on the HRA financial position for 2022/23;
- Update on the HRA Business Plan; and
- Future Years' Forecast.

Update on the HRA financial position for 2021/22

9.3. The HRA is budgeted to spend over £100m in 2021/22. The latest forecast on the HRA for 2021/22, is that net expenditure can be contained within budget by the year end. There are currently reported pressures in both income and expenditure which can, if necessary, be mitigated by the use of once-off contingencies, reserves and revenue working balances. Expenditure against repairs & maintenance budgets is expected to be contained within the sums allocated.

Update on the HRA Business Plan

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

9.5. The plan underwent a major revision in 2015 for a 1% reduction in social rents applied each year for four years from 2016/17 to 2019/20. The impact of the change was a loss of actual rental income of £2.8m when measured against the actual rent roll for the 4 financial years. A loss of £25m against the budgeted resources for the same period and an overall loss of resources assessed at £374.0m over the life of the 30 year business plan.

9.6. The HRA financial model has been further updated for current guidance that from April 2020 government allows councils with social housing stock to return to the previous formula rent method of rent increase calculations until at least 2025. This method of rent increase is based on prior September's CPI + 1%. This has been implemented in Lewisham and become effective for rental increases applied from April 2020 onwards. For financial year 2022/23, as the September 2021 CPI was 3.1%, the overall increase will be 4.1% (3.1% + 1.0%).

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

9.8. For financial planning purposes, the HRA is assuming average pay inflation of 2% per annum, based on the Governments CPI Inflation target. Non-pay inflation is also based on the Governments CPI inflation target of 2.0% per annum.

9.9. In addition to the above inflationary uplifts, the HRA model has also allocated additional resources to cover the increase in employers National Insurance contributions of 1.5% from April 2022. Current estimates are this this will cost the HRA approximately £228k in 2022/23.

9.10. In order to protect the business plan and provide the same level of investment and services, any reduction in income will need to be off-set though increased efficiencies and reprioritisation of investment requirements across stock condition and/or development plans.

9.11. A review of current investment needs and priorities has been undertaken, based on updated surveys and inflation estimates. This includes assumptions on future liabilities, such as maintaining decent homes, fire programme, sustainability, planned works and improvements, cuts, and other requirements. These assumptions have been used to inform the resource need and identify potential gaps in funding and opportunities for additional income and grants. Work is continually ongoing to identify and update investment needs. As this work is completed and updated information becomes available, which includes the results of the damp and disrepair MOTs, the resource needs will be updated which may affect future requirements.

9.12. The plan also contains costs associated with the new build programme currently being implemented by the authority. Table C1 provides an illustration of the expected HRA budget for the next five years, which includes the current 4.1% rent increase estimates for 2022/23. The HRA debt cap which was imposed when the self-financing regime was implemented (£127.3m) has now been abolished. The HRA will now be subject to prudential borrowing rules (as per the General Fund).

Table C1: Update on the HRA Business Plan

HRA Income & Expenditure Estimates - 5 year Forecast	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m
Income					
Rental income	(74.1)	(79.1)	(82.1)	(87.9)	(91.4)
Tenants service charge income	(6.6)	(6.7)	(6.8)	(6.9)	(7.0)
Leasehold service charge income	(5.7)	(5.9)	(6.0)	(6.1)	(6.2)
Hostel charges and grant income	(1.4)	(1.4)	(1.4)	(1.5)	(1.5)
Major Works recoveries	(6.0)	(6.2)	(6.3)	(6.4)	(6.5)
Other income	(1.3)	(1.7)	(1.7)	(1.7)	(1.7)
Interest earned on balances	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Total Income	**(95.2)**	**(101.1)**	**(104.4)**	**(110.6)**	**(114.4)**
Expenditure					
Management costs	38.5	40.6	41.4	43.3	44.4
Repairs & maintenance	15.7	15.9	16.1	16.3	16.5
PFI Costs	7.4	7.9	8.4	8.6	8.9
Interest & other finance costs	5.5	10.5	14.7	16.7	18.3
Depreciation	24.4	24.9	25.4	25.8	26.3
Revenue Contribution to Capital	2.9	0.7	0.0	0.0	0.0
Total Expenditure	**94.4**	**100.5**	**106.0**	**110.7**	**114.4**
Surplus/(deficit)	**0.8**	**0.6**	**(1.6)**	**(0.1)**	**0.0**

Opening HRA reserves	7.2	8.0	8.6	7.0	6.9
Contribution to/(Drawdown) from reserves	0.8	0.6	(1.6)	(0.1)	0.0
Closing HRA Reserves	**8.0**	**8.6**	**7.0**	**6.9**	**6.9**
Forecast Capital Programme & Funding					
Capital programme (including decent Homes)	88.4	66.8	68.1	69.5	54.9
New Build construction & on-going costs	121.2	129.3	67.5	20.7	35.5
Total Capital Expenditure	**209.6**	**196.1**	**135.6**	**90.2**	**90.4**
Capital Programme Funded By:					
MRR Opening Balance	(0.1)	0.0	0.0	0.0	0.0
Revenue Contribution to Capital	(2.9)	(0.7)	0.0	0.0	0.0
Depreciation	(24.4)	(24.9)	(25.4)	(25.8)	(26.3)
GLA Grants	(40.2)	(15.8)	(19.2)	(13.5)	(15.3)
RTB Receipts	(9.1)	(13.5)	(4.4)	(0.1)	0.0
Sale Receipts	(3.5)	(1.1)	(16.9)	(20.7)	(0.4)
Other Receipts	(20.0)	0	0	0	0
Borrowing	(109.4)	(140.0)	(69.7)	(30.0)	(48.4)
Total Capital Funding	**(209.6)**	**(196.1)**	**(135.6)**	**(90.2)**	**(90.4)**
Capital shortfall	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
HRA Actual Debt Level (Forecast)	192.0	332.0	401.8	431.8	480.0
HRA Self-financing Settlement Debt Level (was £127.3m)	n/a	n/a	n/a	n/a	n/a

9.13. As can be seen from the above table, the expected total expenditure, before financing, for the HRA in 2022/23 is £304.0m, comprising £94.4m operational costs and £209.6m capital and new build costs.

Future Years' Forecast

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

9.15. There is an ongoing process to identify opportunities for efficiencies to deliver services for improved value for money and this is described in Appendix X1. Although no direct savings have been identified so far for 2022/23, any savings and efficiencies delivered against the HRA business model and future budgets can be re-invested to off-set constrained rent rises or to help bridge any investment gap identified. Discussions are ongoing to identify appropriate savings. For example, there is already an assumed reduction in the Lewisham Homes fee in 2022/23 to reflect stock losses through Right to Buy Sales.

9.16. Separate reports which set out in detail the proposals relating to service charges for Brockley and Lewisham Homes residents are attached at Appendix X3 and Appendix X4, respectively.

<u>Rental Income and allowances</u>

9.17. Following completion of the legislative requirements for 4 years of rental contraction, Government have confirmed rents will return to the previous method of rent increase calculations for 2020/21 onwards. This is based on the previous formula rent calculation of CPI + 1%. This will be for a minimum 5 year period to financial year 2025/26. For the purpose of business and financial planning, it is assumed that that rental charges will be increased in line with this guidance.

9.18. At the present time, the financial models used by the council currently forecast future CPI to be 2.0% annually for the period 2023 to 2025 and would equate to an annual average increase of 3.0% to be applied to rents. It should be noted that any variation to the forecast CPI rate of 2% would affect the annual average forecasts stated above. For example a 0.5% movement in CPI would result in a £0.53pw change to the average rent increase.

9.19. CPI at September 2021 was 3.1%, therefore rents are expected to increase by 4.1% for 2022/23 (3.1% + 1%), and rise by CPI + 1% for at least the next 3 years to 2025, as per Government's policy for rent increases.

9.20. A 3.1% increase in average rents for 2022/23 will equate to an average increase of £4.07pw over a 52 week period. This will increase the full year average dwelling rent for the London Borough of Lewisham from £99.19 to £103.26 per week (pw). The proposed increase will result in additional income of £2.952m to the HRA when compared to 2021/22 income levels.

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

9.22. Tenants were asked to provide comments and feedback on the proposed rent changes and illustration for inclusion in the Mayor and Cabinet budget report at meetings held with Brockley PFI and Lewisham Homes tenants. Full details of residents' feedback, additional comments received, minutes of meetings and the response to the additional comments received are contained in Appendix X2.

9.23. The main comments received from Lewisham Homes' residents concerning the proposals for rents and garages was that there are issues of affordability given the current pandemic and increase in unemployment. The main comments regarding service charges were questioning value for money as charges are increasing but service delivery is not improving.

9.24. Comments received from the RB3 Brockley residents were in a similar vain to the Lewisham Homes residents comments regarding affordability and value for money concerning the proposals for rents, garages and service charges.

9.25. Details of the options for the rent & service charge changes for 2022/23 were presented to the Housing Select Committee on 9th December 2021. The committee noted the contents of the report.

9.26. Having regard to the outcomes of the consultations held in November 2021 as set out above (and with more detail in Appendices X2, X3, and X4), the Mayor is asked to make a recommendation to full Council that a 4.1% rent increase be agreed as per the rent calculation formula. The new average rent for 2022/23 is likely to be in the region of £103.26pw, an increase of approximately £4.07pw from 2021/22 levels.

Other Associated Charges

9.27. There are a range of other associated charges. These include: garage rents, tenants levy, hostels, Linkline, private sector leasing, heating and hot water. These charges and any proposed changes to them for 2022/23 are set out in detail in Appendix X5.

Summary

9.28. The gross budgeted expenditure for the HRA in 2022/23 is £304.0m, £94.4m revenue and £209.6m capital. Council is asked to approve a rent increase of 4.1% having considered tenant's feedback following consultation held in November 2021. The current average weekly rent is £99.19 in 2021/22. This will increase to £103.26pw in 2022/23.

10. Treasury Management Strategy

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

10.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses.

On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

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

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

10.5. Accordingly, treasury management is defined as "the management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

10.6. The Council complies with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). The primary requirements of the 2017 Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

c) Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year;

d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions; and

e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Public Accounts Select Committee

Annual Investment Strategy

10.7. The DLUHC (previously MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals predominantly with financial instruments (as managed by the Strategic Finance – Treasury Team); non-financial investments, essentially the purchase of income yielding assets, are summarised at the end of this report and covered in detail within the separate Capital Strategy.

10.8. The Council's investment policy has regard to DLUHC's Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in Public

Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”), and CIPFA’s Treasury Management Guidance Notes 2018.

10.9. The Council’s investment priorities will be security first, liquidity second, then return. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council’s risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

10.10. The outbreak of coronavirus in March 2020 and the global response in implementing lockdowns and coordinating economic support packages has created an unprecedented and prolonged period of economic and fiscal uncertainty, the impact of which is likely to be felt for years to come. In the UK, there has been a sharp recovery from impact of coronavirus as a result of the vaccination programme rollout and easing of restrictions, although there will be risks which will likely persist in both the short and medium term, including:

10.11. The pace and scale of any future changes to the UK Bank Rate, which will impact interest rates for investments that Lewisham have and will provide an increceing returns for the Council.

10.12. Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows that would keep foreign investment rates low and therefore would not improve the retruns for the Council’s investments.

10.13. UK/EU trade negotiations causing significant economic disruption. This has caused supply issues and raised prices of construction materials which has then increased the cost of many of the Council’s capital projects as well as delaying them.

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

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.
2. **Other information**; ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of

information that reflects the opinion of the markets. To this end, the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings, as well as information on outlooks and watches. This is fully integrated into the credit methodology provided by the advisors in producing its colour codings which show the varying degrees of suggested institution creditworthiness. This has been set out in more detail at Appendix Z2.

3. **Other information sources** used will include the financial press, share prices and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. The Council has defined the list of **types of investment instruments** that the treasury team are authorised to use in the financial year, and these are listed in Appendix Z2 under the categories of "specified" and "non-specified" investments:
   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year; and
   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.
5. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the credit criteria provided by advisors, and are set out in Appendix Z2.
6. **Interest rate limits** are set out in paragraph 10.58 and Table D1 and place restrictions on the exposure to variable and fixed rate investments.
7. The Council has placed a limit on the amount of its investments which are invested for **longer than 365 days** (see paragraph 10.60 and Table D2).
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see Appendix Z3).
9. All investments will be denominated in **sterling**.
10. As a result of the change in accounting standards for 2018/19 under IFRS 9, the Council will, on an ongoing basis, consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant changes at the end of the year to the General Fund. The DLUHC enacted a statutory override in 2018/19 for a five year period over the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year, giving local authorities time to initiate an orderly withdrawal of funds if required. The Council does not at present have any pooled investments, though has scope to do so as per the creditworthiness policy in Appendix Z2.

10.16. Investments will be made with reference to the core balances and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). In order to maintain sufficient liquidity, the Council will seek to utilise its notice accounts, money market funds and short-dated deposits (overnight to three months. The remainder of its investments will be placed in fixed term deposits of up to 24 months to generate improved returns, depending on prevailing market conditions.

Creditworthiness Policy

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

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

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

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

*for UK Government debt, or its equivalent, Constant Net Asset Value (CNAV) money market funds and collateralised deposits where the collateral is UK Government debt.
**except for those building societies rated BBB- or higher as set out in the policy.

Country limits

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

Prior Updates to Investment Strategy

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

10.21. Very few building societies have credit ratings assigned to them due to the lack of high value financial market transactions that would warrant a formal credit rating being issued by one of the three main ratings agencies, and only a select few within the top ten by asset size have been issued with one. A credit rating of BBB- remains within the ‘investment grade’ category, subject to moderate credit risk, which is reflected by the monetary and duration limits as set out above.

10.22. This addition to the strategy was made as a result of economic conditions and the reduced options available for investing at positive yields; in practice it opens up a limited number of two-three additional counterparties for consideration. Officers will continue to monitor the rating movements against these counterparties to ensure that any investments fall within the set criteria.

Prospects for Investment Returns

10.23. Investment returns are likely to remain low during 2022/23 with little increase expected in 2023/24. The coronavirus outbreak has caused huge economic damage to the UK and economies around the world. The Bank of England took emergency action in March 2020 to cut the Bank Rate to first 0.25%, and then to 0.10%. In December 2021, the Monetary Policy Committee (MPC) voted 8-1 to increase the Bank Rate back to 0.25%, with a view of a further increase in 2022.

10.24. Money market yields continued to drift lower and some managers resorted to trimming fee levels to ensure that net yields for investors remained in positive territory, or zero, where possible. Rates have seen a slight pick-up since the MPC agreed to raise the Bank Rate to 0.25%. Additionally, investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has resulted in a surplus of cash swilling around at the very short end of the market with only marginally positive returns.

10.25. The Council uses the services of its advisor, Link Group, to formulate a view on interest rates; their view is that there will be a steady increase in the Bank Rate up to at least March 2025 as economic recovery is expected to be gradual and therefore prolonged. Given this uncertainty, suggested investment returns are expected to remain low and money market related instruments will be sub 0.50% for the foreseeable future.

10.26. In light of these predictions for low returns the Council continues to assess, with support from its advisors, the potential risk and return offered by investing for longer (five or more years) in pooled asset funds. This policy is set with regard to the Council's liquidity requirements and to reduce the risk of a forced sub-optimal early sale of an investment; any investments entered into will be on the advice of the Council's advisors and will continue to meet the objectives of security, liquidity and return.

10.27. There is relatively little UK domestic risk of decreases in the Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates and increases in the Bank Rate have already been seen although the rise will be gradual considering the underlying economic position. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields (and so PWLB rates) in the UK.

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

Non-Treasury Investments

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

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

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

- Strategic type investments; whereby the objective is primarily to generate capital or revenue resources to help facilitate Council services.

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

Subsidiary Companies

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

Lewisham Homes Limited

10.33. Lewisham Homes is an arms-length management organisation (ALMO) set up in 2007 as part of the Council's initiative to deliver better housing services and achieve the Decent Homes Standard. The company manages approximately 19,000 homes.

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

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

10.36. As at 31 March 2022 the Council has advanced all £20m of the commercial loan facility, and all £20m of the agreed facility financed from PWLB debt.

Catford Regeneration Partnership Limited (CRPL)

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

10.38. The Council has existing loan agreements in place with the CRPL, currently on an interest only basis, with interest being capitalised until 2024/25. As at 31 March 2022 the Council expects the outstanding loan principal to be approximately £15.0m, and £0.5m of capitalised interest.

Other Non-Treasury Investments

Besson Street Joint Venture

10.39. The Council is an equal equity partner in a joint venture with Grainger Plc. to bring forward the development of the currently vacant Besson Street site to provide properties for the Private Rented Sector on long term tenancies. The Council has invested land at this stage and will be required to put forward an estimated £22-27m of cash to make up its share (50%) of the 40% equity, with 60% external long-term borrowing, to be invested once the scheme is built. This is currently forecast to be in 2026/27.

10.40. The Council also holds minority stakes in the following:

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

Investment Opportunity

10.41. In accordance with the Treasury Management Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information. As set out previously, it is no longer possible to earn the level of interest rates commonly seen in previous decades as investment rates are considerably lower than pre-pandemic, and the Bank Rate is now at 0.25%. Given this risk environment and economic uncertainty, investment returns are expected to remain low in 2022/23.

10.42. Money Market Fund (MMF) yields have continued to drift lower. Some managers have suggested they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity, has resulted in a glut of money moving around at the very short end of the market; inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home. However, MMFs are still offering a marginally positive return, as are a number of financial institutions. The increase to the Bank Rate in December 2021 has resulted in a slight increase to interest rates although these remain considerably lower than pre-pandemic levels.

10.43. The Council is a member of a treasury benchmarking group (organised by Link Asset Services) containing 15 authorities, including 12 other London authorities. A review of the latest available benchmarking report shows that the return on investments as at September 2021 is below the Council's model weighted average rate of return provided by the treasury advisors, which is adjusted for the risks inherent in the portfolio. Portfolio performance is in line with the overall benchmarking group, as well as a wider group of 20 London boroughs.

10.44. The current investment counterparty criteria as set out in the Credit Worthiness Policy and included at Appendix Z2 of this report are meeting the requirements of the treasury management function, although the current low rate environment and the reluctance of banks and building societies to accept new deposits reduces the available pool of counterparties that meet guideline investment rates.

Borrowing

Minimum Revenue Provision (MRP) Policy Statement

10.45. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision – VRP). The MRP must be determined by the Council as being a prudent provision having regard to the DLUHC (Department for Levelling Up, Housing and Communities) (previously MHCLG) Statutory Guidance on Minimum Revenue Provision.

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

10.47. In 2016/17, this policy was changed to reflect the useful lives of the specific asset classes on the Council's balance sheet. It moved to:

- A straight line MRP of 14% equivalent to seven years for plant and equipment (such as IT and vehicles); and
- A straight line MRP of 2.5% equivalent to forty years for property (such as land and buildings).

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

10.49. In 2019/20 the Council commissioned an independent review of its current MRP policy to ensure it is fit for current and future spending plans, as well as a review of historic calculations and a reconciliation to the CFR to identify any potential efficiencies. The review was undertaken by the Council's treasury advisors, Link Group.

10.50. The Council implemented one of the recommendations from the report from 2019/20 onwards, specifically to adjust for an historic overcharging of MRP from 2003/04 as a result of a miscalculation in the 'Adjustment A' figure (an accounting adjustment designed to ensure minimal changes in liability when new capital financing regulations were introduced in 2003/04). The Prudential Code allows for MRP to be reduced appropriately, in line with an authority's own judgement, where Adjustment A reflects an error that increases the current MRP liability. As such, the Council reduced its ongoing liability by reducing its MRP charge to account for the higher Adjustment A figure, whilst additionally offsetting current and future years' MRP charges to recover the historic overcharging since 2003/04.

10.51. The value of the overcharge has been calculated as £10.1m, which will be recovered from 2019/20 over a 10 year period via an annual reduction to MRP. The outstanding value of the overcharge to be recovered as at 31 March 2022 is £7.1m.

Borrowing, Treasury Indicators and Debt Rescheduling

10.52. The Council's external debt as at 31 March 2022, gross borrowing plus long term liabilities, is expected to be £498.6m. The Council's borrowing strategy is consistent with last year's strategy. The Council is currently maintaining an under-borrowed position in that the CFR is not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as an alternative funding measure. In the current economic climate, this strategy is considered prudent while investment returns are low and counterparty risk remains an issue to be considered.

10.53. The Executive Director for Corporate Resources will continue to monitor interest rates in the financial markets and adopt a pragmatic and cautious approach to changing circumstances. For instance, if it was felt that there was a significant risk of a sharp fall in long and short term rates then long term borrowing will be postponed and potential rescheduling from fixed rate funding into short-term borrowing considered. Any such decisions would be reported to Mayor and Cabinet and subsequently Council, at the next available opportunity.

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

Policy on Borrowing in Advance of Need

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

Treasury Indicators

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

10.57. The debt related indicators are:

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

10.58. The treasury indicators and limits are set out in Table D1 below:

Table D1: Treasury Indicators and Limits

Limits on Interest Rate Exposures	2022/23	2023/24	2024/25
	Upper	Upper	Upper
Limits on fixed interest rates:			
• **Debt only**	100%	100%	100%
• **Investments only:**			
When total portfolio >£400m	90%	90%	90%
When total portfolio <£400m	85%	85%	85%
Limits on variable interest rates			
• **Debt only**	15%	15%	15%
• **Investments only**	75%	75%	75%
Limits on Maturity Structure of Fixed Interest Rate Borrowing 2022/23			
		Lower	Upper
Under 12 months		0%	10%
12 months to 2 years		0%	10%
2 years to 5 years		0%	10%
5 years to 10 years		0%	25%
10 years to 20 years		0%	20%
20 years to 30 years		0%	25%
30 years to 40 years		0%	50%
40 years to 50 years		0%	60%
Limits on Maturity Structure of Variable Interest Rate Borrowing 2022/23			
		Lower	Upper
30 years to 40 years		0%	60%
40 years to 50 years		0%	40%

Long Term Investments Indicator

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

10.60. The indicator is set out in Table D2 below. As at 31 March 2022, the Council is not expected to hold any investments for longer than 365 days.

Table D2: Treasury Indicators and Limits

Maximum Principal Sums Invested for Longer than 365 days			
	2022/23 £m	2023/24 £m	2024/25 £m
Limit on principal sums invested for longer than 365 days	50.0	50.0	50.0

Debt Rescheduling

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

10.62. The reasons for any rescheduling to take place will include:

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

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

10.64. The Council has £120m of LOBO loans at nominal value as at 31 March 2022 of which £35m will be in their call period in 2022/23 for fixed rate LOBO loans, along with £12.5m of capitalised interest in respect of the stepped LOBO loan. In the event that the lender exercises the option to change the rate or terms of the loans within their call period, the Council will consider the terms being provided and also the option of repayment of the loan without penalty.

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

10.66. No new external borrowing has been undertaken to date in 2021/22 as of 10 January 2022. There was an increase in PWLB margins over gilt yields in October 2019, although the general margin of PWLB rates over gilt yields was then reduced by 100 bps in November 2020. The subsequent consultation on these margins by HM Treasury, together with the impact of coronavirus on the capital programme, has led the Council to make use of internal borrowing where required in 2021/22 financial year.

10.67. Debt rescheduling of current borrowing is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates.

10.68. Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

Council's Capital Programme

Capital Investment Plans

10.69. The Treasury Management Strategy for 2022/23 incorporates the capital plans of the Council, which are a key driver of treasury management activity. The output of capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

10.70. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet service activity and the Council's Capital Strategy. This involves both the management and monitoring of cash flows and, where capital plans require, the arrangement of appropriate borrowing facilities.

Capital Strategy

10.71. The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to produce a Capital Strategy, which will provide the following:

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

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

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

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

10.74. The 2022/23 Capital Strategy was presented to Mayor and Cabinet on 2 February 2022.

Capital Position (Prudential Indicators)

10.75. Forward projections for borrowing as at 31 March 2022 are summarised below in Table D3, which shows the actual external debt from treasury management operations and other long-term liabilities against the underlying capital borrowing need (the Capital Financing Requirement - CFR) which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, and its underlying borrowing need; any increase to capital expenditure which has not immediately been paid for through a revenue or capital resource will increase the CFR.

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

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

10.78. Changes in external debt incorporate upcoming loan maturities and projected prudential borrowing requirements in both the General Fund and the Housing Revenue Account (HRA).

10.79. Table D3 below illustrates over/(under) borrowing relative to the combined CFR for the General Fund and HRA.

Table D3: External Debt Projections

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Forecast £m
External Debt at 1 April	217.00	223.50	268.70	387.20	532.50
Change in External Debt	6.50	45.20	118.50	145.30	69.50
Other Long-Term Liabilities	240.20	229.90	219.80	209.00	197.50
Gross Debt at 31 March	**463.70**	**498.60**	**607.00**	**741.50**	**799.50**
CFR - HRA	55.50	81.60	190.40	327.00	389.80
CFR – General Fund and Other Long-Term Liabilities	451.70	457.40	469.20	459.80	442.30
Total Capital Financing Requirement at 31 March*	**507.20**	**539.00**	**659.60**	**786.80**	**832.10**
Borrowing – over / (under)	**(43.50)**	**(40.40)**	**(52.60)**	**(45.30)**	**(32.60)**

***The Capital Financing Requirement includes the prudential borrowing figures shown in Section 6.1 of the 2022/23 Capital Strategy. The previous year's forecast prudential borrowing for capital did not materialise as expected and there is a risk that this recurs. This will be monitored during the year and reported back. This is a more acute risk given the scale and ambition of the capital programme, particularly in the HRA. We will ensure that we only borrow as the need arises.

10.80. Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

Limits to Borrowing Activity

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

The Operational Boundary for External Debt

10.83. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. The Council’s operational boundary is set out in Table D4.

Table D4: Operational Boundary

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Maximum External Debt at 31 March	268.70	387.20	532.50	602.00
Other Long-Term Liabilities	229.90	219.80	209.00	197.50
Operational Boundary for Year	**498.60**	**607.00**	**741.50**	**799.50**

The Authorised Limit for External Debt

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

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

10.86. The authorised limits are as set out in Table D5.

Table D5: Authorised Limits for External Debt

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Operational Boundary for Year	**498.60**	**607.00**	**741.50**	**799.50**
Provision for Non-Receipt of Expected Income	56.00	56.00	56.00	56.00
Additional 10% Margin	49.86	60.70	74.15	79.95
Authorised Limit for Year	**604.46**	**723.70**	**871.65**	**935.45**

11. Capital Programme

Introduction

11.1. This section presents progress with the capital plans for 2021/22 and the capital programme for the Council in the coming years 2022/23 to 2024/25. This report incorporates the capital report considered by M&C at their meeting of the 2 February (see appendix W1) into the Budget proposals for 2022/23 to be presented to full Council on the 2 March.

11.2. Both for the current year and in the coming three years, the General Fund schemes remain weighted to spend on school and corporate buildings and infrastructure such as highways and the Housing Revenue Account to stock condition and safety works and the new build programme – Building for Lewisham.

2021/22 update

11.3. The revised capital programme for the current year 2021/22 is £182.2m, of which £66.4m relating to General Fund schemes and £115.8m to Housing Revenue Account schemes. Delivery against the 2021/22 plan in full remains challenging and work continues to re-profile the programme to reflect more realistic timings to assist with monitoring going forward.

2022/23/24 programme

11.4. The proposed Capital Programme (General Fund and Housing Revenue Account) budget for 2022/23 to 2024/25 is £600.4m; split £59.1m (10%) for the General Fund and £541.3m (90%) for the Housing Revenue Account. Of this programme £244.8m is for 2022/23 with £35.2m on the General Fund and £209.6m on the Housing Revenue Account. The most significant proportion of the capital programme is focused on the Housing Revenue Account, broadly split 50:50 across the twin priorities of Decent Homes and new Affordable Homes.

11.5. The funding breakdown for the General Fund is 70% from current reserves, anticipated receipts, and grants or contributions (including s106 and CIL) with the remaining 30% to be funded from borrowing. For the Housing Revenue account 47% is anticipated to be funded from current reserves, anticipated receipts, and grants (including Right to Buy and GLA contributions) and 53% from borrowing.

11.6. The key risks to the programme include; slippage in the face of rising costs, future rents or running costs of the assets within their useful life, and ability within the current plans to create investment capacity to help deliver the Council's strategic priorities going forward.

11.7. The scale of the programme continues to mark a stepped increase on previous years and in respect of borrowing it represents a further significant rise in borrowing by the Council of £336.3m, building on the budgeted £45.4m for 2021/22. These funding plans link the capital plans to the Treasury Management Strategy, also considered as part of the 2022/23 Budget in this report at Section 10.

Recommendation

11.8. It is recommended that Council approve the 2022/23 to 2024/25 Capital Programme of £600.4m as set out in Appendix W1.

12. Consultation on the budget

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

Rent Setting and Housing Panel

12.2. As in previous years, tenants' consultation was undertaken via Housing Panel meetings. This provided tenant representatives of Lewisham Homes with an opportunity on 24th November 2021 at the joint Housing Panel meeting to consider the positions and to feedback any views to Mayor & Cabinet. Tenant representatives of Brockley convened their Brockley Residents' Board on 10th November 2021 to hear the proposals and fed back.

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

Business Ratepayers

12.4. Representatives of business ratepayers were consulted online on Council's outline budget between 7 January and 27 January 2022. This consultation was open to all of the over 10,000 businesses registered in Lewisham.

12.5. There were 18 respondees, three of whom submitted blank surveys after going through the information, one response was from a resident and not a Lewisham business rate payer and therefore not an eligible response, and one was from a Lewisham business but provided no comment, resulting in 13 responses for consideration.

12.6. Of the 13 responses for consideration, one response indicated that the Council was supporting businesses positively and suggested no areas for improvement or comment on the general fund budget.

12.7. The remaining 12 responses can be grouped into two main themes: Covid impact and rate setting and levels; and local issues.

Covid and Business Rate Setting

12.8. Four respondees expressed concern and/or frustration at the Government's measures to support businesses during the pandemic, this includes both the nature and levels of reliefs offered to business rate payers, and the scope and eligibility criteria for the various Government Covid business grants schemes available. Three respondees commented that business rates are set at levels which are unaffordable by businesses.

12.9. The Executive Director for Corporate Resources notes these comments, and that the issues raised by Business Rate payers in the consultation refer to concerns about the impact of Business Rates on the viability of their business, further exacerbated by the pandemic. These concerns are not unique to Lewisham and illustrate wider concerns about the fairness of the Business Rates system and its impact on high streets. The Government sets the level of Business Rates and issues regulations that the Council must follow in the administration of reliefs and grants, to whom support can be paid and what evidence must be provided to meet the qualifying criteria. The Council must adhere to those rules in all cases. The guidance and eligibility criteria can be found on the Government website.

https://www.gov.uk/government/publications/coronavirus-grant-funding-local-authority-payments-to-small-and-medium-businesses

https://www.gov.uk/apply-for-business-rate-relief

12.10. The Council is seeking to support local businesses, especially those in our town centres and high streets, with the resources that we do have available. The Council was the first local authority in the country to conduct a headcount and survey of independent and Black, Asian and Minority Ethnic owned businesses on our high streets. In the past two years the Council has administered over £76million in 14,000 grants to local businesses. A further round of grant funding to businesses has recently been launched focusing on those impacted by Omicron and businesses who want to be involved in the Borough of Culture 2022 activities. Alongside this there are a range of business support programmes available which are commissioned by the Council. This includes support with marketing, diversification of sales channels and business resilience. Businesses are also able to take advantage of subsidised membership of the South East London Chamber of Commerce and the Federation of Small Businesses.

12.11. In setting the General Fund budget for 2022/23 the Council has recognised the increased support required for local businesses and has proposed to fund £250k of growth within the Economy and Partnerships team to ensure that Lewisham businesses form an intergral part of the Future Lewisham recovery from the pandemic.

General Fund Services - Streetscene and Public Realm

12.12. The remaining five responses provided comments pertaining General Fund services such as commercial waste collection, street cleansing, licensing and enforcement and street trees/greening.

12.13. The Executive Director for Housing, Regeneration and Public Realm notes these comments. Areas of high population density all face challenges with waste management and Lewisham is working hard to develop and invest in its commercial waste offer. Lewisham Council has a duty to facilitate the collection of commercial waste for businesses in Lewisham and for its part, is one of a few authorities in London to operate its own commercial waste service alongside other domestic waste and recycling services.

12.14. Commercial waste has a different classification to domestic waste and is a service for which a charge for collection can be made to recover its costs.

12.15. The Council's commercial waste service operates in a competitive marketplace and despite rising costs and supply chain pressures, it continues to offer an attractive and flexible package of services including daily, weekly, and monthly collections, as well as night-time collection service that supports Lewisham's night-time economy.

12.16. In contrast to Lewisham's residential areas that receive a weekly sweeping service, it's town centres receive an enhanced daily cleansing service to keep Lewisham's shopping and high footfall areas tidy. Resources are therefore directed to the areas of most need and the Council is willing to work with the business community, in partnership, to achieve greater levels of cleansing provision where it is desired.

12.17. In terms of comments regarding street greening, the Council has a wide scale tree planting programme which will include the consideration of all areas of the borough for increased planting and green cover.

12.18. With regards to comments on the licensing regimes in place, many licenses are set centrally by Government with no loval discretion, for those licenses for which fees are determined locally, these are set at affordable rates, whilst ensuring that costs attributed to the provision of the services are recovered, and there are no plans to provide discounts for businesses with lower levels of turnover.

Summary

12.19. The consultation was available to all of the 10,000 plus businesses registered in Lewisham and eighteen responses were received.

12.20. There were a number of comments and concerns raised regarding the level of business rates tax set by Government and the accessibility and level of Covid support measures available. In setting its General Fund budget the Council recognises the support needed to businesses and is therefore proposing to fund growth in the Economy and Partnerships service to continue to support businesses through and beyond the pandemic, whilst recognising that business rates and the relief and grants schemes are set centrally by Government.

12.21. There were also a number of comments provided on the General Fund services affecting businesses in the form of waste collection, street cleansing, licensing and enforcement and street trees/greening and the need for the Council to continue to ensure that its services provide value for money. These considerations underpin the ambition of Future Lewisham to ensure that our businesses can enjoy a Greener Lewisham, have a economically sound future and a future that we all have a part in.

12. Financial implications

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

13. Legal implications

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

Capital Programme

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

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

13.4. Section 11 Local Government Act 2003 allows for regulations to be made requiring an amount equal to the whole or any part of a capital receipt to be paid to the Secretary of State. Since April 2013, there has been no requirement to set aside capital receipts on housing land (SI2013/476). For right to buy receipts, the Council can retain 25% of the net receipt (after taking off transaction costs) and is then entitled to enter an agreement with the Secretary of State to fund replacement homes with the balance. Conditions on the use of the balance of the receipts are that spending has to happen within three years and that 70% of the funding needs to come from Council revenue or borrowing. If the funding is not used within three years, it has to be paid to the Ministry of Housing, Communities and Local Government, with interest. In London, the monies are then transferred to the GLA. However, the Council has entered into an agreement with the GLA where the GLA has agreed in principle that all monies received from central government arising from right to buy disposals in Lewisham will be ring fenced and made available to the Council as social housing grant.

Housing Revenue Account

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

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

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

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

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

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

Balanced Budget

13.11. In accordance with the Local Government Act 1992 the Council must set its Council Tax for 2021/2022 before 11 March 2021. By law it may not set the Council Tax before receipt of confirmation of the precept from the precepting authority, the GLA which is anticipated on 26 February. A report will be prepared for the Council meeting on 3 March 2021 on the basis of indications from the GLA but the report will be despatched before their final decision. The Executive Director for Corporate Resources will update the Council accordingly before it makes its decision.

13.12. Following the introduction of the Local Authorities (Standing Orders)(Amendment) Regulations 2014 the Council's Constitution was amended to require that when the Council votes on key budget and Council Tax decisions, the vote must be recorded. This requirement will apply when the Council meets to set the Council Tax.

13.13. Members have a duty to ensure that the Council acts lawfully. It must set and maintain a balanced budget each year. The Council must take steps to deal with any projected overspends and identify cuts or other measures to bring the budget under control. If the Capital Programme is overspending, this may be brought back into line through cuts, slippage, or contributions from revenue. The proposals in this report are designed to produce a balanced budget in 2021/22.

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

An annual budget

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

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

Referendum

13.17. Sections 72 of the Localism Act 2011 and Schedules 5 to 7 amended the provisions governing the calculation of Council Tax. They provide that if a Council seeks to impose a Council Tax increase in excess of limits fixed by the Secretary of State, then a Council Tax referendum must be held, the results of which are binding. The Council may not implement an increase which exceeds the Secretary of State's limits without holding the referendum. Were the Council to seek to exceed the threshold, substitute calculations which do not exceed the threshold would also have to be drawn up. These would apply in the event that the result of the referendum is not to approve the "excessive" rise in Council Tax. Attention is drawn to the statement of the Secretary of State that the Council may impose a precept of 3% on the Council Tax, ring-fenced for social care provision, and may impose an additional increase of less than 2% without the need for a referendum. The maximum proposed Council Tax increase is 4.99% and therefore below the combined limit.

13.18. In relation to each year the Council, as billing authority, must calculate the Council Tax requirement and basic amount of tax as set out in Section 31A and 31B of the Local Government Finance Act 1992. These statutory calculations appear in Appendix Y6.

Robustness of estimates and adequacy of reserves

13.19. Section 25 of the Local Government Act 2003 requires, when the authority is making its calculations under s31 of the Local Government Finance Act 1992, the Chief Finance

Officer to report to it on:-

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

(b) the adequacy of the proposed financial reserves.

13.20. The Chief Financial Officer's section 25 statement is appended to the Budget Report as Appendix Y5.

Treasury Strategy

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

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

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

Constitutional provisions

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

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

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

Statutory duties and powers

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

Reasonableness and proper process

13.28. Decisions must be made reasonably taking into account all relevant considerations and ignoring irrelevancies. Members will see that in relation to the proposed budget cuts there is a summary at Appendix Y1 and Y2. If the Mayor and Cabinet decides that the budget for that service must be reduced, the Council's reorganisation procedure applies if staffing numbers would reduce. Staff consultation in accordance with that procedure will be conducted and in accordance with normal Council practice, the final decision would be made by the relevant Executive Director under delegated authority.

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

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

Staff consultation

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

Best Value

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

Integration with health

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

14. Equalities implications

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

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

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

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

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

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

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

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

14.7. The EHRC has also issued Guidance entitled “Making Fair Financial Decisions”. It appears at Appendix Y9 and attention is drawn to its contents.

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

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

14.10. It is also important to note that the Council is subject to the Human Rights Act, and should therefore, also consider the potential impact their particular decisions could have on human rights. Where particular cuts have such implications, they must be dealt with and considered in relation to those particular proposals before any final decision is made.

15. Climate change and environmental implications

15.1. Section 40 of the Natural Environment and Rural Communities Act 2006 states that: ‘every public authority must, in exercising its functions, have regard, so far as is consistent with the proper exercise of those functions, to the purpose of conserving biodiversity’.

15.2. Overall there are limited changes to the budget structure and service funded either from agreed reductions or pressures funded. The environment considerations for any cuts were specifically considered as part of those proposals agreed by M&C. The environment considerations for the pressures to be funded in 2022/23, for example air quality, home energy, and healthier neighbourhood initiatives are positive.

16. Crime and disorder implications

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

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

17. Health and wellbeing implications

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

18. Background papers

Short Title of Report	Date	Location	Contact
Medium Term Financial Strategy	14 July 2021 (M&C)	1st Floor Laurence House	David Austin

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Budget Reductions Report 2022/23	2 February 2022 (M&C)	1st Floor Laurence House	David Austin
Council Tax Base	19 January 2022 (Council)	1st Floor Laurence House	David Austin

19. Glossary

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

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

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

21. Appendices

Capital Programme

W1 Capital Report and Appendices

Housing Revenue Account

X1 Proposed Housing Revenue Account Savings 2022/23

X2 Leasehold and Tenants charges consultation 2022/23 Responses

X3 Leasehold and Tenants Charges 2022/23 Regenter (Brockley)

X4 Leasehold and Tenants Charges 2022/23 Lewisham Homes

X5 Garage Rent Increase Report 2022/23

X6 Other Associated Housing Charges for 2022/23

General Fund

Y1 Summary of previously agreed budget reduction proposals for 2022/23 (Approved 2021)

Y2 Summary of budget reduction proposals for 2022/23

Y3 Budget reduction proposals - allocation to Base Budget and Overspend

Y4 Ready Reckoner for Council Tax 2022/23

Y5 Chief Financial Officer’s Section 25 Statement

Y6 Council Tax and Statutory Calculations

Y7 Summary of risks and pressures to be funded

Y8 Making Fair Financial Decisions

Treasury Management

Z1 Interest Rate Forecasts

Z2 Credit Worthiness Policy (Linked to Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management)

Z3 Approved countries for investments

Z4 Requirement of the CIPFA Management Code of Practice