

Lambeth Council

February 2019

Medium Term Financial Strategy

2019/20 to 2022/23

Contents

- **Section 1 – Context and Background**
- **Section 2 – Objectives of the Medium Term Financial Strategy**
- **Section 3 – National Context**
- **Section 4 – Medium Term Financial Strategy (MTFS)**
 - **MTFS**
 - **Spending Power**
 - **Council Tax Policy**
 - **Business Rates Retention**
 - **Strategy to Deliver Borough Plan**
 - **Managing Delivery of Savings**
 - **Reserves and Balances**
- **Section 5 – Capital Programme**
- **Section 6 – Financial Planning Cycle and Timetable**

Lambeth Council

Medium Term Financial Strategy (MTFS)

2019/20 to 2022/23

1. Context and Background

- 1.1 The Council continues to face a very challenging time, with unprecedented reductions in funding and the continuing demand pressures placed on our already stretched services and budgets. This report sets out our current Medium Term Financial Strategy (MTFS) story throughout 2018/19 and how we have changed it to now cover the four year planning period 2019/20 to 2022/23. The four year settlement provided in 2016/17 comes to an end in 2019/20, so the projections post 2019/20 of the MTFS (2020/21 to 2022/23) could change once we know the outcome of the Fair Funding Review.
- 1.2 The Fair Funding Review is still under consultation, so at this point in time we do not know the likely impact on Lambeth. However, some fundamental changes will occur to Business Rates income from 2020/21 onwards, because RSG and possibly the Public Health grant will get rolled into Business Rates Retention, with the public health grant still to be determined, but is progressively seeming to be unlikely to be rolled in. The London 2019/20 Business Rates Pilot Pool will be under the same 75% retention rules as what we will see under the new Business Rates Retention system in 2020/21. This means Council's will be able to retain 75% of income, and will be able to retain 75% of growth in the base. We will endeavour to keep a close review of the outcomes of the current consultation, and how this progresses throughout the summer and as soon as we know more on this matter, we will duly update our MTFS.
- 1.3 It was hoped that when the Fair Funding Review result is announced as part of the 2019 Spending Review in December 2019 it would be for at least a four year period, enabling councils to better plan for the future. However, current information from MHCLG suggests that the settlement will be for one year only (2020/21), and this is primarily due to the uncertainty around Brexit and the impacts this could have on Central Government. What we do know is there is to be a full reset of the Business Rates baseline in 2020/21, and therefore any growth that we have started to see come through will be wiped out. There is now a consultation on future resets post 2020/21, in regard to their frequency and whether it should be a full, partial or phased reset.
- 1.4 Our current MTFS and the future changes have been and will continue to be developed to ensure that it underpins and supports the delivery of significant change, and our Borough Plan priorities and outcomes of driving inclusive growth, tackling inequality and building strong and sustainable neighbourhoods.

2. Objectives of the MTFS

2.1 The main objectives of our MTFS are:

- Prioritise our resources in-line with the Council's Borough Plan, and to ensure we achieve our core three priorities.
- Maintain a balanced budget position, and to always set a MTFS which maintains and strengthens that position.
- Provide a robust framework to assist the decision making process within the Council.
- Manage the Council's finances with a forward looking three year rolling strategy.
- Deliver value for money to our tax payers
- Exercise probity, prudence and strong financial control.
- Manage risk, which includes holding reserves and balances at an appropriate and sustainable level as agreed by our S151 Officer.
- Continually review budgets to ensure resources are targeted on our key priorities.

2.2 These objectives are at the core of our current MTFS and we will ensure that these objectives are upheld throughout the duration of the MTFS and beyond. Value for money and risk management are at the heart of the strategy. In respect of value for money to our tax payers, Cabinet Members have sought to identify efficiencies and savings that do not adversely impact on service delivery where possible and have identified options to enhance value for money through improving performance and/or reducing internal costs.

2.3 The most recent Settlement provides some assurance for 2019/20. However, now this is the final year of funding in the current settlement, the future year projections within the MTFS are based on assumptions only, and follow a projected reduction of core funding of 7% which is in-line with national projections made by the Institute of Fiscal Studies.

2.4 The MTFS will continue to be updated as we gain greater certainty and clarify on the level of funding. The delivery of agreed savings is an area of significant risk, and detailed plans are required to ensure that the risk is mitigated and the saving is actually delivered and on time. Due to the importance of delivering savings, this will be monitored on a monthly basis through the savings tracker, through the budget monitor report, and by the Budget & Performance Sub-Group.

3. National Context

- 3.1 Lambeth’s financial and service planning takes place within the context of the national economic outlook, which affects departmental expenditure plans. Therefore our MTFS will keep being updated as and when changes occur.
- 3.2 In the Chancellor’s Autumn Budget 2018, he set out the latest forecasts on the UK economy. These were provided by the Office for Budget Responsibility (OBR).
- 3.3 Productivity growth has been revised upwards compared with the Spring Budget 2018. GDP has been predicted to be 0.5% higher over the years to 2022/23 compared with the Spring Statement 2018. There is a slight peak in 2019 and then it is expected to level out at 1.5% towards the end of our current MTFS period. However, these projections are dependent upon a smooth exit from the EU. Household spending, labour productivity growth, unemployment rates, business investment growth and net trade all contribute to the GDP growth, shown in the table below:

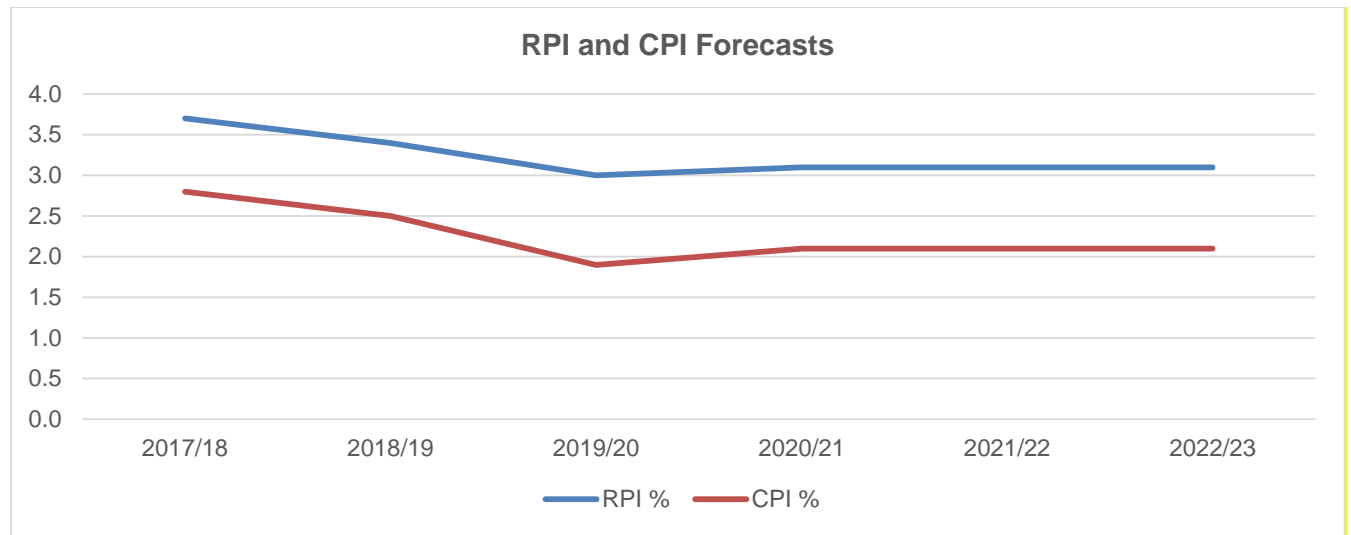
Table 1	2018/19	2019/20	2020/21	2021/22	2022/23
GDP Growth Forecast (%)	1.4	1.6	1.4	1.5	1.5

- 3.4 The amount of money the government needs to borrow each year is called public sector net borrowing or the deficit. It is lower in every year compared with the Spring Statement. As a percentage of GDP, it is forecast to be 0.9% in 2022/23 which is its lowest level since 2001/02. Tax receipts in 2018/19 have been higher than expected and it has been forecast that this trend will continue in the next few years. More receipts means less borrowing, which in turn means lower debt interest repayments. Departmental spending has also been lower than expected. The government is now planning to use some of this extra money, mainly on the NHS, rather than aiming to have a balanced budget by 2025.
- 3.5 Public sector net debt (PSNB) is the total amount of money owed by the public sector. As a percentage of GDP it is expected to fall each year. By reducing the amount we borrow each year, it will be easier to reduce our total debt.

Table 2	2018/19	2019/20	2020/21	2021/22	2022/23
Public sector net borrowing (£bn)	25.5	31.8	26.7	23.8	20.8
Public sector net borrowing (% of GDP)	1.2	1.4	1.2	1.0	0.9
Public sector net debt (% of GDP)	83.7	82.8	79.7	75.7	75.0

- 3.6 Interest rates are expected to remain very low for the foreseeable future. The base rate is the official borrowing rate and is set by the Bank of England. In August 2018 the bank made only the second rise in a decade from 0.50% to 0.75%, and said there would be further “gradual and limited” rises in the future. The OBR expects the rate to be 1.5% by 2022/23. Higher interest rates increase the cost of government debt interest payments.
- 3.7 Inflationary pressures are expected to steadily decline – this will support consumer spending power. The Retail Price Index and the Consumer Price Index are two commonly used measures of inflation. The RPI is expected to fall to 3.1% by 2020/21 and remain at that level. The CPI is forecast to show a similar trend, levelling out at 2.1% by 2020/21.

Table 3	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
RPI %	3.7	3.4	3.0	3.1	3.1	3.1
CPI %	2.8	2.5	1.9	2.1	2.1	2.1



3.8 In the preparation of the MTFs we have considered an appropriate level of inflation throughout the medium term. We have made specific allowances for contracts which oblige us to increase the amount we pay by inflation. Alongside this we have made allowances for pay increases which have been agreed and confirmed by the National Joint Council.

4. Medium Term Financial Strategy

- 4.1 The Council's 2018/19 Budget report was agreed at Council in February 2018 which set out the council had a funding gap of £40.7m over the period 2018/19 to 2020/21, and this position was after setting the Council Tax and NNDR base for the council. The funding gap was mitigated through the application of an additional £2.5m gained through the review of the pension contribution, and the application of the ASC growth of £3m over the three years. The funding gap was then further mitigated by £28.456m of brought forward savings. The report then presented a series of new savings proposals totalling £6.783m, which acted to balance the budget over the MTFs.
- 4.2 On 23 July 2018, we presented the July Finance Planning Report to Cabinet. This report confirmed a number of new pressures that we had now factored into the MTFs, and included extending the MTFs period through to 2022/23. It was felt prudent to extend the strategy to assist with longer term financial planning to support the financial resilience of the council.
- 4.3 As a consequence of extending the MTFs and applying the new pressures, we reported a residual funding gap of £26.430m because at that point we had £16.802m of brought forward savings from prior financial planning rounds, so overall the gross funding gap was £43.232m.
- 4.4 We set saving targets by directorate but also considered the targets against the council's four pillars. Work over the summer then took place in identifying new saving proposals to help close the funding gap.

Table 4

£'000	Growth	Resilience	Commissioning	Place	Corporate	Corporate Items	Grand Total
Net 2018/19 Budget	6,145	16,712	149,402	38,416	42,583	34,270	287,528
Previously Agreed Savings:							
2019/20	88	1,710	6,004	1,840	1,098	5,727	16,467
2020/21	0	0	335	0	0	0	335
Total Previously Agreed Savings	88	1,710	6,339	1,840	1,098	5,727	16,802
Saving Target After Agreed Savings:							
Total Saving Target 2019-2023	743	1,221	15,635	3,945	4,886	0	26,430
% Saving of 2018/19 Baseline Budget	12.10%	7.30%	10.46%	10.27%	11.47%		
£'000							
	Adults & Public Health	Children's Services	Neighbourhoods & Growth	Corporate Resources	No Recourse to Public Funds	Corporate Items	Grand Total
Net Budget 2018/19	81,537	70,855	41,402	56,117	3,347	34,270	287,528
Previously Agreed Savings:							
2019/20	699	6,655	2,288	1,098	0	5,727	16,467
2020/21	335	0	0	0	0		335
Total Previously Agreed Savings	1,034	6,655	2,288	1,098	0	5,727	16,802
Saving Target After Agreed Savings:							
Total Directorate Saving Target 2019-2023	9,785	5,500	4,086	6,629	431	0	26,430
% Saving of 2018/19 Baseline Budget	12.00%	7.76%	9.87%	11.81%	12.88%		

- 4.5 In the December Finance Planning Report presented to Cabinet on 17 December 2018 we confirmed we had worked to close the funding gap of £43.232m. The report presented the full suite of savings, which totalled £43.676m, resulting in a surplus of £0.444m over the MTFS.
- 4.6 As new savings were proposed this presented an opportunity to review the brought forward savings to ensure that the full offer and impacts had been considered as a package. Consequently we revised some of the brought forward savings including profiling, and as such that is why the December report presented the full suite of savings over the MTFS. Although overall the MTFS was balanced, in most instances the new savings were pushed back to future years, this left a gap of £1.878m in 2019/20 to be filled. The table below confirms this position:

Table 5

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	TOTAL 2019- 2023 £'000
Total Funding Gap as per MTFS	23,318	8,525	9,387	2,002	43,232
Total Proposed Savings	(21,440)	(7,029)	(7,630)	(7,577)	(43,676)
Revised Funding Gap/(Surplus)	1,878	1,496	1,757	(5,575)	(444)

- 4.7 With the above confirmed saving position looking as follows when considered across the four pillars:

GROWTH		RESILIENCE		INDEPENDENCE		PLACE		CORPORATE	
SAVING TARGET AS % OF BUDGET	17%	SAVING TARGET AS % OF BUDGET	17%	SAVING TARGET AS % OF BUDGET	17%	SAVING TARGET AS % OF BUDGET	17%	SAVING TARGET AS % OF BUDGET	17%
OVERALL SAVINGS TARGET = 43,232									
TOTAL SAVINGS	258	TOTAL SAVINGS	4,672	TOTAL SAVINGS	20,248	TOTAL SAVINGS	6,035	TOTAL SAVINGS	12,463
GRAND TOTAL PROPOSED SAVINGS = 43,676									
OVERALL (OVER) / UNDER ACHIEVEMENT OF TARGET = (444)									
TOTAL SAVINGS AS % OF TOTAL BUDGET	4%	TOTAL SAVINGS AS % OF TOTAL BUDGET	19%	TOTAL SAVINGS AS % OF TOTAL BUDGET	14%	TOTAL SAVINGS AS % OF TOTAL BUDGET	16%	TOTAL SAVINGS AS % OF TOTAL BUDGET	16%

- 4.8 Since the reported December 2018 position there have been a number of further announcements, primarily the Provisional Local Government Finance Settlement 2019/20. We have also now calculated our final Council Tax and NNDR tax base figures, which were agreed by Corporate Committee on 24 January 2019.

- 4.9 For the purpose of transparency, when setting the funding gap in July, we recognised the risk of delivering £5.727m which related to Organisational Redesign and commercial income savings and included growth within the MTFs. As we progressed into the December financial planning round, we now know with certainty that these cannot be delivered as originally envisaged, in finalising the budget, we have removed these items from both the growth and savings. This has contributed to the funding gap reducing from £43.232m to £37.664m, and the total savings from £43.676m to £37.664m.
- 4.10 In summary, the funding gap is now £37.664m and the total savings is now £37.664m. This means we have balanced the council's budget over the first two years and overall, but have a £2.449m gap in 2021/22 which is offset by a £2.449m surplus in 2022/23. The current position is confirmed in the table below:

Table 6

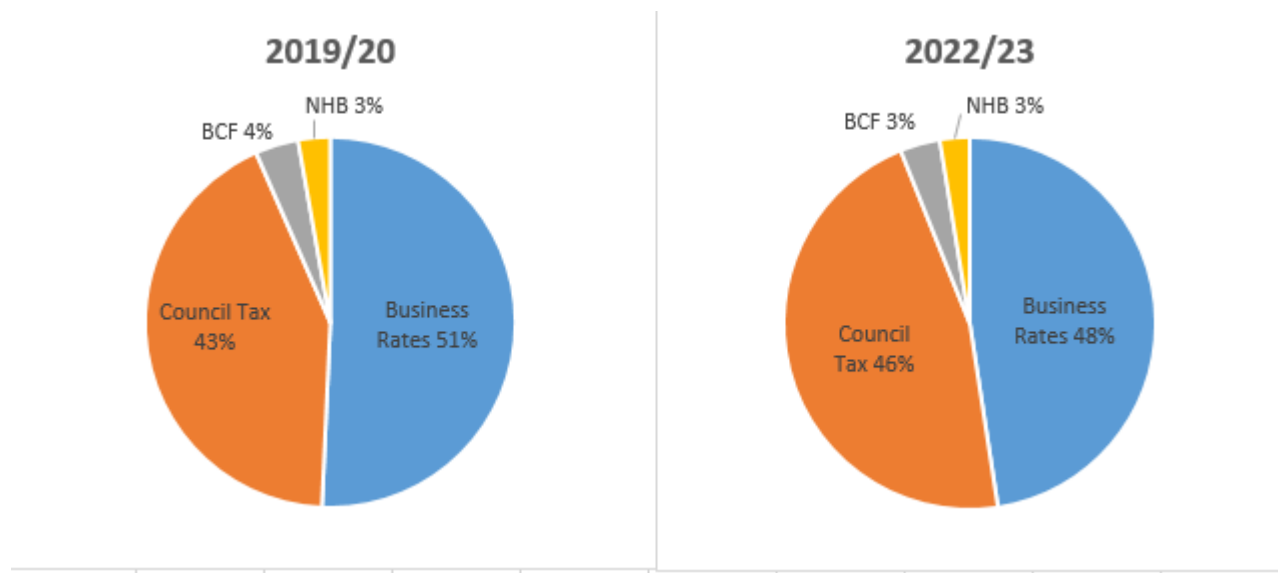
	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Total Funding Gap as per MTFs	15,642	6,955	10,002	5,065	37,664
Total Agreed Savings	(15,642)	(6,955)	(7,553)	(7,514)	(37,664)
Revised Funding Gap/(Surplus)	0	0	2,449	(2,449)	0

Spending Power

- 4.11 The spending power of the council has started to stabilise, however, our funding gap is still significant and this is mainly due to the demand pressures the council is facing and therefore having to provide growth for. The pie charts below demonstrate the profile of funding is expected to change with further reliance on Council Tax as we move through the MTFs. It should be noted that 2022/23 is likely to change once we know the outcome of the Fair Funding Review
- 4.12 The absolute values of our forecast funding position are set out in the table below and the relative position captured in the pie charts:

Table 7

Funding Source	2019/20 £'000	2022/23 £'000
Business Rates	145,961	139,474
Council Tax	122,881	135,891
Better Care Fund	10,865	10,174
New Homes Bonus	8,040	7,583
Total Cash Limit	287,747	293,122



- 4.13 With the Revenue Support Grant being rolled into Business Rates Retention, the Settlement Funding Assessment is now just made up of Business Rates Retained and Business Rates Top-up. The SFA is our needs assessment, and then Core Spending Power (CSP) is assessed using all elements of our funding even council tax. The issue with having council tax in the core spending power calculation is the level it is assumed at. Central Government always assume council tax is at the maximum level, so including the maximum allowable increases and using a trend of prior year base increases. Therefore if the base has an exceptional year of growth like ours did in 2018/19, which was partly due to the Council Tax Support Scheme saving being made in that year, this will affect the assumed council tax level in the CSP calculation going forward. This is an element of the calculation which we hope is reviewed and amended in the Fair Funding Review to ensure that a more realistic assumed level of council tax is used in the new formula.
- 4.14 The message from MHCLG currently is there will be transitional arrangements in place in the early years of the new funding allocation. It suggests that the pot of funding will not get bigger, and efficiencies will still need to take place. At this stage we can only surmise that there will be winners and losers of the new formula. This is a time of significant uncertainty, because we will only know the new funding allocation for 2020/21 in December 2019, and when we are setting the 2020/21 budget in February 2020, it leaves very little time to manage any reduction in our forecast funding position.

Council Tax Policy

- 4.15 As part of addressing the funding gap, we have modelled to increase the Lambeth element of the Council Tax by 2.99% in 2019/20, this proposal is utilising the flexibility of applying an additional 1% to Council Tax without the need for referendum, which was announced as part of 2018/19 Financial Settlement on 19 December 2017.
- 4.16 We have modelled a further 1.99% increase in the remaining years of the MTFS 2020/21 to 2022/23, below the level required for a referendum, which is what has further helped us in balancing the Council's budget over the MTFS. This assumption is included in the figures, and the recommendation to increase Council Tax in 2020/21, 2021/22 and 2022/23 is subject to decision by Cabinet and Council and will be addressed in future years budget reports.

Business Rates Retention

- 4.17 The introduction of the Business Rates Retention Scheme in 2013/14 provided an incentive for authorities to grow their business base by virtue of retaining a proportion of business rates growth achieved, in

Lambeth's case 30%. However, it also means that Councils must manage the down side of changes to the business rate base, and as Business Rates are susceptible to economic downturns, and as our funding reliance grows in respect of Business Rates, the future risk around this important funding stream further increases.

- 4.18 With effect from 01 April 2018 the Business Rates London Pilot Pool commenced and this was a 100% retention scheme, meaning Lambeth and the GLA shared 100% of Business Rates, with the exact split being 64% to Lambeth and 34% to the GLA. With effect from 01 April 2019 the Business Rates London Pilot Pool will continue, but under different rules, with it being a 75% retention scheme, this means that Lambeth and the GLA will share 75% with the remaining 25% going to Central Government. The exact split of the 75% will be Lambeth's share will equal 48% and GLA share will be 27%.
- 4.19 In 2020/21 alongside the Fair Funding Review outcome this year will be the first of the 75% retention scheme, whether council's are in a pilot or not. Having a 75% retention scheme means that primary legislation is not required, when it would be required for a 100% retention scheme. We do know that a full base reset is due also in that year, which means any growth will be wiped out of the system. Future reset frequencies and types are yet to be decided.

Strategy to Deliver Borough Plan

- 4.20 We have worked to ensure that our financial strategy supports the delivery of the Borough Plan, by ensuring we are investing to better focus our service provision for both vulnerable children and adults, so we help to bridge the inequality gap. In parallel, we must continue to transform our universal service provision to enable us to manage within the ever decreasing cash limit.
- 4.21 The Chief Executive has reviewed the terms of reference of the Management Board to provide effective management, leadership and direction for the work of the Council ensuring that priorities as set out in the Borough Plan and manifesto are delivered. This board meets fortnightly and focuses on the organisation's strategy, budget and performance, assurance and programme management.
- 4.22 The Management Board will be supported by a number of sub-groups, chaired by a strategic director with membership from across the organisation's director's network. These are:
- Workforce – Strategic Director Corporate Resources
 - Budget and performance – Strategic Director Adults and Public Health
 - Contracts and procurement – Strategic Director Children's Services
 - Assets – Strategic Director Neighbourhoods and Growth
 - Intelligence and information governance – Strategic Director Corporate Resources
- 4.23 These groups will be responsible for the implementation of existing strategies and plans, actions to address delayed implementation, the development of supporting policy and procedures, and escalation to management board where necessary.

Managing the Delivery of Savings

- 4.24 The Budget and Performance sub-group has the responsibility to
- develop budget strategy and oversee its implementation with reference to, and consideration of, performance
 - review budget implementation plans where interventions at the services level and the management board sub-group have not delivered expected progress.
 - Referral up to Management Board if Budget and Performance Board sub-group actions do not lead to sufficient progress within agreed time limit

Reserves and Balances

- 4.25 The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. These reserves are maintained to fund exceptional items or pressures which are difficult to predict and which are not included in revenue budgets or within the capital programme. There are also reserves for specific government funding that is carried forward from year to year.
- 4.26 The council has planned for the use of reserves to help smooth the impact of government funding reductions and other budget pressures especially during the period of austerity. Not only did this help to protect council services but it has also allowed time to transition towards new ways of working, productivity improvements and efficiencies.
- 4.27 The level of balances remains subject to the scrutiny of the section 151 officer who must ensure that any one-off contributions to the budget are appropriate and affordable. The budget proposals for 2019/20 do not include a planned release of reserve.
- 4.28 **Balances:** The council held General Fund balances of £22.851m as of 31 March 2018. The Director of Finance (the Council's s151 officer) has stated that 'I have consistently advised members that in my professional opinion the minimum level of balances (i.e. unallocated reserves) that the Council needs to maintain to ensure financial stability, and so provide a strong environment within which outcomes can be continuously improved, is 5% and that the Council should plan to hold balances of approximately 10% of net revenue expenditure.' The current general fund balance of £22.851m represents 7.9% of net expenditure in 2018/19. However, by the end of 2018/19 we project to have contributed £0.939m to balances, so by the end of this financial year the current forecast is we will have £23.79m in balances which is 8.3% of current net expenditure. This allows the council to absorb unexpected reductions in resources and increases in expenditure without increasing the burden on Council Tax payers.
- 4.29 **Earmarked reserves:** The total General Fund earmarked reserves balance at 31 March 2018 was £40.726m and the HRA earmarked reserves balance was £44.390m, therefore equating to total earmarked reserves of £85.116m. The council's strategy on earmarked reserves is to use them only to fund the specific pressures for which they were created.
- 4.30 **Provisions:** In accounting terms, liabilities occur because of past decisions made by an organisation which will then result in an obligation for the organisation to settle this in the future with an outflow of money or provision of a service.
- 4.31 Provisions are required to be recognised in the Council's accounts in accordance with proper accounting practice when the criteria for recognition are met. There is no discretion in this recognition, or on the level of provisions held. The Council held General Fund provisions totalling £106.445m as at 31 March 2018. The significant increase from the prior year is due to the Redress Scheme. At 31 March 2018 HRA provisions totalled £2.244m, resulting in total provisions for the council of £108.689m.

5. Capital Programme

- 5.1 Revenue expenditure is concerned with the day-to-day running of services, whilst capital expenditure is a key element in the development of the Council's services concerned with investment in the assets required to deliver services. Decisions on the capital programme do have an impact on the revenue budget; however, and this could relate to: the revenue costs of financing capital and the ongoing running costs of new assets.
- 5.2 The capital programme is updated annually and is reviewed on a regular basis, with any changes noted within the two financial planning reports presented to Cabinet each year. The capital programme sets out a clear framework on planned expenditure and how it will be financed. Investment decisions are assessed in terms of their contribution to the Borough Plan priorities.

6. Financial Planning Cycle and Timetable

- 6.1 Table 6 below confirms the financial planning timetable that we will endeavour to meet each year. However, due to pressures and availability of key staff and Members, there may be movement to this timetable as we move through the MTFS. However, we will always meet the deadline in February, whereby the budget setting report will get approval from Cabinet and then Full Council by the end of February. We will also always provide two financial planning reports to Cabinet throughout the year. We envisage this to happen in July and November, but this is flexible and will be amended to reflect the specific circumstances in each given year.

Table 8

Date	Activity
April	Work starts on the strategic budget and service planning
July	Budget strategy and process reported to Cabinet
November	Savings are formally agreed by Cabinet
	Cabinet approves finalised MTFS
January	Corporate Committee agree tax base
February	Budget strategy report to Overview & Scrutiny committee
	Cabinet reviews proposed budget and recommends to Full Council
	Full Council approves the next year budget and council tax