

CABINET 20 JULY 2020

Report title: Financial Planning and Medium Term Strategy Report 2020/21 to 2024/25

Wards: All

Portfolio: Cabinet Member for Finance and Performance: Councillor Maria Kay

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Report summary

This is one of the most uncertain periods in peacetime to be making financial planning assumptions in local government. Local government was already facing a backlog of uncertainty before the Covid-19 pandemic struck: the expectation of the fair funding review; the revaluation of business rates and the retention of business rates; as well as the adult social care green paper and funding review. Although it has been momentarily eclipsed, Brexit also remains firmly on the horizon.

All of these issues and uncertainties have not gone away and have been delayed as a result of the Covid-19 pandemic and government response to it, both central and local. Central government has for a number of years been providing local government with a series of one-year financial settlements, rather than sustainable longer term funding settlements, placing further uncertainty on councils when they consider their finances over the medium and long term.

Lobbying on a sustainable, long term level of funding for next year and beyond is being made to central government in order to assist in the budget setting for 2021/2022. In the meantime, the Council is making prudent assumptions on the level of settlements received from government.

The Council agreed the 2020/21 budget at its meeting in February 2020. The budget agreed savings of £28m in order to deliver a balanced budget across the financial planning period 2020/21 through to 2023/24. This report extends the MTFS planning period by one year to 2024/25 and revises the position for 2021/22 onwards as a result of the outturn in 2019/20 and the first few months of this financial year operating under the lockdown as a result of the pandemic. The effect of the pandemic on the Council's finances is severe, with increased costs in order to protect and care for those in need and loss of income from closure of facilities and suspension of enforcement services. The funding received so far is not sufficient to cover the forecast losses and expenses. The full impact may be unknown for some time as the public health crisis continues. The extent of further financial support from Government is not known and the Chancellor's Summer Statement on 8 July did not contain any specific measures for local government funding.

We've spent millions on supporting care homes, providing PPE, giving out millions to keep businesses going, making emergency transport changes to aid social distancing and delivering over 20,000 food packages to vulnerable people. But that extra spending, combined with a huge fall in income from parking, business rates and council tax, means we face a huge budget shortfall.

The government at the start of the pandemic said that councils would be fully funded and that we should spend whatever it takes. But so far, government funding covers less than half of the financial impact (£19 million of a £47 million budget shortfall). Even our most cautious estimates are that Lambeth council could face a funding crisis of £17 million – and it could be as high as £50 million as the country faces a recession and huge uncertainty. That’s more than we spend on rubbish collection, parks, libraries, leisure centres, roads, children’s centres and public health all together.

Much of the uncertainty in planning for the future is driven by Covid-19 because it is not possible to predict the pattern of infection over the coming months and years and therefore the impact on the local economy and council finances as well as the national economy and government funding. In order to try and manage this uncertainty we are using three possible scenarios as a basis of calculating the potential impact on expenditure and income pressures and estimating the funding gaps over the next four years.

The budget report in February also set the financial envelope for the capital investment programme. This report now sets the allocation of the budget within this envelope outlining the council’s priorities within which individual schemes will be developed.

To support a recovery that works for everyone, we have an ambitious agenda of investment in jobs, homes, public infrastructure and tackling climate change. Our Capital Investment Programme will see over £370 million invested over the next 5 years in the borough in schools, hospitals, libraries, parks, transport infrastructure and community facilities.

It will support ambitious economic plans for affordable workspace, good jobs and culture and leisure facilities in every part of the borough and will see record investment in making our area greener and in digital infrastructure to address the gap in digital connectivity that we’ve seen over the next few months.

We’re able to invest this money because of prudent use of the council’s resources and assets and good financial management over the last few years despite government cuts. But that investment, and our ability to support our residents as we have over the last few months, could be put at risk if the government doesn’t keep its promises to fund local authorities for the work we’ve done to fight Covid-19.

Finance summary

This whole report concerns the Council’s financial position.

Recommendations

1. To note the key risks set out in paragraphs 2.8 to 2.57
2. To re-affirm the Council’s commitment to delivering the agreed revenue savings planned for 2021/22 (£9.396m) and 2022/23 to 2023/24 (£8.806m), as set out in Table 3.
3. To approve the change to the funding deficit as set out in Table 3 and the consequent amendment to the Council’s Medium Term Financial Strategy.
4. To note the residual gaps identified under various scenarios in Table 4.
5. To note the 2019/20 General Fund overspend of £12m as confirmed in Table 5 paragraph 2.58

6. To note the 2019/20 Housing Revenue Account outturn is on budget as confirmed in Table 6 paragraph 2.63
7. To note the capital investment outturn of £230.5m against the 2019/20 budget of £356.4m as detailed in paragraphs 3.1 to 3.2 and Appendix 1.
8. To approve the 5 year Capital Investment Programme for the period 2020/21 to 2024/25 as set out in paragraphs 3.6 to 3.16 and summarised in Appendix 2.
9. To note the Capital Strategy in Appendix 3.

1. CONTEXT

- 1.1 This report sets out the changes to Lambeth's Medium Term Financial Strategy (MTFS) which was agreed in February 2020 as part the Council's budget and Council tax setting report. The Council's cash limit did not change as a result of the final announcement of the Local Government Financial Settlement on 6 February 2020.
- 1.2 As a result of the outturn of the Council's financial position for 2019/20, a number of pressures have been identified which have ongoing implications in terms of the revenue funding deficit of the budget. These pressures are set out in section 2 below and addressed as part of the updated MTFS. In addition, the Covid-19 pandemic is having a significant impact on council budgets with numerous pressures identified in 2020/21. Further saving plans and mitigating actions will need to be identified and put in place to bridge the gap.
- 1.3 For 2020/21, there was a single year settlement with a Comprehensive Spending Review (CSR) scheduled to take place during 2020 as announced in the Budget in March. However, with the Government's focus on responding to the pandemic, this review has been delayed. Also expected but delayed are the Fair Funding Review and the Business Rate reset, now expected to be implemented in 2022/23. Therefore, as we move into the next CSR, there remains a great deal of uncertainty around our funding position, but as the changes start to become known we will update the MTFS accordingly.

2. PROPOSAL AND REASONS

Medium Term Financial Strategy

- 2.1 The MTFS must be organic, because each year the Council will experience changes in funding, new uncontrollable pressures that were previously not known, and therefore our MTFS must adapt and change to meet these challenges.
- 2.2 In the current year, the financial impact of the pandemic has seen pressures of £47.6m due to additional costs of services and loss of income due to the lockdown measures. The Government has so far provided £19.6m, leaving a gap of £28m. On 2 July, MHCLG announced a further £500m to meet cost pressures and a scheme to cover councils' lost income whereby councils will need to cover the first 5% of all lost planned sales, fees and charges income, with the government compensating them for 75p in every pound of loss thereafter. We will not know the exact amounts until further detail on allocation and scheme criteria are released.
- 2.3 In addition, there is a loss to the Collection Fund due to a reduction in the collection of council tax and national non-domestic rates (NNDR) of £28.6m, which is proposed to be spread over three years rather than the usual one year. There will also be further decisions on the apportionment of irrecoverable council tax and business rates losses between central and local government for 2020 to 2021 in the next spending review.
- 2.4 Outside of the public health and economic emergency, this period will see substantial changes as the results of Comprehensive Spending Review, Fair Funding Review, Business Rates baseline reset, and Business Rate retention are implemented.
- 2.5 The short term impact of pandemic response, the changing wider economic conditions and uncertain local government funding framework together create an unprecedented level of uncertainty, as a result we have included ranges of impact on funding and pressures.

Cash Limit and Funding

- 2.6 The Council set out its budget in the report to Council on 12 February 2020 for the period 2020/21 to 2023/34, and this captured the £28.023m of agreed savings over the period 2020-2024 to ensure we delivered a balance budget over the four year period. At the time of presenting the Budget Report to Council the confirmed cash limit for 2020/21 was £307.674m.
- 2.7 The breakdown of the 2020/21 net cash limit of the Council is set out in table 1 below:

Table 1 Cash Limit 2020/21

Funding Source	2020/21 £m
Revenue Support Grant	32.207
Top-up Payment	63.754
Retained NDR	47.774
Settlement Funding Assessment	143.735
New Homes Bonus	8.209
s31 Grant	1.455
Council Tax	130.430
Improved Better Care Fund	14.507
Social Care Support Grant	9.338
Total Cash Limit	307.674

- 2.8 The settlement for 2020/21 was for a single year. In our agreed MTFS we had to a large extent assumed the same settlement funding level to be maintained until 2023/24. However, over recent months we have worked to update our funding assumptions, and these are captured within our updated MTFS, which has been extended by another year to 2024/25.
- 2.9 In light of the analysis and updating, the forecast cash limit of the Council over the MTFS is as follows (Council Tax projections assume average tax base increase of 1.99% per annum, but any Council Tax rate increase is subject to Council approval as part of the budget setting process)

Table 2 Net Cash Limit

Funding Source	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Settlement Funding Assessment (including Revenue Support Grant, Retained Business Rates and Business Rates Top-up Payment)	143.735	143.735	143.735	143.735	143.735
New Homes Bonus	8.209	5.292	3.127	1.979	2.007
Business Rate Adjustment	1.455	5.500	5.500	5.500	5.500
Council Tax	130.430	134.888	139.498	144.265	149.196
Improved Better Care Fund	14.507	14.580	14.653	14.726	14.800
Social Care Support Grant	9.338	9.338	9.338	9.338	9.338
Total Cash Limit	307.674	313.332	315.851	319.543	324.575

Core central government funding is assumed to be broadly stable over the 5 year period with small rises in the Improved Better Care Fund allocation. We believe this to be a prudent forecast and is aligned to a wider economic forecast on Local Government funding over the same period.

Business Rates London Pool and re-basing of Business Rates

- 2.10 The Business Rates London Pilot Pool commenced in April 2018 on 100% retention and was extended into 2019/20 on 75% retention. For 2020/21, there was no pilot pool arrangement, but all London boroughs agreed to form a pool on the 67% retained total.
- 2.11 Our 2020/21 Business Rates retained element is budgeted for at the level confirmed within the financial settlement baseline figures. Due to pooling arrangement, until all London boroughs submit their 2020/21 NNDR1 and NNDR3 forms our exact net benefit is not known, thus we have taken the view not to budget for this net benefit. Until the future arrangements are settled, we will continue to treat this as one off and take this benefit into reserves.
- 2.12 The current business rates baseline has been in place since 2013/14 and is due to be updated through a reset process. This was to take place in 2020/21 but this has also been delayed.

New Homes Bonus (NHB)

- 2.13 In the 2020/21 settlement, it was confirmed that new NHB payments will not generate any legacy payments. Previously, any in-year NBH payment continued for multiple years, with payments from 2019/20 payable each year until 2022/23. The planned changes to NHB of the threshold increase and the adjustment for homes approved by the Planning Directorate have still not taken place, and no date as to when these may be implemented has been confirmed. The baseline of 0.4% is still applicable, but this is not a concern for Lambeth, as our tax base continues to increase well above this baseline. Our MTFS continues to assume in year NHB payments will continue, without any legacy payments.

Council Tax

- 2.14 Council Tax income is determined by the council tax base and council tax rate. For the tax rate, we have modelled a 1.99% increase in all remaining years of the current MTFS (2021/22 to 2024/25) in line with the referendum limit, however the recommendation to increase council tax in the future years is subject to decision by Cabinet and Council and will be addressed in future years budget reports.
- 2.15 The council tax base continues to grow and the assumed rate of growth within the MTFS is 1.4%. This has been exceeded in recent years however with the uncertainty in development and increased numbers of Council Tax Support claimants, we will continue with this assumption and review periodically as new information becomes available.

Revenue Funding Deficit 2020/21 to 2024/25

- 2.16 In updating our MTFS we have identified additional pressures across the Council, which we believe will crystallise over the MTFS period, and as such we have prudently captured these in our latest MTFS. The new additional pressures are shown in Table 3, which confirms the overall funding gap of the Council. The following paragraphs address these pressures in detail.

- 2.17 It should be noted that only new pressures are identified below; pressures already captured in our MTFS were previously confirmed and addressed within both the July and November Finance Planning Reports presented to Cabinet in 2019, and the February 2020 Budget Report.

Identified Pressures

Inflation

- 2.18 The MTFS already captured funding for future pay awards at 2% and this has been extended to 2024/25. As negotiations between the Unions and LG Employers continues, we have made further allowances for increases to better prepare for results of national bargaining.
- 2.19 Contract Inflation has also been reviewed and going by prior year trends and utilising current forecasts on RPI and CPI growth, we have factored into our MTFS additional pressures of £1.407m in 2021/22, £0.788m in 2022/23, £0.728m in 2023/24 and £5.689m in 2024/25.

Unavoidable Growth

- 2.20 Pressures of £21.3m over the MTFS period have been identified, which include £7.7m for Temporary Accommodation, £0.5m for rough sleeping and homelessness, £3.9m for HB Overpayment recovery, £3.38m for Adult Social Care, £3.38m for Children Services (this formalises the share of the Social Care Grant and which was a temporary virement in 2020/21), £1m for Council Tax collection court costs, £0.607m for Electoral Services, £0.435m for Facilities Management, £0.119m for Exchequer services, £0.112m for Services previously funded from DSG and £0.049m for Performance and Business Improvement.

Undelivered Savings

- 2.21 Prior year agreed savings of £0.250m for Revenue and Benefits have been identified as undeliverable. This is due to the saving not being recoverable from the HRA.

Revised Funding Gap

- 2.22 Table 3 below sets out the changes since the February 2020 Budget Report. The table confirms the new pressures detailed above which confirms the current funding gap of £16.938m for the Council through to 2024/25. The proposed mitigations to close the identified funding gap will be developed throughout the summer, and we will bring to Cabinet a set of saving proposals through the November Finance Planning Report.
- 2.23 The Business Rates Smoothing contingency allows for the temporary losses and gains on business rates retention to be managed more effectively.

Table 3 Revised Funding Gap

Position at Budget Report February 2020	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Funding Gap	9.821	9.396	7.806	1.000		28.023
Savings Agreed	(9.821)	(9.396)	(7.806)	(1.000)		(28.023)
Balanced Budget 2020/21 to 2023/24	0.000	0.000	0.000	0.000		0.000

July 2020 Financial Planning Changes:						
(Increase)/Decrease to Year on Year Cash Limit Change	0.000	(10.652)	(0.002)	(0.054)	(5.032)	(15.740)
New Pressures Identified:						
Technical Adjustments	0.000	6.049	(2.849)	0.000	0.000	3.200
Business Rate Smoothing Contingency	0.000	0.000	0.813	(1.468)	0.000	(0.655)
Unavoidable Growth- Inflation	0.000	1.407	0.788	0.728	5.689	8.611
Unavoidable Growth	0.000	19.122	1.250	0.900	0.000	21.272
Undelivered Savings	0.000	0.250	0.000	0.000	0.000	0.250
Total Identified New Growth	0.000	26.828	0.002	0.160	5.689	32.678
Revised Funding Gap	0.000	16.176	0.000	0.105	0.657	16.938

COVID-19 – Impact on council’s finances

- 2.24 The current estimate of the additional cost pressures and income losses is £47.6m. This is based on the assumption advised by the MHCLG that the restrictions regarding Covid-19 would be in place up until the end of July after which we were to assume that our expenditure and income plans would be as from 1 August. In the main this assumption has been used except where decisions that have been taken in the first 4 months of the year continue to have implications for the remainder of the year.
- 2.25 Forecast expenditure to the end of March 2021 as a result of Covid-19 is £27.1m
- £10m – Children Services and Adults Social Care and Health in supporting the market and dealing with additional demand, additional staffing costs and supplying PPE
 - £2.6m – provision of food and support for vulnerable and those shielding during the pandemic
 - £1.3m – rough sleeping and additional temporary accommodation provision
 - £4m – additional environmental and highway costs
 - £0.9m – contribution to mortuary costs
 - £1.9m – additional support for the Emergency Support Scheme and Discretionary Housing Grant
 - £1.9m – additional staffing costs
 - £4.1m – unachievable savings
- 2.26 Forecast irrecoverable loss of income during the lockdown
- £20.4m – parking enforcement, licensing, events, leisure services, and commercial rent income.
- 2.27 In addition, there are Collection Fund losses on business rates and council tax of £28.6m. We have been told that how these losses will be dealt with will be in the Chancellor’s statement in Autumn.
- 2.28 Lambeth has received £19.6m leaving a gap of £28m. Further funding has been announced and we await details of the allocation. Whilst this is a significant gap in the budget, there are sufficient one-off reserves available in year to balance the position if the government does not provide additional funding following lobbying by Lambeth and other councils.
- 2.29 Whilst some of the additional costs and loss of income will be limited to the emergency response phase of the pandemic, it is clear that there will be longer term impacts, even if those cannot be

precisely quantified. Also not known is the extent if at all, of any further financial support Government will provide to councils in the case of a longer lasting pandemic.

2.30 We have modelled 3 scenarios based:

- A. The effect will be in 20/21 only with previous assumptions on growth still applied
- B. 25% of additional costs and irrecoverable income loss to continue into 21/22 with small downward adjustments on growth assumptions
- C. 50% of additional costs and irrecoverable income loss to continue in 21/22 and 25% into 22/23 with large downward adjustments on growth assumptions

Table 4 - Comparison of residual gap under scenarios

Scenario	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2021/22 to 2024/25 Total
A (Budget Assumptions)	16.176	0.000	0.106	0.657	19.938
B (Best Case C-19)	27.301	0.799	0.000	0.020	28.120
C (Worst Case C-19)	38.294	12.040	0.000	0.000	50.334

2.31 In modelling the scenarios, it can be seen that there are large scale budget gaps developed in 2021/22, putting pressure on the need to identify significant savings early on in the planning period. Part of the work required during the coming months will be to investigate opportunities for spreading this pressure across the planning period if possible. It is essential that work begins during the summer to identify mitigations to close the funding gaps identified.

2.32 It is hoped that the year progresses, it will become clearer which of the scenarios will be nearer the reality and we will plan accordingly. In the meantime, we will need to identify options for savings and additional income for all scenarios.

Adults Social Care

2.33 In April 2020 the council made a joint appointment with the new South East London CCG of the Strategic Director Integrated Health and Care, having responsibility for adult social care and public health in the council and NHS commissioned services in Lambeth. This is the first integration of the health and social care system in London. It draws together the financial resilience of the council and the NHS acting together of the benefit of local residents. Future financial reporting will include health budgets as a memorandum item.

2.34 Adults Social Care has been managing a number of significant financial risks which have arisen from a population that have increasingly complex care needs and cost pressures relating to the amount that the Council is charged for the provision of services. This is the experience nationally and local government bodies have been successful in putting forward the case for increased funding in Adult Social Care as more funding has been received although this has been largely on a piecemeal basis that has made planning difficult. Increased resources have been confirmed again for 2020/21 and are likely to be at least maintained for this parliament. Although welcome, the extra funding does not provide a financially sustainable care system and the longer-term response to the issues that social care faces. The funding received meets many of the pressures that have built up over the period of austerity but is not sufficient to meet expected pressures in 2020/21 onwards as expenditure on packages of care usually increases by at least £1m per year over and above inflation.

- 2.35 A new model is promised on how the government proposes to improve care and support for older people and tackle the challenge of an ageing population. As social care is a significant part of the Council's budget, proposals on how any new funding system will be sustainable and responsive to increases in costs will be critical for the financial sustainability of the Council as a whole. The new model, when published, is likely to look at the funding that individuals contribute to their own care and any significant changes are likely to be complex and result in large costs nationally that require the use of mechanisms to increase funding locally that result in cost pressures for individual local authorities.
- 2.36 The Covid-19 outbreak presents many risks for adult social care and most have not been fully quantified at this stage. The ongoing impact of the outbreak on the number of clients the council will need to support is not yet known. Many more people have been discharged from hospital than usual, but it is not yet possible to know how many will become a long-term social care client as assessments need to take place of individual clients in order to ascertain this. At present, the NHS is funding all cases that have been discharged from hospital since the end of March and it is not known how long this arrangement will continue. There are concerns around the sustainability of providers and although the authority has provided financial and other support to providers and there are no known specific issues at present this could change going forward, particularly if there is a future increase in cases. More broadly, the outbreak has increased the profile of social care provision and there could be a future national debate on the sustainability of the existing model which could have far reaching implications.
- 2.37 In addition to ongoing pressures that could arise from the Covid-19 outbreak, it is expected that the patterns of pressure that have been consistent over the previous five years or so will continue. In particular, there are expected to be continued pressures in Learning Disabilities from new cases coming into the service from Childrens Services and from an increase in community provision arising from the Transforming Care programme which aims to reduce institutional care.

Public Health

- 2.38 Lambeth, along with other upper tier authorities receives an annual ring-fenced Public Health Grant to fulfil its duty to improve the health of people in the area and specifically to deliver its public health duties. The ring-fenced Public Health Grant is based on historic funding in the NHS which transferred to Councils. Compared to 2015, Lambeth's allocation has been reduced by £1.9m, but more crucially the allocation per head has fallen from £105.24 to £95.88.
- 2.39 In addition, opportunities have been taken to widen the scope of the Public Health Grant to fund appropriate General Fund services that have been identified as falling within the definition of Public Health expenditure. A range of saving proposals are being implemented to remain within the grant allocation and provide savings to the General Fund. Although the grant was increased for 2020/21 this may continue going forward, there are increased pressures that are expected be funded including NHS pay costs that are part of the contract costs that the grant pays for. There are also potential continued increases in activity in sexual health testing and although these pressures are being mitigated as far as possible through the use of on-line services it is not yet clear if these cost increases can be contained.
- 2.40 The Covid-19 outbreak has resulted in a range of increased activities in Public Health. Directors of Public Health have been instructed to establish local outbreak control plans which has the aim of stopping Covid-19 transmissions in Lambeth. There are other increased duties including overseeing testing in care homes and leading the local implementation of the national contact tracing programme. In order to meet these requirements, existing resources are being utilised and funding of £2.9m has been received in the form of the Local Authority Test and Trace Service

Support Grant which has been provided to mitigate against and manage local outbreaks of Covid-19.

Children's Social Care

- 2.41 Children social care budgets continue to be under significant pressure. There are a number of factors that are driving these cost pressures across the two main service areas of Children Looked After and Children with Disabilities (CWD). Both areas are finding that new children and young people who are being presented to the services have significant complex needs, which require specialist placements, and incur high costs. Being a London borough, we are somewhat hampered in our negotiations on placement costs, because it is a suppliers' market and we are in competition for places with our neighbouring boroughs.
- 2.42 In addition, the cohort of young people entering the Children Looked After service are now older than we have seen in the past, so they are not always suitable for lower cost fostering placements. Due to their age we need to find semi-independent living for these young people. They frequently have a variety of complex needs, involving mental health, substance abuse issues and gang affiliation. Finding suitable placements for them which delivers good outcomes and demonstrates value for money continues to be a challenge for the council.
- 2.43 The council wants a robust in-house fostering offer, which is aimed not only to attract new carers but to ensure we retain carers due to an enhanced support package. We are hopeful that investment in the fostering strategy will ensure that going forward we have in-house placements for our more complex young people. Using in-house foster carers will not only provide cost savings in future years but will provide a family environment for our young people to grow up in.
- 2.44 Medical advances have increased life expectancy for babies born with complex disabilities and congenital conditions, which alongside change in legislation is driving the increase in demand for CWD services, where client numbers rose by 15% between 2018/19 and 2019/20. We believe spend can be contained at current levels through enhanced controls, such as continuous placement review, enhanced governance around placement panels and having robust financial control through the CSC Payments Team and embedding a change in culture.
- 2.45 We have seen an increase in the number of Unaccompanied Asylum Seeking Children and in this financial year (2020/21) Government has recognised the funding shortfall in this area and has confirmed a funding increase per child and using current numbers we should receive an additional £0.55m. We have a shortfall in respect of the remand grant, and this is because the length of time some of our young people are expected to be on remand for is above the average, so this has also resulted in a cost pressure of £0.3m, which we forecast will continue in future years.
- 2.46 The cost pressures we are experiencing are being encountered by the vast majority of London boroughs and is fast becoming a national issue, which Central Government has started to acknowledge by way of one-off social care grant funding and increase in UASC funding. Although this funding is very welcome, if it is not confirmed on an on-going basis, it is just not enough to cover the multiple cost pressures within Children's Social Care.
- 2.47 Covid-19 has obviously had an impact on CSC this year, with additional staff required to respond to the exceptional circumstances, providing additional support to foster carers and staying put arrangements, also whilst securing additional placements to ensure we could respond to place children expediently as a result of Covid-19. The ongoing impact of Covid-19 is very difficult to predict at this stage.

Dedicated Schools Grant (DSG)

- 2.48 The allocation for DSG for 2020/21 is £291m, which is an increase of £6m (2%) over the previous year. After the recoupment of funding for academies and high needs places in Further Education providers, Lambeth receives £216m for maintained schools, central services, early years and high needs.
- 2.49 Further to the review as outlined in the February Budget Report, issues for subsequent consideration have since emerged:
- Setting in train a process for Schools Forum to review High Needs costs and activities.
 - Ensuring that maintained schools pay their full and appropriate share of employer contributions to the Lambeth Pension Scheme; and
 - Ensuring that any future affordability gap on the Lilian Bayliss Private Finance Initiative (PFI) contract is covered by the DSG and does not fall on the General Fund.

Holiday pay for Term Time only workers

- 2.50 In August 2019 The Court of Appeal in Brazel v The Harper Trust handed down a ruling regarding the calculation of annual leave entitlement impacting permanent staff employed on a term time contract, stating that their basic statutory annual leave entitlement could not be pro-rated to reflect the number of weeks actually worked.
- 2.51 The Council has been reviewing its current and past contracts to ensure it is compliant with the new ruling, and ensuring all current staff are receiving the correct holiday pay. In addition, a settlement has been reached with the unions on backdated holiday pay totalling £5.2m to all affected staff.

Removal of free travel for under 18s

- 2.52 Lambeth has a statutory obligation to provide free travel between home and school where children meet a certain set of criteria, such as age, distance from school and income. This has historically been provided and paid for by Transport for London as under 18s concessionary travel. As part of the emergency funding package agreed between the Department of Transport and Transport for London, it is proposed that free concessionary travel funded by TfL for those aged between 11 and 17 will be suspended.
- 2.53 There are on-going discussions around the need to balance the statutory obligation and the risk of overcrowding on public transport, together with the potential cost implications of this policy change and its impact on the council. Initial modelling suggests costs around £1.5m, however, we await clarification on the exact criteria and scheme that will be put in place.

Temporary Accommodation (TA)

- 2.54 Numbers of households in temporary accommodation are growing nationally and London-wide, and this trend is reflected in increasing demand in Lambeth. In 2019/20, the overall temporary accommodation numbers increased by 10%, with households placed in nightly paid accommodation increasing by 18.5%.
- 2.55 The increase in households in TA is due to the widening gap between those coming into TA and those leaving, with fewer households leaving TA. For example, in 2019/20, whilst 720 were placed in TA (1.6% reduction compared to the previous year), 509 households left TA, a net increase of

211. In 2018/19, 714 households were placed in TA, 601 households left TA, a net increase of 113.

2.56 Covid-19 has increased instances of homelessness in Lambeth, with the governments' instruction to bring everyone in regardless of their priority need, and keep them in, placing additional pressures on the TA budget. Currently, the main demand is from single households who have been directly affected. The usual flow of presentations we would see of families being made homeless from has been artificially depressed due to the suspension of evictions currently in place. We expect to see a significant increase when these measures are ended, which will lead to further budget pressure.

2.57 The levels of demand for TA is expected to continue to increase with the majority of this being provided by properties charged at nightly rates. This increase has continued despite the increased use of properties on regeneration estates and conversion of council buildings for use as temporary accommodation. On 31 March 2020, occupation of this 'cost neutral' accommodation increased by 21% when compared to 31 March 2019, from 470 to 565 households in occupation. Without these measures, costs would be significantly higher. There is an urgent need to consider financing alternative models of TA provision that will enable the council to reduce its reliance on expensive nightly booked accommodation and relieve budget pressure.

Financial Management & Performance

2019/20 Revenue Outturn Position

2.58 The 2019/20 General Fund service budget was £273.924m, and the overall outturn position was £285.924m, resulting a £12m overspend which was balanced from in-year reserves.

Table 5 – 2019/20 Revenue Outturn

Directorate	Full Year Budget £m	FY Actual £m	FY Variance £m	FY Variance %
Adults & Health	91.769	94.140	2.371	3%
Children's Services	71.724	80.496	8.772	12%
Residents Services	83.002	83.813	0.811	1%
Sustainable Growth & Opportunity	4.732	4.649	(0.083)	(2%)
No Recourse to Public Funds	2.920	2.332	(0.588)	(20%)
Finance & Investment	9.222	9.602	0.380	4%
Strategy, Communications and Legal Services	10.555	10.894	0.339	3%
TOTAL – GF	273.924	285.926	12.000	4%

2.59 Adult services had an underlying forecast overspend of £9.4m mostly offset by one off Government funding which has been confirmed for 2020/21. This leaves the residual overspend of £2.4m. The overspend is due to pressures in Integrated Disabilities and Older People's homecare costs.

2.60 Children's Services had an overspend of £8.8m of which £6.6m related to Social Care Placements and the remainder predominantly due to an overspend in Special Education Needs (SEN) Transport.

- 2.61 Resident services had pressures of £1.8m relating to overspends on temporary accommodation Bed & Breakfasts costs. These are netted off by additional income collected in year from fees and charges.
- 2.62 Finance and Investment had a £0.4m underspend in Finance and Property due to additional charges incurred for taking card payments.

2019/20 Revenue Outturn - Housing Revenue Account

- 2.63 The Housing Revenue Account has underspent against budgets by £0.7m with the breakdown confirmed in the table below:

Table 6 – HRA Outturn

	Full Year Budget £m	FY Forecast £m	FY Variance £m	FY Variance %
Housing Services	61.716	63.524	1.808	3%
Strategic Programmes	16.359	16.467	0.108	1%
Central HRA Budgets & Technical Adjustments	(78.075)	(80.730)	(2.655)	3%
TOTAL HRA	0	(0.739)	(0.739)	

Reserves Position

- 2.64 The Council retains a general fund balance and a level of earmarked reserves and these are reported each year within the annual statement of accounts. At the end of 2019/20 the Council holds £21.308m of balances. This is unchanged from 2018/19, with the uncertainty presented by the pandemic, funds have been added to earmarked reserves to better equip the council to deal with its financial impacts.
- 2.65 General Fund unallocated balances at the end 2019/20 represent 7.4% of the net cash limit of the Council. Previous advice has recommended that the level of balances to ensure financial stability of the Council is between 5-10% of net expenditure, and throughout our MTFS we ensure the Council's balances fall within this recommended range.
- 2.66 The General Fund earmarked reserves totalled £84.261m at the end of 2019/20. Earmarked reserves are one-off funds set aside to manage known risks and forecast events. The £10.7m Covid-19 funding received from Government in 2019/20 is included in these earmarked reserves figures.
- 2.67 As the deadline for the publication of 2019/20 draft accounts have been postponed to 31 July 2020 by government, we are unable to present the reserve comparison with other Councils. This will be included in the November Financial Planning Report.
- 2.68 In the Housing Revenue Account (HRA), which is ring-fenced from the General Fund, there is much less dependency on revenue grants from government and in 2019/20 the HRA was able to make a contribution to its reserves. At the end of 2019/20 the HRA has £48.590m in reserve compared to £46.923m at the end of 2018/19, resulting in a net increase of £1.667m. The reserve position of the HRA is sufficient to support the service delivery and to deal with potential risks.

3. Capital Expenditure Outturn 2019/20

- 3.1 The Authority agreed a capital investment programme totalling £395.9m in February 2020. Capital expenditure outturn for the year 2019/20 was £230.5m which represented 65% of the planned 2019/20 budget. Any unspent funds have been rolled forward to support the planned programme of works.

Table 7 – Capital Expenditure Outturn

Directorate	2019/20 Budget £m	FY Actual £m	Utilisation %
Adults & Health	2.449	2.433	99%
Children's Services	2.136	0.349	16%
Residents Services (GF)	74.205	42.492	57%
Sustainable Growth & Opportunity	124.364	62.010	50%
Finance & Investment	98.180	77.541	79%
Residents Services (HRA)	55.070	45.683	83%
Capital Programme Total	356.403	230.508	65%

- 3.2 Details of Capital Expenditure in 2019/20 by Strategic Priorities and how this was financed are shown in Appendix 1.

Disposals Update

- 3.3 Actual disposals in 2019/20 achieved totalled £3.3m. The forecast for non-right to buy (RTB) asset disposals for the 3-year period of 2020/21 to 2022/23 has been revised to a total of £10.9m.
- 3.4 **Revised Forecast of Non-RTB Asset Disposals 2019/20 to 2022/23**

Table 8 – Actual and Estimate of non-RTB Asset Disposals

Non RTB Disposals	(Actual) 2019/20 £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	3 year Total £m
Other assets	3.3	5.7	4.0	0	9.7
Short life assets	0	1.2	0	0	1.2
Total Forecast	3.3	6.9	4.0	0	10.9

- 3.5 In addition, 46 Council housing properties to the value of £11.1m have been sold under Right to Buy legislation during the financial year 2019/20. Of this total receipt, the Council is permitted to retain £1.7m as a contribution to the Council's capital receipts reserve and a further £6.1m as Recycled RTB receipts for reinvestment in replacement housing, subject to stringent criteria.

Looking forward: Future Capital Investment

- 3.6 A Capital Investment Programme ("CIP") was set by the Council in February 2020 reflecting the resources that were known to be available at the time. The CIP is an amalgamation of both General Fund and Housing Revenue Account capital schemes and is analysed to show how capital investment is spread across the Borough Plan Outcomes. It also shows where investment is supporting the entire organisation through enabling projects.

- 3.7 At the same meeting, Council also agreed an overall funding envelope of General Fund available resources of £215.4m to be allocated by Cabinet. Services across the council have submitted their 5-year capital plans. These comprise both investments needed to maintain and enhance our existing asset base together with continuing investment in developing new assets through new build, acquisition or alterations to existing assets.
- 3.8 The total requested for all services' plans exceeded the total projected available funds of £215.4m. and an allowance for 10% over programming has been proposed. There has therefore been a process carried out by Cabinet Members to prioritise the final list being brought forward for approval.
- 3.9 The new approach to capital allocation also means that instead of approving budgets on a standalone basis, capital works are now grouped into themes based around an area of responsibility and/or function, for example, parks and play or cemeteries, or a priority such as economic infrastructure investment.
- 3.10 Analysis carried out for each theme and the programme as the whole had to balance the following factors:
- How works under the theme promote and implement aims of the Borough Plan.
 - Are the works implementing the aims of any agreed strategies or fulfilling funding commitments?
 - Does the investment open up further opportunities for Lambeth and/or partners?
 - Likely funding profile for each theme as not all funding will be equally applicable to all types of work.
- 3.11 Together with the monies carried forward from 2019/20 these additions and amendments have resulted in a revised working Capital Investment Programme for the next 5 years 2020/21 to 2024/25 which totals £715.1m which includes £226.7m in relation to the HRA. Appendix 2 shows the analysis of the total CIP and how it is expected to be financed.
- 3.12 In Autumn 2019, a new division of Residents Services was established to deliver the Council's capital programme. The Infrastructure and Capital Delivery Studio will be the centre of delivery excellence for capital projects with the skills and ability to deliver any project or programme of work, whether capital, revenue or grant funded. The Studio will work hand-in-hand with asset owners in all departments across the Council to ensure there is excellent forward planning of repairs, improvements, upgrades and new assets to support the Borough Plan and statutory requirements. The Studio will not be an asset owner, which will ensure independent advice and support in planning and project priorities in delivery of the capital budget.
- 3.13 Vitally, the Studio will have an Information and Contract group, an independent team which will hold data about every project and programme being delivered. Using the corporate PMO system, there will be real-time reporting and robust governance to monitor risk, budget and delivery to ensure success.
- 3.14 With robust reporting and monthly budget reprofiling across all projects, the capital budget will be managed and monitored scheme-by-scheme to ensure programmes and portfolios are not only within the budget envelope but are also delivering on expected outcomes. Each theme will be managed by a lead Director who, with the Strategic Director and Cabinet Member will have the certainty to plan over a longer horizon and flexibility to shape their programme to respond to the changing environment. In addition, we expect to continue to receive grants for projects defined by the funder such as schools devolved formula capital grant from the Department for Education and

Transport for London through the Local Implementation Plan which will be added to the CIP when the allocations are known.

- 3.15 The initial period of lockdown saw a pause of the majority of works to ensure the council is protecting staff, partners and residents. Whilst activity has restarted, there is likely to be some continuing impact on development in the borough and the associated income. As with many other aspects of this crisis, it remains a fluid situation and we will continue to monitor any changes and update Cabinet. Any further lockdown will also inevitably have an impact on the delivery of the capital programme. It is difficult to quantify the effect of this at this time. However, the profile of the programme will be monitored and updated if necessary.
- 3.16 The Investment and Growth team continues to lead on the monitoring and management of CIL and section 106, and we have seen a further £10.3m invested in the borough over the last year.

Flexible Use of Capital Receipts

- 3.17 In October 2016, Cabinet agreed to make use of the freedoms identified by the Government in order to assist the delivery of the Council's MTFS. These arrangements allowed the Council to use capital receipts to support investment intended to transform services and thereby generate savings. In 2019/20, using these arrangements £0.076m was applied to the Business Support Transformation Programme.

4. FINANCE

- 4.1 This report in its entirety is about the Council's financial position and the implications for service planning and delivery

5. LEGAL AND DEMOCRACY

- 5.1 The Council has a duty to maintain a balanced budget throughout the year and, accordingly, members are required to regularly monitor the Council's financial position. In implementing the Council's financial strategy for 2020/21 and subsequent years, members will need to balance the proposed level of expenditure in discretionary areas of service provision against that required to ensure that the Council complies with its statutory duties.
- 5.2 Section 28 of the Local Government Act 2003 imposes a duty on the Council to monitor its budgets throughout the financial year, using the same figures for reserves as were used in the original budget calculations. The Council must take necessary appropriate action to deal with any deterioration in the financial position revealed by the review.
- 5.3 The Housing Revenue Account is a ring-fenced account. Transfers to and from the account are prescribed.
- 5.4 In reaching decisions on these matters, members are bound by the general principles of administrative law. Lawful discretions must not be abused or fettered, and all relevant considerations must be taken into account. No irrelevant considerations may be taken into account, and any decision made must not be such that no reasonable authority, properly directing itself, could have reached. Members must also balance the interests of service users against those who contribute to the Council's finances. Monies may not be expended thriftlessly and the full resources available to the Council must be deployed to their best advantage. Members must also act prudently and in a business-like manner at all times.

- 5.5 In considering the advice of officers, and the weight to be attached to that advice, members should have regard to the personal duties placed upon the Director of Finance (DoF) as Chief Financial Officer. The Chief Financial Officer is required by Section 151 of the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 to ensure that the Council's budgeting, financial management, and accounting practices meet relevant statutory and professional requirements. In the event that the Council's overall financial position worsens considerably during the remainder of 2020/21, the DoF will need to have regard to the statutory obligations which are placed on her personally when deciding on any particular actions to be recommended to Members to address her concerns.
- 5.6 This proposed key decision was entered in the Forward Plan on 26 May 2020 and the necessary 28 clear days' notice has been given. In addition, the Council's Constitution requires the report to be published on the website for five clear days before the proposed decision is approved by Cabinet. Any representations received during this period must be considered by the decision-maker before the decision is taken. A further period of five clear days - the call-in period – must then elapse before the decision is enacted. If the decision is called-in during this period, it cannot be enacted until the call-in has been considered and resolved

6. CONSULTATION AND CO-PRODUCTION

- 6.1 We are committed to working with our communities so that they can help themselves and be more resilient to the changes in local services. Also, we are determined to talk to communities about the tough choices we have to take as the money we receive from Central Government continues to reduce.
- 6.2 Throughout the summer as saving proposals are developed, we will plan a programme of community engagement, consultation, co-design and research. This will enable us to: better understand the views (and needs) of local people; target our resources where they are most needed; and achieve our Borough Plan objectives. This will help our decision making on savings proposals identified for 2021/22 and beyond.

7. RISK MANAGEMENT

- 7.1 None for the purposes of this report.

8. EQUALITIES IMPACT ASSESSMENT

- 8.1 Equalities Impact Assessments will be undertaken as part of the development and preparation of the mitigations and saving proposals. The implementation of thematic allocations in the Capital Investment Programme will be underpinned by strategies in the relevant areas, which would have undergone equality analysis as part of decision making process and any future programmes will also have to carry out and EIA.

9. COMMUNITY SAFETY

- 9.1 None for the purposes of this report.

10. ORGANISATIONAL IMPLICATIONS

Environmental

10.1 None for the purpose of this report, although the environmental impact of particular proposals will be considered as part of the budget process.

Health

10.2 None for the purpose of this report.

Corporate Parenting

10.3 None for the purpose of this report.

Staffing and accommodation

10.4 None for the purpose of this report.

Responsible Procurement

10.5 None for the purpose of this report.

11. TIMETABLE FOR IMPLEMENTATION

11.1 Subject to agreement at Cabinet on 20 July 2020 the capital budget proposals will be implemented for the 2020/21 financial year onwards. The changes to the MTFFS will inform the financial planning in preparation for the 2020-25 Medium Term Financial Strategy and the Budget for 2021/22.

AUDIT TRAIL

Consultation

Name and Position/Title	Lambeth Directorate	Date Sent	Date Received	Comments in paragraph:
Councillor Jack Hopkins Leader	Leader of the Council	08.07.20	09.07.20	Throughout
Councillor Maria Kay Cabinet Member	Cabinet Member for Finance and Performance	08.07.20	09.07.20	Throughout
Andrew Travers, Chief Executive	Chief Executive	08.07.20	08.07.20	Throughout
Fiona McDermott, Strategic Director	Finance and Investment	08.07.20	08.07.20	Throughout
Christina Thompson, Director	Finance and Investment/ Finance and Property	08.06.20	08.07.20	Throughout
Alison McKane, Director	Legal and Governance	18.06.20	08.07.20	
Christian Scade,	Legal and Governance Democratic Services	18.06.20	22.06.20	

REPORT HISTORY

Original discussion with Cabinet Member	XX.XX.20
Report deadline	08.07.20
Date final report sent	09.07.20
Part II Exempt from Disclosure/confidential accompanying report?	No
Key decision report	Yes
Date first appeared on forward plan	26.05.20
Key decision reasons	Financial
Background information	Revenue & Capital Budget 2020/21 to 2021/22
Appendices	Appendix 1 – Capital 2019/20 Outturn and financing Appendix 2 - Capital Investment Programme 2020/21 to 2024/25 Appendix 3 – Capital Strategy