Medium Term Financial Strategy 2021/22 to 2024/25

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1. Context and Background

1.1 The Council continues to face a very challenging time, with existing demand pressures placed on our already stretched services and budgets and responding to a global pandemic. This report sets out our current Medium Term Financial Strategy (MTFS) story throughout 2020/21 and how we have changed it to now cover the four year planning period 2021/22 to 2024/25. The anticipated three year Comprehensive Spending Review has been delayed and the third consecutive one year spending round was announced for 2021/22, so the projections from post 2021/22 of the MTFS (2022/23 to 2024/25) are likely to change.

1.2 The Fair Funding Review is still under consideration, so at this point in time we do not know the likely impact on Lambeth. In addition fundamental changes will occur to Business Rates income from 2022/23 onwards, RSG will get rolled into Business Rates Retention, with the public health grant still to be determined. All 2019/20 Business Rates Pilot Pool were not continued in 2020/21, with funding reverting to 2017/18 levels with Lambeth share as 30%, GLA share as 37% and central government 30%. For 2021/22, there will be no pooling of business rates income between the London Boroughs and the GLA as the uncertainty around income from office space and retail suggests the benefits will be limited whilst exposing many boroughs to large downside risks. The boroughs have agreed to monitor the situation and will look to take advantage of pooling arrangements if and when the situation changes.

1.3 With a one year spending round, there remains uncertainty around our funding position in the medium term. In addition to the Fair Funding Review, there will be a full reset of the Business Rates baseline in 2022/23 at the earliest as well as the full impact of the trade agreement with the European Union following Brexit and the speed of economic recovery post pandemic.

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 four goals.
- 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 four year rolling strategy.
- Deliver value for money to our taxpayers
- 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 taxpayers, 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 2021/22. However, as this is for one year only, the future year projections of government funding within the MTFS are based on assumptions only and are carried through on a straight line basis. 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. The Council considers key corporate risks via the risk register, which is monitored at Management Board in addition to Corporate Committee (the Council's audit committee).

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 Spending Review 2020 Statement of November 2020, he set out the latest forecasts on the UK economy. These were provided by the Office for Budget Responsibility (OBR).

3.3 With the uncertainty at the time over the terms of Britain's exit from the Single Market and Customs Union, OBR has retained broad-brush assumptions on productivity, trade and migration. They also included three scenarios for pandemic impact. In their central scenario, GDP will contract by 11.3% in 2020 compared to 2019 with recovery to pre-virus peak (end of 2019) envisaged for end of 2022 and will see a permanent effect on GDP.

Table 1

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
GDP Growth Forecast (%)	-11.3	5.5	6.6	2.3	1.7

3.4 The amount of money the government needs to borrow each year is called public sector net borrowing or the deficit. Whilst this has been decreasing in recent years, the fiscal response to the pandemic has required substantial borrowing. As a percentage of GDP, public sector net borrowing is set to be 19% in OBR's central scenario. Public sector net debt (PSNB) is the total amount of money owed by the public sector, this is projected to be over 100% of GDP in 2020/21 and remain high throughout the planning period. However, the ratio of debt interest spending to revenue is set to reach a new historical low of 1.7% on the back of further falls in interest rates. So long as investors' trust in the safety of UK government debt continues and the Bank of England provides further support by its gilt purchases, the OBR believes a debt-to-GDP ratio over 100% should not be particularly onerous

Table 2

	2020/21	2021/22	2022/23	2023/24	2024/25
Public sector net borrowing (£bn)	393.5	164.2	104.6	100.4	99.6
Public sector net borrowing (% of GDP)	19.0	7.4	4.4	4.1	3.9
Public sector net debt (% of GDP)	105.2	108.0	108.6	109.4	105.0

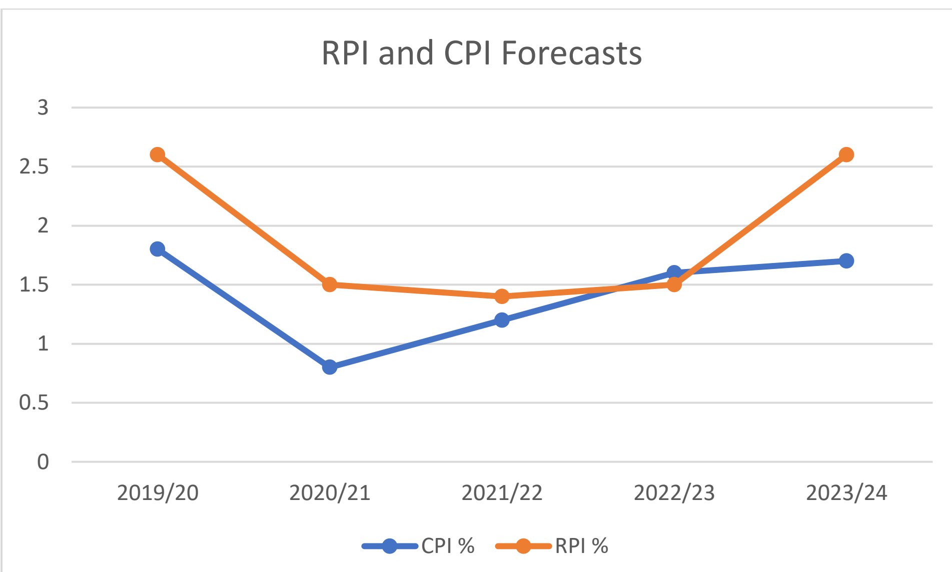
3.5 Interest rates are expected to remain very low for the foreseeable future. The base rate is the official borrowing rate and is set by the Bank of England. The current bank rate is 0.1% and was lowered twice in March 2020, first from 0.75% (the rate since August 2018) to 0.25% on 11 March and then to 0.1% on 19 March.

3.6 The Retail Price Index and the Consumer Price Index are two commonly used measures of inflation. The Bank of England has a CPI target of 2% and prior to the pandemic recent trends indicate that this would be achievable in the medium term. Since then, inflation has fallen, and CPI is expected to be 0.8% for 2020 with rates rising slowly to reach the 2% in 2025.

Table 3

	Actual	Forecast				
	2019	2020	2021	2022	2023	2024
CPI %	1.8	0.8	1.2	1.6	1.7	1.9
RPI %	2.6	1.5	1.4	1.5	2.6	3.0

Chart 1



3.7 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 2020/21 Budget report was agreed at Council in February 2020 which set out the council had a balanced position over the period 2020/21 to 2023/24, and this position was after setting the Council Tax and NNDR base for the council.

4.2 On 20 July 2020, 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. Due to the level of uncertainty around the progress of the pandemic we reported on three scenarios: A) budget assumptions, B) best case C-19 and C) worst case C-19, with revised funding gaps of £19.9m, £28.1m and £50.3m respectively.

4.3 During the summer of 2020 Strategic Directors and their teams undertook to identify possible saving proposals to help close the funding gap.

4.4 In the December Finance Planning Report presented to Cabinet on 14 December 2020 we presented a revised funding gaps of £9.5m, £13.4m and £26.6m under the three scenarios. This took into account experience of the pandemic restrictions on the council's finances. Savings proposals of £15.1m over the 4 years to 2024/25 were presented from the across the council.

Table 4

Net Revenue Budgets	2020/21 Budget	Saving Proposals					Total Savings as % of 2020/21 Budget
		2021/22	2022/23	2023/24	2024/25	TOTAL	
	£'000	£'000	£'000	£'000	£'000	£'000	
Adults and Public Health	92,609	100	100	100	100	**400**	0.43%
Childrens Services	78,518	80	95	50	0	**225**	0.29%
Resident Services	73,379	3,934	3,819	1,710	964	**10,427**	14.21%
Sustainable Growth and Opportunity	3,296	140	120	140	0	**400**	12.14%
No Recourse to Public Funds	2,734	0	0	0	0	**0**	0.00%
Finance and Investment	9,848	130	142	0	0	**272**	2.76%
Legal and Governance	5,045	0	0	0	0	**0**	0.00%
Strategy and Communications	2,017	0	0	0	0	**0**	0.00%
Corporate Items	40,228	0	0	0	0	**0**	0.00%
Cross Directorate	0	300	2600	500	0	**3,400**	-
TOTAL	**307,674**	**4,684**	**6,876**	**2,500**	**1,064**	**15,124**	**4.92%**

4.5 Since the reported December 2020 position there have been a number of further announcements, primarily the Provisional Local Government Finance Settlement 2021/22. We have also now calculated our final Council Tax and NNDR tax base figures, which were agreed by Corporate Committee on 21 January 2021 and submission of NNDR1 form to MHCLG.

4.6 As the situation has become somewhat clearer we have proceed to set out budget using the central or "best case C-19" scenario with a funding gap of £31.452m and the total savings is now £33.326m. This means we have projected to be in surplus by the end of the planning period. However, this must be considered in the context of the uncertainty around the funding situation from 2022/23 onwards with many major changes such as the Fair Funding Review and Business Rates baseline reset to come. The current position is confirmed in the table below:

Table 5

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Total Funding Gap as per MTFS	26,634	2,181	2,258	650	**31,452**
Total Agreed Savings	(14,080)	(14,682)	(3,500)	(1,064)	**(33,326)**
Revised Funding Gap/(Surplus)	**12,284**	**(12,501)**	**(1,242)**	**(414)**	**(1,874)**

Spending Power

4.7 Whilst our spending power is forecast to stay reasonably constant to 2024/25, albeit with proportional changes, in real terms it is still reducing as the Financial Settlement does not take account of rising costs. We must manage and fund a number of pressures, which are directly linked to demographic growth and demand led pressures within the borough. We have also not seen the full long term impact of the pandemic on existing pressures.

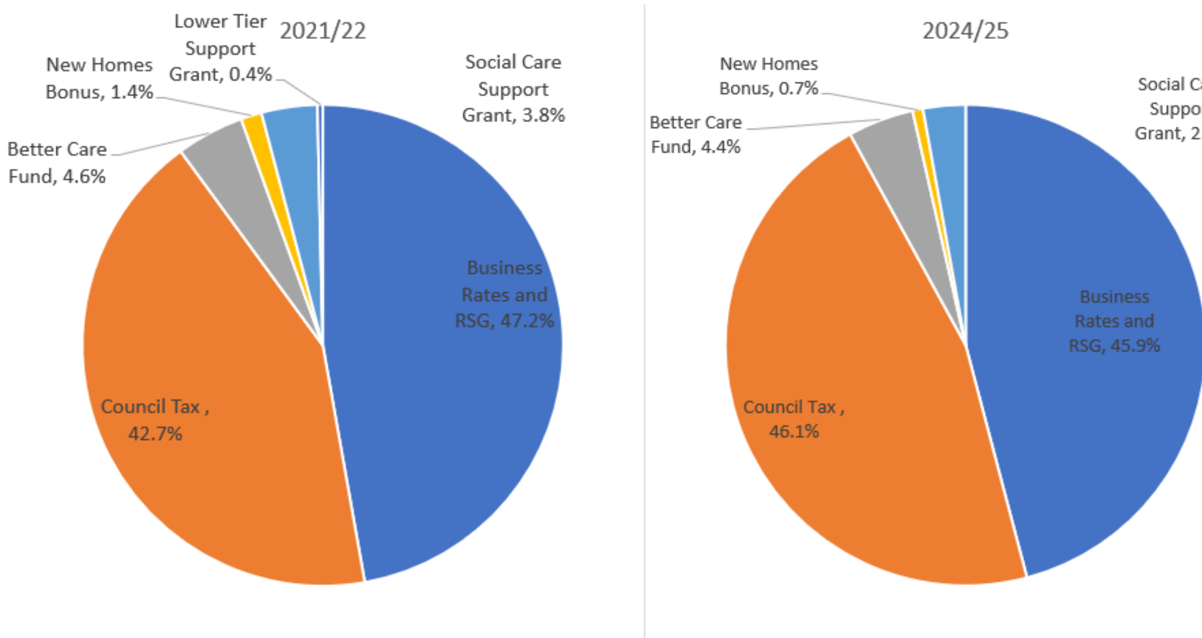
4.8 Current government funding formulas do not take account of these pressures and are therefore not accounted for within the Financial Settlement. The demand led pressures within Adult Social Care, Children Services and Temporary Accommodation continue to grow, and we have built assumptions around these key areas within our Medium Term Financial Strategy, however, as we have seen in recent years the demand led pressures continue to grow beyond assumptions.

4.9 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 6

Funding Source	2021/22 £'000	2024/25 £'000
Business Rates and RSG	150,413	150,413
Council Tax	136,143	151,180
Better Care Fund	14,507	14,507
New Homes Bonus	4,473	2,300
Social Care Support Grant	11,957	9,338
Lower Tier Support Grant	1,141	
Total Cash Limit	**318,634**	**327,738**

Chart 2



4.10 Without Business Rates Retention Pilots in 2021/22, Revenue Support Grant will once again form part of our Settlement Funding Assessment, along with 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, and in 2020/21 where projected growth did not materialise, 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.

4.11 The message from MHCLG currently is there will be transitional arrangements in place in the early years of the new funding allocation. 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 with Fair Funding Review again delayed beyond 2021/22 as well as the delay to the Business Rates baseline reset due at the earliest for 2022/23 and a third consecutive single year settlement for 2021/22.

Council Tax Policy

4.12 As part of addressing the funding gap, we have modelled to increase the Lambeth element of the Council Tax by 1.99% in 2021/22, this proposal is the maximum allowed without the need for referendum as set out in the Provisional Settlement in December 2020. In addition, we have also included the maximum 3% Adult Social Care precept.

4.13 We have modelled a further 1.99% increase in the remaining years of the MTFS 2022/23 to 2024/25, 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 2022/23, 2023/24 and 2024/25 is subject to decision by Cabinet and Council and will be addressed in future years budget reports.

Business Rates Retention

4.14 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 downside 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.

4.15 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 continued, but under different rules, with it being a 75% retention scheme, this means that Lambeth and the GLA shared 75% with the remaining 25% going to Central Government. The exact split of the 75% was Lambeth's share as 48% and GLA share as 27%. Although there was no pilot pooling arrangements for London in 2020/21, all London Boroughs and the GLA formed a pool based on the 67% retention (Borough share 30% and GLA 37%).

4.16 With the uncertainty and large downside risk to business rates income due to the on-going effect of the pandemic, a joint decision was taken by all the Boroughs and the GLA to not form a pool for 2021/22. However, this will be monitored through the year and there is still an intention to pool when the situation becomes more clear and potentially beneficial to all again.

4.17 We still expect the Fair Funding Review to result in a 75% retention scheme for 2022/23. 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

4.18 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.

Managing the Delivery of Savings

4.19 As part of budgetary control, the delivery of savings is considered with other corporate risks are by the Council as part of the risk register, which is monitored at Management Board in addition to Corporate Committee (the Council's audit committee).

Reserves and Balances

4.20 Our overall approach is to use the financial strength of our balances sheet to help the Council through a period of high risk caused by severe funding reductions and economic stagnation.

4.21 Prudent reserves have been set aside over time to manage local risk and protect normal council business 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 from specific government funding that is carried forward from year to year to be used as required.

4.22 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 2021/22 do include a planned release of reserves. These will mainly be funding relating to Covid-19 grants received in advance of need and to deal with the large Collection Fund deficit arising from the late announcement of the expanded retail reliefs which are fully funded and paid to local authorities in 2020/21.

4.23 **Balances:** The council held General Fund balances of £21.308m as of 31 March 2020. 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 £21.308m represents 7.9% of net expenditure in 2019/20. There is a planned contribution of £1.439m to balances each year built into the MTFS.

4.24 **Earmarked reserves:** The total General Fund earmarked reserves balance at 31 March 2020 was £117.839m and the HRA earmarked reserves balance was £46.923m, therefore equating to total earmarked reserves of £177.935m. This large increase over previous years was due to Covid-19 related funding provided by central government at the end of March 2020 for use mainly in 2020/21. The council's strategy on earmarked reserves is to use them only to fund the specific pressures for which they were created.

4.25 **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.

4.26 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 £24.161m as at 31 March 2020. The significant decrease from the prior year is due to the Redress Scheme. At 31 March 20 HRA provisions totalled £2.152m, resulting in total provisions for the council of £26.313m.

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 Historically capital receipts have been the primary funding source for capital projects but going forward we expect to have much smaller amounts of capital receipts available and therefore will need to use prudential borrowing to finance a proportion of the capital programme. This in turn means there will be a revenue impact to pay interest and to set aside funds to repay the borrowing.

5.3 The MTFS has been updated to reflect this need to borrow and gives an indication on the council's borrowing capacity for the capital programme. The decrease in the Public Works Loan Board (PWLB) rate in November is welcomed.

5.4 In February 2020, Council approved £215m as available resources for General Fund capital investments and in July 2020, Cabinet approved a total Capital Investment Programme of £715m made up of £370m of General Fund capital investment, £227m for the HRA capital programme, £103m for RTB buybacks and £15m for the Redress Scheme. This budget bought together previously agreed budgets and new available funds to show investment priorities over a 5 year period.

5.5 There is an indicative funding profile for capital investment, however, the exact sources of funding cannot be ascertained until there are detailed implementation plans as funding can be tied to certain conditions, such as location or type of work. In looking at financing the capital programme, effort will be made to prioritise using externally generated sources of funding such as developer contributions and grants. The expectation at the time was that £132.9m of s106 or CIL will be available as a funding source, the majority of which is still to be received. This represents 36% of the General Fund capital budget and without these monies the capital programme would be much small as the ability to borrow to fund the capital programme is limited by the impact of interest costs on the revenue budget which is under extreme pressure due to COVID-19.

6. Financial Planning Cycle and Timetable

6.1 Table 7 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 7

Month	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