Lambeth

CABINET 5 JULY 2021

Report title: Medium Term Financial Strategy 2021/22 to 2025/26

Wards: All

Portfolio: Cabinet Member for Finance and Performance: Councillor Andy Wilson

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Report summary

Like the rest of local government and the wider public sector, the Council continues to face an unprecedented challenge following the outbreak of the global coronavirus pandemic. The existing demand pressures placed on our services have been added to by the pandemic and the government restrictions that have been put in place over the past 16 months. This report updates the Council's Medium Term Financial Strategy (MTFS) extending the period by one year to 2025/26 and outlining new demand pressures that will continue to be validated during the summer.

In February 2021 we set out to Cabinet our current Medium Term Financial Strategy. 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 2025/26) are likely to change. The Fair Funding Review is still under consideration, as is the delayed Business Rates Retention policy which will mean the final removal of Revenue Support Grant although the proposed roll-in of the Public Health grant has not been confirmed. In addition, there is to be a full reset of Business Rates likely to reduce funding from 2023/24.

The Covid-19 crisis has had a significant financial impact and will have a long-term effect on the level of resources available to the Council. However, there remains considerable uncertainty and difficulty in defining the full impact of the crisis and our understanding will be refined and improved over time. Also, we will need to consider how the Council remains financially resilient and sustainable in what are very uncertain times for our borough and our country. Our current MTFS will continue to be developed to ensure that it underpins and supports the delivery of our Borough Plan priorities of enabling sustainable growth and development, increasing community resilience, promoting care and independence, being passionate about equality, strengthening diversity and delivering inclusion, making Lambeth a place that people want to live, work, and invest in.

Finance summary

This whole report concerns the Council's financial position.

Recommendations

1. To note the key risks set out in paragraphs 2.10 to 2.54

2. To note the Council’s commitment to delivering the agreed revenue savings planned for 2022/23 (£13.698m) and 2023/24 to 2024/25 (£7.765m), 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 2020/21 General Fund overspend of £8.5m as confirmed in Table 5 paragraph 2.55

5. To note the 2020/21 Housing Revenue Account outturn as confirmed in Table 6 paragraph 2.63

6. To note the capital investment outturn of £117.1m against the 2020/21 budget of £259.3m as detailed in paragraphs 3.1 to 3.2 and Appendix 1.

7. To note the 4-year Capital Investment Programme for the period 2021/22 to 2024/25 as set out in paragraphs 3.5 to 3.7 and summarised in Appendix 2.

1. CONTEXT

1.1 The main objectives of our MTFS are to:

- Prioritise our resources in-line with the Council's Borough Plan, and to ensure we achieve our five 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.
- Continually review budgets to ensure resources are targeted on our key priorities.

1.2 This report sets out the changes to Lambeth's Medium Term Financial Strategy (MTFS) which was agreed in March 2021 as part the Council's budget and Council tax setting report. The final announcement of the Local Government Financial Settlement on 3 February 2021 did not change the Council's cash limit.

1.3 As a result of the outturn of the Council's financial position for 2020/21, 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 longer-term pressures from the Covid-19 pandemic are yet to fully emerge and will not be apparent until national measures and restrictions are withdrawn.

2. PROPOSAL AND REASONS

Medium Term Financial Strategy

National Outlook

2.1 In its March economic and fiscal outlook, The Office of Budget Responsibility (OBR) set out their forecast up to 2025/26 taking into account measures announced up to and including the 2021 Budget and incorporates the Government's Roadmap as set out in February. With these assumptions in place, the OBR expects Gross National Product (GDP) to grow by 4% in 2021 and to reach its pre-pandemic level in the second quarter of 2022. Unemployment is still expected to rise but to a lower peak than previously projected.

Local Government Outlook

2.2 2021/22 was the third year in a row that councils received a one-year funding settlement and the latest spending review only covered the same one-year period, in contrast to the multi-year reviews of the past. We are yet to have confirmation of how long a period the next spending review will cover, but as the changes start to become known we will update the MTFS accordingly.

2.3 However, with the Government's focus still on responding to the pandemic and the fluctuating situation regarding the spread of Covid-19, there have been no updates on the large-scale reforms promised for local government such as the Fair Funding Review and adult social care funding.

2.4 The business rates baseline reset is confirmed to be implemented for 2023/24. The intention of planned reforms is for greater retention of locally generated business rates. However, with the uncertainty over the impact of the pandemic on business rates, there are concerns that the planned system based on physical properties may be out of line with the developing commercial environment and the levelling up agenda.

London Context

2.5 In the GLA's publication 'London's Economic Outlook: Spring 2021', data suggests that London's economy was more resilient against the further lockdowns from December 2020, with businesses and people coping more effectively with the altered way of life. The local economy is still nearly 8% below the pre-pandemic peak at the end of 2019, however this is not even across all sectors, with the hospitality sector disproportionately hit by closures and social distancing measures.

2.6 The furlough scheme was extended until the end of September 2021. At the peak, over 905,000 people benefited from the scheme in London and the latest figure for end of April 2021 stands at 451,500. Forecasting commissioned by London Councils expects unemployment in the capital to peak at 9.4% or 464,000 economically active residents by the end of 2021. Lambeth is forecast to have the highest in absolute numbers of unemployed residents. The peak core scenario in 2021/22 sees 11,000 young and 4,100 older residents unemployed rising to 26,000 overall from 9,000 prior to the pandemic.

2.7 Recent research from the LSE suggests 400,000 Londoners may be in significant rent arrears by the end of 2021, and potentially at risk of eviction when the current ban is lifted. These two measures along with the uplift of £20 per week in universal credit payments (due to end in September) are likely to have dampened increases in demand in support from councils.

Cash Limit and Funding

2.8 The Council set out its budget in the report to Council on 3 March 2021 for the period 2021/22 to 2024/25, and this captured the £33.326m of agreed savings over the period 2021-2025 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 2021/22 was £330.918m.

2.9 The breakdown of the 2021/22 net cash limit of the Council is set out in table 1 below:

Table 1 Cash Limit 2021/22

Funding Source	**2021/22 £m**
Revenue Support Grant	32.385
Retained Business Rates	47.774
Business Rates Top-up Payment	63.754
Business Rate and Collection Fund Adjustment	6.500
Council Tax	136.143
New Homes Bonus	4.473
Improved Better Care Fund	14.507
Social Care Support Grant	11.957
Lower Tier Services Grant	1.141
Subtotal	**318.634**

Planned use of Covid-19 Emergency and LCTS Grants, Reserves and Balances	12.284
Total Resources (including use of reserves)	**330.918**

2.10 The settlement for 2021/22 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 2024/25. 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 2025/26.

2.11 The core central government funding settlement is assumed to be broadly stable over the five-year period, with the uplift in Social Care Support Grant and the new Lower Tiers Services Grant to remain over the MTFS period. We believe this to be a prudent forecast and is aligned to a wider economic forecast on Local Government funding over the same period.

Table 2 Net Cash Limit

Funding Source	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Funding Settlement (including Revenue Support Grant, Retained Business Rates and Top-Up)	143.913	143.913	143.913	143.913	143.913
New Homes Bonus	4.473	2.300	2.300	-	-
Business Rate and Collection Fund Adjustment	6.500	14.718	6.500	9.500	12.500
Council Tax	136.143	139.128	144.026	149.133	154.267
Improved Better Care Fund	14.507	14.507	14.507	14.507	14.507
Social Care Support Grant	11.957	11.957	11.957	11.957	11.957
Lower Tiers Services Grant	1.141	1.141	1.141	1.141	1.141
One-off grants, Reserves and Balances	12.284	-	-	-	-
Total Cash Limit	**330.918**	**327.664**	**324.345**	**330.151**	**338.285**

Business Rates London Pool and re-basing of Business Rates

2.12 The Business Rates London Pilot Pool commenced in April 2018 on 100% retention and was extended into 2019/20 on 75% retention. After the ending of pilot pools, all London boroughs agreed to form a pool on the 67% retained total for 2020/21. Due to the volatility in business rates income resulting from the pandemic, all London boroughs agreed to not form a business rates pool for 2021/22. However, pan-London co-operation will continue, and all boroughs remain open to pooling when circumstances become more suitable.

2.13 The business rates baseline was due to be reset in 2022/23, however this has been delayed until at least 2023/24. The current business rates system allows councils to retain a proportion of the growth in the local business rates tax base, however this is typically lost during funding rebasing. Our current projection assumes this will occur in 2023/24 resulting in a loss of funding of £8m in that year, and then for Lambeth’s share of busines rate income to grow at £3m per year thereafter.

New Homes Bonus (NHB)

2.14 A consultation was launched after the 2021/22 settlement on the future of NHB. The options included increasing the threshold for payment and various other factors that could be included for calculations. Our MTFS continues to assume in year NHB payments will continue into 2023/24, without any legacy payments and will stop from 2024/25.

Council Tax

2.15 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 (2022/23 to 2025/26) 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.

2.16 The council tax base continues to grow and the assumed rate of growth within the MTFS is 1.4% on average. Whilst the number of dwellings continue to increase in the borough, the tax base includes a deduction for the provision of Council Tax Support. Consultation will shortly begin on adjusting the CTS scheme in order to protect more residents who may find Council Tax increasing unaffordable. This is likely to have a significant mitigating effect on the growth of the tax base and the reduced increase in Council Tax Income in the MTFS reflects this.

Revenue Funding Deficit 2021/22 to 2025/26

2.17 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 still high level and will need to be validated over the summer. The overall position is shown in shown in Table 3, which confirms the provisional funding gap of the Council.

2.18 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 2020, and the March 2021 Budget Report.

2.19 Technical adjustments on the treatment of contingencies for Covid-19 expenditure, interest receivable and business rates retention result in an overall reduction of £0.489m

Identified Pressures

Unavoidable Growth - Inflation

2.20 The MTFS already captured funding for future pay awards at 2% and this has been extended to 2025/26.

2.21 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 £5.6m in 2025/26 and downward projections of £0.668m in 2022/23, £0.628m in 2023/24 and £0.389m due to low inflation during the pandemic. These will be considered later in the year in the light of more recent announcements.

Unavoidable Growth

2.22 Pressures on services of £17m over the MTFS period have been identified, which include provisional increases in staffing related expenditure of £7.8m and third-party contract pressures of £9.2m. These growth items will be reviewed over the summer and validated in order to finalise the revised funding gap.

Undelivered Savings

2.23 Prior year agreed savings of £3.1m for organisational savings and £0.55m for Children's social care have been identified as undeliverable.

Revised Funding Gap

2.24 Table 3 below sets out the changes since the March 2021 Budget Report. The table confirms the new pressures detailed above which confirms the current funding gap of £11.697m for the Council through to 2025/26. 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.

Table 3 Revised Funding Gap

Revised Funding Gap	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**Total £m**
Position at Budget Report March 2021						
Funding Gap	11.863	13.480	3.733	2.376		**31.452**
Savings Agreed	(11.863)	(13.698)	(4.975)	(2.790)		**(33.326)**
Budget 2020/21 to 2023/24	**0.000**	**(0.218)**	**(1.242)**	**(0.414)**		**(1.874)**
July 2021 Changes:						
(Increase)/Decrease to Year on Year Cash Limit Change	0.000	(10.312)	8.286	(0.666)	(8.134)	**(10.546)**
New Pressures Identified:						
Technical Adjustments	-	(4.189)	-	0.700	3.000	**(0.489)**
Unavoidable Growth- Inflation	-	(0.668)	(0.628)	(0.389)	5.600	**3.915**
Unavoidable Growth	-	13.830	0.917	1.147	1.147	**17.041**
Undelivered Savings	-	3.150	0.500	-	-	**3.650**
Total Identified New Growth	**0.000**	**12.123**	**0.789**	**1.458**	**9.747**	**24.117**
Revised Funding Gap	**0.000**	**1.873**	**7.833**	**0.378**	**1.613**	**11.697**

2.25 The new funding gap taken with the savings already identified of £33.3m means the overall savings requirement over the planning period is £45m.

COVID-19 – Impact on council's finances

2.26 The current estimate for additional cost pressures and income losses due to Covid-19 for the first half of 2021/22 is £19.2m.

- £2.5m – Children Services and Adults Social Care and Health in supporting the market and dealing with additional demand, additional staffing costs and supplying PPE
- £1.1m – Education to meet additional cost of meeting free school meal responsibilities and increase cost to SEN transport due to social distancing measures
- £0.6m – Public Health for increased testing, contact tracing and outbreak planning
- £2.2m – rough sleeping and additional temporary accommodation provision
- £1.4m – Environment & Regulatory services (bereavement services and public protection)
- £8.7m – business support grants

- £0.9m – additional staffing costs
- £1.2m – unachievable savings

2.27 Due to the uncertain timeline of relaxation of national restrictions and cessation of support measures, the current forecast has not been extended to the rest of 2021/22. We have received or expect to receive government funding to meet all of the pressures listed above.

2.28 While in year pressures are expected to be funded, we do not know how the longer-term cost pressures, such as needs of people with long Covid, demands on mental health services and arrears built up as a result of the pandemic will be funded.

Adult Social Care

2.29 Lambeth Council and the NHS were the first to integrate the health and social care system in London, with responsibility for adult social care, public health in the Council and NHS commissioned services in Lambeth brought under the leadership of a single Strategic Director of Integrated Health and Care. Along with Lambeth health and care partners through the Lambeth Together Partnership we are working to draw together the financial resources of the council and the NHS, acting together to secure high quality care and to drive health improvement and reduce health inequalities for the benefit of local residents.

2.30 Adult Social Care has been managing a number of significant financial risks which have arisen from a growth in the population that have increasingly complex care needs and cost pressures relating to the amount that the Council is charged for the provision of care 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, although it would be beneficial to have more certainty as to future resource availability to assist with medium and longer-term planning. Increased resources have been confirmed again for 2021/22 and are likely to be at least maintained for the life of this parliament.

2.31 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 further pressures in 2021/22 and onward as based on experience over recent years the cost of packages of care usually increases by at least £1m per year over and above inflation. It is expected that the patterns of increased demand that have been consistent over the previous five years or so will continue. There are expected to be continued pressures on services for people with Learning Disabilities as more individuals transition into the Service from Children's Services and from an increase in community provision for individuals arising from the Transforming Care programme which aims to reduce institutional care.

2.32 The Covid-19 pandemic presents additional 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 social care clients in the longer term as assessments will need to take place of individual clients in order to ascertain this. NHS has made funding available for cases that have been discharged from hospital through the Covid-19 period, however, it is assumed that there will be a return to standard arrangements on an ongoing basis. There remains concern around the future sustainability of providers and although the authority has provided financial and other support to providers to address the immediate issues they face, this could change going forward, particularly if there is a future increase in cases. More broadly, the coronavirus pandemic has increased the profile and critical part played by social care provision raising the importance of the national debate on the sustainability of the existing model and with potentially far-reaching implications.

Public Health

2.33 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 living 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. Between 2015/16 and 2019/20, Lambeth's allocation has been reduced by £5.1m. Lambeth received a 4.2% increase in allocation in 2020/21 to mostly fund agenda for change, the salary uplift for NHS workers. It has been indicated that the Public Health Grant for 2021/22 will be maintained at the 2020/21 level.

2.34 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. As a consequence, 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, and this may not continue going forward, there are increased pressures that are expected be funded from this increase, including national pay costs for public health and preventative services commissioned from the NHS. There are also anticipated continued increases in demand for sexual health testing activities, and although these growth 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 within existing resource levels.

2.35 Covid-19 has resulted in a range of increased activities to be met through Council Public Health teams and resources. Directors of Public Health have been required to establish Local Outbreak Control Plans which aim to minimise Covid-19 transmission and mitigate the impact. In Lambeth this Plan was agreed in June 2020 and remains under ongoing review in the light of experience. There are other increased duties including overseeing support in infection control to care homes and other settings, community testing 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 Social Care (CSC)

2.36 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. As 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. We have engaged with the South London Commissioning Programme which will help to manage placement costs through block purchasing. We now need to review our placements to ensure we are making best use of the commissioning programme.

2.37 We continue to see that 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. That is why we have instigated a project looking at our semi-independent and supported housing offer, with the aim to help deliver better outcomes and savings in future years.

2.38 The council has now implemented its new Fostering Strategy, 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 but will provide a family environment for our young people to grow up in.

2.39 We have seen an increase in the number of Unaccompanied Asylum-Seeking Children (UASC) and in the last financial year (2020/21) Government recognised the funding shortfall in this area and awarded a funding increase per child and this equated to an additional £750k, which we expect to receive again this financial year (2021/22). We continue to 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 £0.5m, which we forecast will continue in future years.

2.40 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.

2.41 Covid-19 obviously had an impact on CSC last financial year, and this resulted in a need to drawdown £2m of Covid income, however it is now difficult to determine the ongoing impact, so we continue to closely monitor the position and provide monthly updates to the MHCLG.

Education and Learning

2.42 Education and Learning General Fund budgets reflected some realignment with the Dedicated Schools Grant in April 2021 to ensure appropriate attribution of educational costs, as per school funding regulations. Education and Learning services suffered from loss of income from schools and other stakeholders during 2020/21 and this is expected to be less of a pressure during 2021/22. Services such as Music, which were acutely affected by loss of parental and school contributions, will need to work to sustain self-funding service provision in the medium term. The school transport service will be looking to ensure that its base budget is sufficient and that the service provides value for money.

2.43 The key issue for Education and Learning in the Medium Term will be to make best use of the patchwork of funding sources for educational provision (General Fund, DSG, school contributions, specific grants). With the Lambeth Schools Partnership, the LA will look to ensure that it meets its core responsibilities and offers schools relevant services that paid from school budgets. This would be accompanied by greater focus on budget manager accountability and financial control.

Dedicated Schools Grant (DSG)

2.44 The Schools Budget is substantially funded by the Dedicated Schools Grant, with other funding streams for 6th Form, Pupil Premium and the like. The DSG ended 2020/21 with a deficit of £0.5m and it was agreed at Council in March 2021 that a short-term deficit of £0.8m (in the High Needs Block) be permitted for 2021/22 financial year. The aim is to use the expected stepped increase in the High Needs Block for 2022/23 to return to a balanced position. The table below sets out the outline forecast for the next two years, using the 2021/22 figures reported to Schools Forum at its meeting in June 2021.

Table 4: Latest 2021/22 DSG budget position reported to Schools Forum June 2021

Block	Forecast 2021/22 £'000	Forecast 2022/23 £'000	Comment
Brought forward deficit	**(473)**	**(2,573)**	
DSG Funding in-year	303,113	311,864	2021/22 figures known. Based on Schools Block +2%, CSSB (+2%) Early Years (+0%), High Needs (+8%)
Total funding available	**302,640**	**309,291**	
Schools Block	222,415	226,784	Allocate in full. Variations in pupil numbers will affect individual schools.
Central School Services Block	1,181	1,205	Allocate in full.
Early Years Block	28,118	28,118	Allocate in full. Variations in participation rates will affect individual settings.
High Needs Block	53,499	53,184	Limit increases in HN block to get back to balance.
Total forecast spend	**305,213**	**309,291**	
Carry forward deficit	**(2,573)**	**Nil**	

2.45 **Schools Block**. A minimum 2% rise per pupil has been in place for the last two years and may well continue. Falling rolls is not included in the projection as fewer pupils will translate into lower budgets for individual schools. So, while we may be able to allocate the Schools Block in full, that does not mean that all is well at school level.

2.46 **Early Years Block**. Early Years settings could be facing their 4th year of no change to their funding rate for 3 and 4 year olds. This is compounded by reducing participation rates (i.e. falling rolls). Even if we allocate the Early Years Block in full, that does not mean that all is well at a setting level. Moreover, COVID lockdown has brought pressures and they cannot be fully ruled out again in 2021/22. Lower participation has a knock-on impact to the 5% central budget that is available to support the Early Years Team and Children's Centres (overall £1,189m allocated in 2021/22). The service needs to plan for the consequences of this, including looking for substitute funding.

2.47 **High Needs Block**. The strategy is dependent on a stepped increase in the High Needs Block again; similar sums are available and the minimum increase for LAs in 2021/22 was 8%. Proposed changes to High Needs Funding formula are unlikely to adversely impact Lambeth. Pressures within High Needs Block have not been fully flushed out. We must avoid over-relying on more income to solve the budget problem; we will need to consider other measures as a better picture of the overall High Needs position becomes available. Indeed, the table above reiterates this as a fully balanced position by the end of March 2023 would require less High Needs spend in 2022/23 than is forecast in 2021/22. This might, for instance involve more scoping of options for in-borough SEND provision, to reduce reliance on out of borough provision and its associated transport costs. For some time, we have seen steady increases in the numbers of high needs students that the LA has to support. The impact of the extension of the age-range for high needs educational support to 25 ought to be less of an issue that in the past and in the context of falling rolls in Lambeth, there ought to be a tapering off of the growth in high needs numbers in the medium to long term.

2.48 Overall, Lambeth has been relatively well funded nationally; 4th per pupil for primary and secondary, 7th for 3 and 4 year olds and 1st for 2 year olds. This has meant that the national funding formulae for mainstream schools and for early years have not favoured London boroughs, as funding priorities lie elsewhere. Schools and early years settings face minimal increases at a time of falling rolls, which has led many into financial difficulties. The medium term position for the DSG and for individual schools will involve an adaptation to those circumstances and a focus on returning to a balanced position.

Temporary Accommodation (TA)

2.49 At the start of the year, before taking into account the impact of Covid-19, the service had forecast that numbers in temporary accommodation would increase to 2,755 over the year (8.3%). Due to the impact of Covid-19, performance is worse than forecast with an increase of 12.1%. The number of nightly rate placements (B&B and annexes) has increased by 24% (from 1,442 to 1,784).

2.50 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.

2.51 The Covid-19 pandemic has resulted in an increase in the number of households in temporary accommodation, due to a combination of factors, including increased demand for temporary accommodation, together with restrictions on eviction. In addition, we have deliberately reduced occupancy levels by about 50% to maintain a Covid-safe environment, which has resulted in a corresponding increase in the use of nightly rate accommodation.

2.52 The levels of demand for TA are 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. Cost neutral accommodation is in use as temporary accommodation, comprising decommissioned sheltered housing schemes, general needs accommodation in areas scheduled for redevelopment and council owned and managed hostels. 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.

Housing Revenue Account (HRA)

2.53 The HRA is a ringfenced part of the council's finances to ensure that the local authority function and social landlord functions do not subsidise the other. The detail for the HRA is contained in the business plan, which shows the position of the HRA over a 30-year period.

2.54 There was no government funding provided to the HRA for Covid related expenditure so the costs relating maintaining a safe environment and lower income needed to be borne by the HRA which was met using reserves. Work is now under way to review the business plan with a view to improve the financial resilience of the HRA including restoring reserves to a sustainable level

Financial Management & Performance

2020/21 Revenue Outturn Position

2.55 The 2020/21 General Fund service budget was £297.993m, and the overall outturn position was £306.479m, resulting a £8.487m overspend which was balanced from in-year reserves.

Table 5 – 2020/21 Revenue Outturn

Directorate	Full Year Budget £m	FY Actual £m	FY Variance £m
Adults & Health	88.950	89.053	0.103
Children's Services	81.881	83.227	1.346
Residents Services	89.494	97.958	8.465
Sustainable Growth & Opportunity	10.868	10.945	0.077
No Recourse to Public Funds	2.734	2.031	(0.703)
Finance & Investment	11.280	10.616	(0.664)
Strategy, Communications and Legal Services	12.786	12.649	(0.137)
TOTAL – GF	**297.993**	**306.479**	**8.487**

2.56 The council incurred £47m of additional spend in year arising from the Coronavirus pandemic. During the national lockdowns the council also faced a reduction in income collected from sources such as parking, registrars' services, events and a quarter rent free was provided to commercial tenants. Income losses for the year arising from the pandemic amounted to £12.9m.

2.57 Across all Directorates £3.6m of agreed 2020/21 savings have been delayed due to the pandemic. It will be important to deliver these savings in 2021/22 to ensure the council remains within its budget over the medium term.

2.58 Adult services had a residual overspend of £0.103m, additional support to care providers, extra placement costs and costs pertaining to shielding the vulnerable have been met by COVID grant support from Government and additional support from the NHS.

2.59 Children's Services had an overspend of £1.346m of which £1.678m related to Social Care Placements and the remainder predominantly due to an overspend in Special Education Needs (SEN) Service £1.3m, offset by underspends elsewhere in the directorate.

2.60 Resident services had pressures of £8.465m relating to overspends on temporary accommodation Bed & Breakfasts costs, reduced income and debt recovery and increased cost in ICT.

2.61 Finance and Investment had a £0.664m underspend in Finance and Property due to one-off backdated income and staff vacancies.

2.62 Earmarked reserves have been used to balance the end of year position. It should be noted that the three areas of pressure, temporary accommodation, housing benefit overpayment and court cost income have been addressed in budget setting for 2021/22. The SEND transport budget will be monitored closely during the year as it is likely to remain a pressure for the coming year.

2020/21 Revenue Outturn - Housing Revenue Account

2.63 The Housing Revenue Account (HRA) had an overspend against budgets on responsive repairs, legal costs for disrepair and increased voids work. There was also a programme of works relating to electrical testing and repairs on council dwellings. Government Grant funding has not been provided to the HRA to cover COVID related expenditure and there have been costs relating to making Hostels Covid safe, including the costs of cleaning, and income losses due to less people in Hostels to meet social distancing requirements and lower estate parking income. Overspends have been offset by drawing down on earmarked reserve balances within the HRA resulting in a net overspend of £0.5m. This balance is met by a draw down on the HRA General Reserve.

Table 6 – HRA Outturn

	Full Year Budget £m	FY Outturn £m	FY Variance £m
Housing Services	64.088	56.842	**(7.246)**
Strategic Programmes	14.689	18.501	**3.812**
Central HRA Budgets & Technical Adjustments	(78.777)	(74.809)	**3.969**
HRA General Reserve		**(0.535)**	**(0.535)**
TOTAL HRA	**0**	**0**	**0**

Reserves Position

2.64 The last financial year has been unprecedented. Councils have seen significant financial turmoil from many different aspects of their local roles, both from the delivery of services and as a conduit for central government to support local businesses. Government has provided significant financial support both directly to Councils, and also to support local business with rates relief and support grants, which have come through Councils. In many cases the year end position reflects the early advancement of such support from Government. In a number of cases the effect of this support is that grants and advance payments are held in reserves at year end to be deployed in 2021/22 to support services and what in reality is simply advanced cashflow.

2.65 During the year the Council has increased the amount held in earmarked reserves., The General Fund earmarked reserves totalled £152.655m at the end of 2020/21. The main reasons for this are:

- Covid funding provided in advance of expenditure. This includes funding from government for business rate reliefs that will impact business rate income in 2021/22 for the council, but for which funding has been provided in advance in 2020/21.
- Other grant funding provided by Central Government for the 2021/22 financial year paid in advance.
- One-off Business Rates income from being part of the London Pool Business Rates Retention pilot retained to meet future funding uncertainty related to the business rate reset and fair funding review.
- Financing costs on borrowing being lower than forecast due to the profile of spend on capital projects.

2.66 At the end of 2020/21 the Council holds £25.808m of balances, an increase from 2019/20. General Fund unallocated balances at the end 2020/21 represent 8.6% of the net cash limit of the Council.

2.67 In the Housing Revenue Account (HRA), which is ring-fenced from the General Fund, reserves have significantly reduced in year to finance additional expenditure relating to repairs and to cover costs associated with the coronavirus pandemic which were not funded by government for the HRA.

3. Capital Expenditure Outturn 2020/21

3.1 The Authority agreed a capital investment programme totalling £759.203m in March 2021. Capital expenditure outturn for the year 2020/21 was £117.067m, any unspent funds have been rolled forward to support the planned programme of works.

Table 7 – Capital Expenditure Outturn

Directorate	2020/21 Budget £m	FY Actual £m	2020/21 Carry Forward £m
Adults & Health	0.120	0	0.120
Children's Services	2.199	0.779	1.419
Residents Services (GF)	74.867	30.867	44.001
Sustainable Growth & Opportunity	98.920	39.268	59.652
Finance & Investment	15.609	8.856	6.753
Residents Services (HRA)	67.634	37.035	30.600
Capital Programme Total	**259.349**	**117.067**	**142.545**

3.2 Details of Capital Expenditure in 2020/21 by Themes and how this was financed are shown in Appendix 1. The majority of General Fund capital expenditure was funded from borrowing, followed by grants, capital receipts and developer contributions.

Disposals Update

3.3 Actual disposals in 2020/21 achieved totalled £4.0m. The forecast for non-right to buy (RTB) asset disposals for the 2-year period of 2021/22 to 2022/23 has been revised to a total of £6.6m.

3.4 In addition, 36 Council housing properties to the value of £9.1m have been sold under Right to Buy legislation during the financial year 2020/21. Of this total receipt, the Council is permitted to retain £1.8m as a contribution to the Council's capital receipts reserve and a further £4.0m as Recycled RTB receipts for reinvestment in replacement housing, subject to stringent criteria.

Capital Investment Programme

3.5 A Capital Investment Programme (CIP) was set by the Council in March 2021 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 delivery themes. It also shows where investment is supporting the entire organisation through enabling projects.

3.6 Adjusting for monies carried forward from 2020/21, the revised working Capital Investment Programme for the next 4 years 2021/22 to 2024/25 totals £651.953m which includes £198.712m for the HRA. Appendix 2 shows the analysis of the total CIP and how it is expected to be financed. One of these resources is contributions from developers. For financial planning purposes we have used a prudent forecast of the likely amount to be received over the next few years, as any shortfall in receipts can only be made up through additional borrowing. If levels of receipts are over what we have estimated for the capital programme, this can be used to replace planned borrowing, in turn reducing the burden on revenue budgets.

3.7 The pandemic resulted in severe delays in delivery and a significant carry forward of funds to the current year. Work is currently underway to reprofile the programme within existing resources as well as reviewing our planned investments and development to ensure they meet the needs of the borough in the future.

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 2021/22 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 2021/22, 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 17 May 2021 and the necessary 28 clear days' notice has been given. The report will be published for five clear days before the decision is considered by Cabinet. Should it be approved, and following the publication of the Cabinet minutes, a further period of five clear days, the call-in period, must then elapse before the decision can be implemented. 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 2022/23 and beyond.

7. RISK MANAGEMENT

7.1 None for the purposes of this report.

8. EQUALITIES IMPACT ASSESSMENT

8.1 This report is the beginning of the annual budget setting process and presents the key headlines from the prior year and sets out the ongoing or new pressures and opportunities together with indicative funding likely to be available for the next financial year.

8.2 The report sets of the key risks for the current year and next year and its impact on the Medium Term Finance Strategy. The report sets out the indicative funding gap and a timetable for preparing mitigations and proposals to be considered by Cabinet before formalising the Budget for the following year.

8.3 Following the consideration of the July Financial Planning Report by Cabinet, officers will work with cabinet colleagues to prepare the mitigations and alternative proposals during August through to October. These will form the basis of the November Financial Planning Report for Cabinet to agree the mitigations.

8.4 We expect to have an overarching Equalities Impact Assessment for the November financial Planning Report and the Budget Report. Individual and more specific EIA will be undertaken for each of the proposals when appropriate during the planning cycle.

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 The changes to the MTFS will inform the financial planning in preparation for the 2021-26 Medium Term Financial Strategy and the Budget for 2022/23.

AUDIT TRAIL				
Consultation				
Name and Position/Title	**Lambeth Directorate**	**Date Sent**	**Date Received**	**Comments in paragraph:**
Councillor Claire Holland Leader	Leader of the Council	21.06.21	22.06.21	Throughout
Councillor Andy Wilson Cabinet Member	Cabinet Member for Finance and Performance	18.06.21	21.06.21	Throughout
Andrew Travers, Chief Executive	Chief Executive	14.06.21	16.06.21	Throughout
Fiona McDermott, Strategic Director	Finance and Investment	14.06.21	16.06.21	Throughout
Christina Thompson, Director	Finance and Investment/ Finance and Property	09.06.21	16.06.21	Throughout
Andrew Pavlou, Principal Lawyer Governance	Legal and Governance	15.06.21	18.06.21	
Christian Scade, Deputy Democratic Services Manager	Legal and Governance Democratic Services	15.06.21	17.06.21	Throughout, including section 5

REPORT HISTORY	
Original discussion with Cabinet Member	17.05.21
Report deadline	23.06.21
Date final report sent	25.06.21
Part II Exempt from Disclosure/confidential accompanying report?	No
Key decision report	Yes
Date first appeared on forward plan	17.05.21
Key decision reasons	Financial
Background information	Revenue & Capital Budget 2021/22 to 2024/25
Appendices	Appendix 1 – Capital 2020/21 Outturn and financing Appendix 2 - Capital Investment Programme 2021/22 to 2024/25