

CABINET 15 DECEMBER 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

Since we last reported on the Medium-Term Financial Strategy (MTFS), presented to Cabinet in July 2021, we have received the Chancellor of the Exchequer's Budget and Spending Review which outlined a continued tough financial outlook for London boroughs.

By London Council's calculations London boroughs needed a £2bn increase over the spending review period but they estimate that they will in fact receive around £1.1bn.

While the increase in local government's core spending (CSP) is welcome, this increase will only return local government to estimated funding on a par with 2010 levels, after over eleven years of austerity and without accounting for increased demand in that time period. In real terms CSP has been falling since 2010/11, down by 29% in 2020/21 and will be 19% below 2010/11 levels by 2024/25 – around £2.2bn less. This is 5% below the level of the England average and follows the trend of London being at the bottom of the pile for government funding such as the Community Renewal Fund and the Levelling Up Fund, with the distribution of the UK Prosperity Fund still to be announced.

In addition, £3.7bn of the spending power attributed to local government represents central government assumptions around local councils increasing their council tax (by 2%) and adult social care precept (by 1%).

We cannot escape the fact that central government funding forms an ever-smaller share of funding to Lambeth council, with local funding, council tax and business rates growth representing increasing proportions. Since 2013/14 when business rates growth was introduced, we have seen government funding reduce from 75.5% to 51.5% by the end of our MTFS planning period. There continues to be no announcement of the scope or the timetable for the planned local government finance reforms.

As rises in council tax become a more significant factor in providing additional resource to local authorities, and the cost-of-living soars for our most financially exposed residents, we have consulted on expanding the council tax support (CTS) scheme for those residents that find increases in council tax increasingly unaffordable and struggle to make ends meet. This proposed support will permanently reduce the bills of almost 7,000 vulnerable households eligible for CTS, with most seeing their bills reduced to nil. Together with the Winter Support Package recently announced by the council to cover food, energy bills and housing costs for vulnerable families,

alongside holiday support for families in receipt of free school meals, this support is part of the council's increased efforts to protect Lambeth's families from the cost-of-living crisis.

In addition, the adult social care reforms have not been fully explained by government and so the financial effects are not fully understood, with most of the funding raised through Health and Social Care levy going to the NHS. The council will need to remain financially resilient and sustainable during what are very uncertain times.

But we must remain vigilant, as the new Omicron variant demonstrates, the covid-19 crisis is not over and it will continue to have significant financial effect on the level of resources available, both now and in the future, to the council and its partners. The already existing demand placed on our services – particularly in social care and temporary accommodation – have been added to by the pandemic and the continuing effect of the virus on our community and economy in the longer-term.

We will continue to take every opportunity to support vulnerable people in our communities, but we must also be honest in our ability to do so in the face of gradually reducing grant funding, rising inflation, and ever-increasing demand on our essential day to day services. Despite all these pressures and uncertainties, we have maintained a balanced budget position without the need for further cuts or new savings.

The current MTFs will continue to be developed to ensure that it underpins and supports the delivery of the Borough Plan priorities and provide certainty to our most vulnerable residents who so desperately rely upon our essential day to day services.

Finance summary

This whole report concerns the Council's financial position.

Recommendations

1. To agree and approve the change to the funding deficit as set out in Table 2 and the consequent amendment to the Council's Medium Term Financial Strategy.
2. To note the progress on planned changes to the Council Tax Support scheme for 2022/23 as summarised in paragraphs 2.21 to 2.24
3. To note the previously agreed savings summarised in table 3.
4. To note the continued uncertainty regarding elements of government funding, price and demand pressures and the need to ensure that budgets set each year are sustainable during the settlement period to 2025/26 and beyond.
5. To note the financial position of the Council's budget in 2021/22 and the actions in place to balance it over the period, including the use of reserves as required.
6. To note the 4-year Capital Investment Programme for the period 2021/22 to 2024/25 as set out in paragraphs 2.43 to 2.46 and summarised in Appendix 1.

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 approved at July 2021 Cabinet. In July we reported a funding gap of £11.7m for 2021/22 to 2025/26. In these subsequent months, we have worked to challenge and validate the pressures identified. We have also received the Chancellor's Budget and Spending Review (SR) for 2022/23 to 2024/25 in October. This set out some of the parameters for local government funding in the SR period. We have to wait for the Provisional Local Government Finance Settlement for more details. This is likely to be made just before Christmas.

2. PROPOSAL AND REASONS

Medium Term Financial Strategy

National Outlook

2.1 In its October economic and fiscal outlook, The Office of Budget Responsibility (OBR) set out their forecast up to 2026/27 taking into account measures announced up to and including the October 2021 Budget and Spending Review. With these assumptions in place, the OBR expects Gross National Product (GDP) to grow by 6.5% in 2021 (up from 4% in March 2021) and to reach its pre-pandemic level towards the end of 2021. Unemployment is still expected to peak in the fourth quarter of 2021 but to a lower level than previously projected.

2.2 The recovery of the economy and the continuing regulatory changes following Brexit and increasing inflation have exacerbated supply side pressures experience around the world. Combined with the rise in energy prices and labour shortages in particular sectors, the OBR projects CPI inflation to reach 4.4% in 2022, with further developments suggesting a peak closer to 5%, the highest rate seen in the UK for nearly 30 years.

Local Government Outlook

2.3 The outcome of the latest Spending Review (SR21) was announced with the Budget in October 2021. SR21 covers a period of 3 years, from 2022/23 to 2024/25, the first multi-year spending review since 2015 (for 2016/17 to 2019/20). Spending Reviews set departmental totals for the period, but the financial implications for authorities will not be known until at least the provisional Local Government Financial Settlement due in December.

2.4 The business rates baseline reset is due to be implemented for 2023/24. The intention of planned reforms is for greater retention of locally generated business rates. However, the policy costings of SR21 and subsequent statements by the Minister to the Parliamentary Housing, Communities and Local Government Select Committee would suggest that greater retention rates by authorities is unlikely to be implemented during this SR period. Similarly, there has been no updates on other large-scale reforms promised for local government such as the Fair Funding Review.

Spending Review (SR21) Announcements

2.5 The headline increase in Local Government funding for 2022/23 to 2024/25 is around 3% per year, and a cash increase of £8.5bn over the SR period. New grant funding of £4.8bn has been announced with the remainder expected from increases in Council Tax. The referendum limit for Council Tax is expected to remain at 2% per year over the next 3 years and the application of the 1% increase on Social Care Precept, meaning a total council tax rise of 3% per year for residents.

2.6 The business rates multiplier has been frozen for 2022/23, with the resulting shortfall in income expected to be fully compensated by government. The conclusion of the review on business rates was also announced, with a move to 3-yearly revaluations from the current timeframe of 5 years and a new business improvement relief, allowing businesses to pay no extra business rates for 12 months after making improvements. Local authorities are expected to be fully compensated for these measures.

2.7 Recovery support for the Retail, Hospitality and Leisure sector has been extended with 50% relief on business rates for 2022/23. This is also expected to be funded by government.

2.8 There was no further funding relating to Covid-19 announced for local government.

2.9 Other new measures also announced:

- £4.7bn for core school budget, bringing per-pupil spending in England to 2010 levels
- £650m for youth services
- Continuing funding for Rough Sleeping Initiative and the Homelessness Prevention Grant
- £1.8bn to regenerate underused land for housing infrastructure and facilities
- £850m for cultural and heritage infrastructure
- Additional £200m for the Supporting Families Programme
- £38m for cybersecurity
- £35m to strengthen local delivery and transparency

Health and Social Care Levy

2.10 The Government announced the Health and Social Care levy in early September which will increase the national insurance contribution rates (NICS) paid by employees and employers by 1.25% beginning in April 2022. Receipts from 2022/23 will be directed to the NHS. From 2023/24, receipts will be divided between Local Government, NHS and the Department of Health and Social Care, however, the split was not specified in the announcement.

2.11 Public sector employers are being compensated for the increase in the cost of NICS through the funding formulae. Narrative within announcement suggests that inflationary pressures and demographic pressures will need to be dealt with locally through Council Tax, social care precept and long-term efficiencies.

London Context

- 2.12 In the Greater London Assembly's October publication on London's Economy, there are encouraging signs of recovery with 43% of firms saying that they were operating at full capacity in the previous quarter, a two-year high and back in line with the pre-pandemic average. However, responses were collected prior to the latest rise in energy prices and driver shortage.
- 2.13 The furlough scheme came to an end on 30 September 2021. At the peak, over 905,000 people benefited from the scheme in London and provisional figures indicate over 231,100 people were still receiving support as the scheme ended. London's unemployment rate was highest in the UK at 5.8% during the second quarter of 2021, with around 284,000 Londoners unemployed during that period. Of those, 7,100 were Lambeth residents; for comparison, there were 6,700 and 6,400 in Southwark and Wandsworth, our nearest neighbours.
- 2.14 Recent research conducted by the Joseph Rowntree Foundation found that more than half of low- income households in London was facing arrears with at least one bill. The removal of the £20 per week uplift in universal credit payments at the end of September is beginning to affect arrears collection rates. Whilst the pause on applications for evictions have ended, the council is actively working with tenants to try and help them sustain their tenancies. The number of evictions carried out had been decreasing year on year prior to the pandemic and we expect this trend to continue.

Spending Power

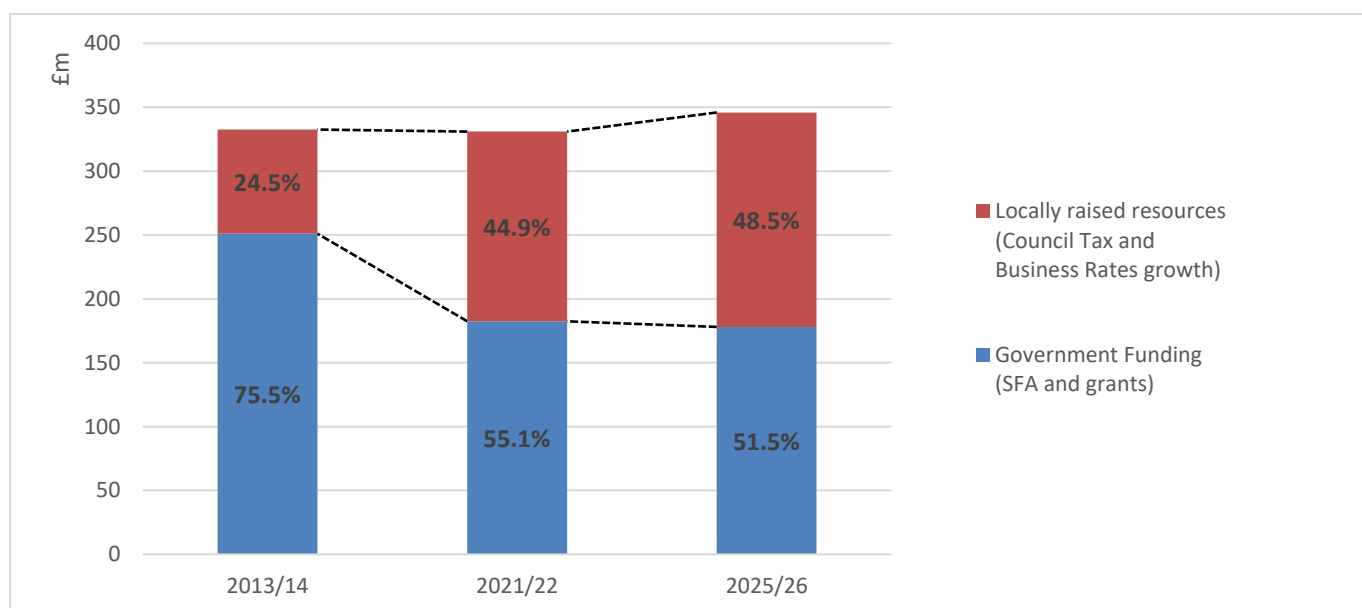
- 2.15 Our spending power is the way in which Central Government measures the overall revenue funding available for local authority services. The calculation of spending power consists of items as set out in the Settlement Funding Assessment; this includes grants as well as Council Tax.
- Business Rates Income and Revenue Support Grant (RSG) – together these two elements form the Settlement Funding Assessment (SFA). We expect the SFA to remain broadly steady over the MTFs period. However, with the Business Rates retention baseline reset due to take place in 2023/24, any increase in retained business rates income is expected to be matched by a corresponding fall in RSG. The SFA represent 43.5% of our 2021/22 net budget and is expected to fall to 41.6% of the cash limit in 2025/26.
 - Council Tax income is 41% (£136.1m) of our 2021/22 core funding but forecast to be 46% (£158.8m) by 2025/26. It should be noted that within our MTFs we have assumed increases of Council Tax at 1.99% in each year from 2022/23 to 2025/26. This is subject to formal agreement in February 2022. The effect of the proposed changes to the Council Tax Support scheme have been included in our calculation of the council tax base. In addition, the adult social care precept has been included at 1% per annum based on the expectation from Government that demographic changes and unit costs increases will be funded locally. This is a change to our assumptions made in July when we included 2% in 2022/23 figures.
 - New Homes Bonus (NHB) has started to decrease over this period, in 2021/22 NHB represents 1.4% of the cash limit (£4.5m). From 2020/21, no new legacy payments

were paid. NHB is expected to be phased out completed by 2025/26 and not replaced by alternative funding.

- Improved Better Care Funding (iBCF) represents 4.4% of the cash limit (£14.5m) in 2021/22 and includes amounts previously allocated as Better Care Fund and Winter Pressures grant. Our MTFS forecast is for this to remain the same in cash terms (with inflation eroding its spending power) over the MTFS period reducing its share to 4.3% of the net budget.
- Social Care Grant and Lower Tier Services Grant represents 4.0% of the net budget in 2021/22 and includes amounts previously allocated as Adult Social Care Support Grant and Social Care Support Grant. This has been committed for the life of this Parliament therefore we expect this to remain at the same level until at least 2025/26.

2.16 In recent times the increase in Council Tax has outpaced the increase in central government funding which has increased the proportion of locally generated income. This trend continues over the MTFS period with government funding and locally raised resources moving towards parity. This is a significant change since the current system of Business Rates Retention was introduced in 2013/14.

Chart 1 Spending Power – government funding vs locally raised 2013/14, 2021/22 and 2025/26



2.17 Whilst our spending power is forecast to increase at a steady pace from 2023/24 to 2025/26, the increases have come from locally generated resources such as council tax and business rates income over the guaranteed level of central government funding. within the borough. Current government funding formulas do not take account of a number of demographic growth and demand led pressures within the Financial Settlement. We, therefore, must manage and fund these pressures from locally generated income sources. 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.

2.18 The most recent announcements relating to social care funding gives a clear indication that any demographic and cost increases are expected to be funded by local authorities. In addition, it is unclear how the operation of the social care cap and the ability for self-funders to access local authority arranged care will affect the cost of services across the whole sector. We await consultation on the revised charging mechanisms related to the Adult Social Care Transformation.

London Business Rates Pool

2.19 In preparation for further localisation of business rates, all 32 London Boroughs, the City of London Corporation and the Greater London Authority were part of a business rates pool arrangement from 2016-17 to 2020-21. However due to the uncertainty to business rates income brought on by the pandemic, the pool was discontinued for 2021/22.

2.20 The boroughs continued to monitor the position throughout 2021/22 and as a result have taken the decision not to form a pool for 2022/23. However, all parties will continue to monitor the situation and remain open to pooling when circumstances are more suitable.

Council Tax Support Scheme

2.21 The council's Council Tax Support (CTS) scheme was developed to support residents who needed help paying their Council Tax. The current Lambeth scheme protects and supports around 24,000 households each year. However, the Council recognises the financial challenges faced by Lambeth residents due to Covid-19 and the rises in Council Tax costs and wishes to offer a more generous Council Tax Support scheme for 2022-23 to support residents financially.

2.22 The council is legally required to consult prior to any changes to CTS. Consultation ran from 30 June 2021 until 30 September 2021. Five potential options were consulted upon:

- Removing the 20% liability reduction
- Removing the £5 minimum weekly payment
- Removing mandatory minimum non-dependant deductions based on the circumstances of the householder
- Removing mandatory minimum non-dependant deductions based on the circumstances of the non-dependant
- Reducing the excess income taper to 20% from 25%

2.23 The cost of providing the additional support listed above is estimated at £3m and is already included in the MTFS.

2.24 The consultation received 280 responses. Although not high, this is comparable to previous CTS consultations and consultations in general. There was firm support from respondents for all options.

Changes to the MTFS since July

2.25 We have adjusted our business rates assumption to include some transitional tapering arrangement to compensate the loss of income due to business rate baseline resetting, reducing the overall loss.

2.26 Looking again at service pressures and using the work done to identify savings, we are able to reduce service pressures by £6.3m. At the same time, further pressures have been identified

as we continue to look at wider changes brought on or accelerated by the pandemic: increasing our forecast for inflation by £1m, funding the improvement of digital access and ways of working and cybersecurity with £1.44m, including additional resources for measuring performance of the children's improvement programme with £0.2m, increasing learning and development support for social care with £0.05m, removing undeliverable savings of £1.09m and matching resources to increased volume of planning applications with £0.1m.

- 2.27 The effect of these changes has reduced the funding gap to £1.710m. We expect this to be met through changes to fees and charges. A review is currently underway with proposals to be included in the February budget report.

Table 2

Revised Funding Gap	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Position at Budget Report July 2021					
Funding Gap	15.572	12.810	3.165	1.613	33.160
Savings Agreed	(13.698)	(4.975)	(2.790)	-	(21.463)
Revised Funding Gap in July 2021	1.873	7.835	0.375	1.613	11.697
November 2021 Changes:					
(Increase)/Decrease to Year on Year Cash Limit Change	(1.365)	(4.474)	(1.590)	(0.152)	(7.581)
New Pressures	(0.508)	(1.651)	1.215	(1.461)	(2.405)
Revised Funding Gap	-	1.710	-	-	1.710

- 2.28 Although no new expenditure reduction has been required from services, the revised gap takes into account previously agreed savings of £21.463m, summarised in the table 3 below. The delivery of all agreed savings is essential for the financial resilience of the council.

Table 3

Type of Change	Previously Agreed Savings			
	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Income generation	3.241	3.870	0.964	8.075
Procurement (contract)	1.450	0.055	0	1.505
Service Change (Reduction in Provision)	0.770	0.275	0	1.045
Service Transformation (non-staffing)	3.674	1.980	1.826	7.480
Service Transformation (staffing)	4.029	0.500	0	4.529
Third Party Services	0.534	(1.705)	0	(1.171)
Total Savings	13.698	4.975	2.790	21.463

- 2.29 In addition, agreed savings of £13.7m are to be delivered in the current year 2021/22, of which £1.4m were brought forward from 2020/21. It is forecast that £11.658m will be delivered in year with £2.05m rolled forward to be delivered next year, bringing 2022/23 savings up to £15.748m.

COVID-19 – Impact on council's finances

- 2.30 Costs associated with the coronavirus pandemic continue to impact the council and expenditure is forecast to be £35.5m in 2021/22 as of quarter 2, with the main areas of spend

including, providing support to local businesses, reopening the economy safely and expenditure with in Adult Social Care to facilitate hospital discharges and on infection control. There are also forecast income losses of £2.4m due to lower fees and charges receipts for the council. At this stage, it is expected that pandemic related pressures will be met by grant funding for the 2021/22 financial year.

- 2.31 The longer-term cost pressures that have resulted from the pandemic are not receiving additional grant funding.

Financial Management & Performance

2021/22 Revenue Q2 Forecast Position

Table 4 General Fund Forecast Outturn 2021/22

	Full Year Budget £m	Forecast £m	Forecast Variance £m
Adults and Public Health	94.982	94.995	0.013
Children's Services	75.579	80.435	4.856
No Recourse to Public Funds	2.734	2.347	(0.387)
Resident Services	70.293	73.373	3.080
Sustainable Growth and Opportunity	3.073	3.134	0.061
Finance & Investment	12.916	13.656	0.740
Strategy, Communications and Legal Services	7.746	7.988	0.242
Total	267.323	275.928	8.605

- 2.32 The position on the General Fund at the end of September is a forecast overspend of £8.605m for 2021/22. The position for each directorate is summarised below, with greater detail available in the quarterly Budget and Performance report presented to Cabinet.

- 2.33 **Adults Social Care** are forecasting to breakeven for 2021/22. However, this position is funded by use of reserves and grants to alleviate staffing and third-party payments pressures, other short-term projects and additional care costs incurred from the response to the pandemic. The underlying overspend position in 2021/22 as of September is forecast at £3.8m, made up mostly of third-party budget pressures in Learning Disability residential care and Mental Health residential and nursing care. Funds carried forward from 2020/21 for staffing and provider support will be used to offset additional expenditure in year and meet unachievable savings in year. The overall position is approximately £2.8m more in expenditure than pre-pandemic trends suggested. Work is progressing in revising long-term trends, but early information shows that home care expenditure for older people has increased substantially and has only been partly off-set by reductions in residential care expenditure as client numbers have increased above pre-pandemic numbers. In addition, long-term cost increases in Learning Disabilities appear to have accelerated over the last year.

- 2.34 **Children's Services** are forecasting an overspend of £4.8m for the financial year. Within Children Social Care there is a forecast overspend of £2.8m, which relates to supernumerary unfunded posts. Within Education & Learning there is a projected overspend of £1.6m, most of which relates to SEND management and home to school transport.

- 2.35 **Resident Services** are forecasting an overspend of £3.0m for the financial year. £1.7m of the overspend relates to costs associated with Temporary Accommodation. The correlation can be seen when reviewing the indicator measuring the number of households in temporary

accommodation; towards the end of 2020-21 the numbers increased and exceeded the target, and whilst the targets for 2021-22 have been reset to allow for this increase, the numbers continue to grow, with a 10% increase compared to the same period last year. The most recently published DLUHC figures for London reflecting occupations levels at the end of December report Lambeth as having the sixth highest occupation levels in London with 2,767 households in occupation of temporary accommodation.

- 2.36 There is an underspend in Environment & Streetscene predominantly due to overachievement of parking income. An overspend of £0.580m in Residents Experience & Digital is caused by additional staffing costs in clearing Covid-19 backlogs in Registrars, a slow recovery in Libraries income after Covid and staffing overspends within ICT. .
- 2.37 **Sustainable Growth and Opportunity** are forecasting a slight pressure of £0.062m due to a shortfall in building control and planning income. There will be a significant level of expenditure on supporting businesses within the Borough, however this is expected to be funded from Central Government Grants and previously agreed NCIL funding.
- 2.38 **Finance & Investment** are forecasting an overspend of £0.7m this year, mainly due agency staff costs within Human Resources and Organisation Development and Finance and Property.
- 2.39 **Strategy, Communications and Legal services** are forecasting an overspend of £0.304m within Legal Services in the financial year predominantly due to additional staff to support legal work in the Children Services area.

2021/22 Housing Revenue Account Q2 Forecast Position

- 2.40 There are several factors that are driving the forecast of a £8.6m overspend. Within Housing Services there are pressures within the responsive repairs service due to the necessity of reducing outstanding repairs jobs ahead of the new suite of repairs contracts which commenced in July 2021. There are also pressures against the voids budget due to a targeted reduction in voids to bring them back into rental use. The HRA's operations are continuing to be adversely impacted by Covid-19 and this is reflected in £1m rent losses in HRA hostels. There is a one-off £2m investment in system upgrades and transformation work to drive future efficiencies and value for money procurements within the HRA.
- 2.41 The Council is forecasting a planned use of HRA reserves for the above whilst maintaining a grip on the future balances and reserves via the HRA Business Plan.

Table 5 – HRA Forecast Outturn 2021/22

	Full Year Budget £m	Forecast £m	Variance £m
Housing Services	63.690	72.399	8.709
Strategic Programmes	15.541	18.062	2.521
Central HRA Budgets & Technical Adjustments	(79.231)	(81.823)	(2.592)
TOTAL HRA	0	8.638	8.638

2021/22 Dedicated Schools Grant Q2 Forecast Position

2.42 At quarter 2 the Dedicated Schools Grant (DSG) is projecting to be in a deficit of £2.6m at the end of the financial year, to be recovered from future years DSG allocations. The main pressure on the DSG is within the High Needs block associated with Special Education Needs placements.

Table 6

Dedicated Schools Grant (DSG)	DSG Reserve brought forward Deficit 2020/21	DSG Allocation 2021/22	Forecast DSG spend	Projected Deficit 2021/22
	£m	£m	£m	£m
Total DSG expenditure 2020/21	(0.473)	(226.975)	229.187	2.685

2021/22 Capital Q2 Forecast Position

2.43 The approved capital budget for 2021/22 amounts to £286.7m. £34.4m has been spent by the end of quarter 2 and £169m is forecast to be spent by the end of the year, with £117.8m carried forward into the next financial year.

Table 7 CIP Forecast Outturn 2020/21

Directorate	21/22 Budget £m	21/22 Actuals £m	21/22 Forecast £m	21/22 Carry Forward £m
Adult Social Care	0.120	0	0	0.120
Children Services	1.079	0.011	0	1.079
Resident Services	88.481	7.510	68.781	19.700
Sustainable Growth & Opportunity	78.179	9.057	56.924	21.254
Finance and Investment	7.624	0	0	7.624
Housing Revenue Account (HRA)	67.945	7.510	43.207	24.738
Approved awaiting allocation	43.247	0	0	43.247
Total	286.675	34.449	168.912	117.762

2.44 A reprofiling of budgets was carried out following the Q2 forecast position with the 2021/22 budget revised to £269.8m (excluding the Redress scheme). Appendix 1 shows the analysis of this working CIP for the 4 years 2021/22 to 2024/25 by themes together with how this is expected to be financed.

Capital Investment Programme

2.45 A 5-year Capital Investment Programme (CIP) spending envelope was set by the Council in March 2020 with Cabinet allocating headline totals to themes according to priority in July 2020. 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.

2.46 The pandemic resulted in severe delays in delivery in 2020/21 and a significant carry forward of funds to the current year. There is continuing work to reprofile the programme within existing resources as well as reviewing our planned investments and developments to ensure they meet the needs of the borough in the future.

- 2.47 The size of the capital programme is limited by available resources. Over recent years, the role of developer contributions has increased as available capital receipts continue to reduce. The other major source of funding is borrowing which has an impact on revenue budgets as there are on-going costs to debt servicing and the need to repay the principal over time. A review will begin shortly on the all available resources, including validating assumptions on developer contributions following the pandemic-related delays to development.
- 2.48 After the reviews on the planned programme and projected available resources are complete, there will be an opportunity to review the thematic allocations set by Cabinet to ensure they continue to match the ambitions the council and to bring forward any proposed changes for budget setting in February.

Reserves Strategy and Forecast

- 2.49 The Reserves Strategy sets out the Council's current approach to ensuring that the level, purpose and planned use of its reserves are appropriate in the current financial climate. Our overall approach is to use the financial strength of our balance sheet to help the Council through a period of high risk caused by real terms funding reductions and economic stagnation.
- 2.50 In the short term, Covid-19 has created significant cost pressures as well as delaying the delivery of a number of agreed savings, combined with the loss of income. Whilst some of these pressures have been met by Government grant, we will look to use reserves and balances to fill any remaining gap whilst continuing to lobby government to fully fund our response to the pandemic and its long term affects.
- 2.51 Brexit is also adversely impacting on the economy. The potential impacts of an increase in inflation and an economic slowdown have the potential to reduce local authority revenue from business rates, parking income, events, new homes bonus and council tax. It is therefore key that the council is prepared and ensures that reserves provide suitable financial resilience.
- 2.52 Table 7 below confirms our current reserve forecast position to this financial year-end, whilst also forecasting up to 2026. The general fund balances continue to be forecast to be maintained at 10% of the net general fund budget. Earmarked reserves are currently not forecast to increase over the planning period; however this will be determined by future service need.
- 2.53 Similar to many boroughs, despite the covid-related pressures last year, reserves have increased in 2020/21. There are several reasons for this:
- Compensation paid to councils for pandemic-related business rates reliefs paid in 2020/21 but repayable to the collection fund in 2021/22, required setting aside large sums at year end.
 - More than half the Covid-19 funding in 2020/21 from central government was received in the second half of year. With less time to budget for these, it was difficult to allocate and spend the funding, therefore sums have been set aside as contingency to deal with the on-going impact of the pandemic in 2021/22
 - The uncertainty of any central government funding for the on-going impact of the pandemic on additional spending and income losses, means it is prudent to build additional financial resilience whilst continuing to lobby government.

Table 9 2021/22 to 2025/26 Reserve Forecast

Reserves	Actual	Forecast				
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m	£m
General Fund Balances	25.870	30.409	34.009	34.509	35.009	35.509
General Fund Reserves	151.068	109.370	86.870	86.124	85.755	85.755
Subtotal	176.938	139.779	120.879	120.633	120.764	121.264
CIL Reserve	12.212	12.327	11.327	11.827	10.827	11.577
GF Balances & Reserves	189.150	152.106	132.205	132.460	131.591	132.841
HRA Balances	10.971	2.603	2.603	2.603	2.603	2.603
HRA Reserves	17.944	17.944	17.944	17.944	17.944	17.944
HRA Balances & Reserves	28.915	20.547	20.547	20.547	20.547	20.547
Total Balances & Reserves	218.065	172.653	152.752	153.006	152.138	153.388

2.54 The impact on reserves due to the business rates relief compensation has had a significant impact on all London boroughs' reserves to varying degrees which has reduced the comparability of 2020/21 positions therefore it has not been included in this report.

3. FINANCE

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

4. LEGAL AND DEMOCRACY

4.1 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.

4.2 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.

4.3 The Housing Revenue Account is a ring-fenced account. Transfers to and from the account are prescribed.

4.4 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.

- 4.5 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.
- 4.6 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.

5. CONSULTATION AND CO-PRODUCTION

- 5.1 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.
- 5.2 The current funding gap is expected to be met through changes to fees and charges which will carry out any required consultation before individual proposals are implemented.

6. RISK MANAGEMENT

- 6.1 None for the purposes of this report.

7. EQUALITIES IMPACT ASSESSMENT

- 7.1 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.
- 7.2 The report sets out 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.
- 7.3 No new savings have been proposed.

8. COMMUNITY SAFETY

- 8.1 None for the purposes of this report.

9. ORGANISATIONAL IMPLICATIONS

Environmental

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

Health

9.2 None for the purpose of this report.

Corporate Parenting

9.3 None for the purpose of this report.

Staffing and accommodation

9.4 None for the purpose of this report.

Responsible Procurement

9.5 None for the purpose of this report.

10. TIMETABLE FOR IMPLEMENTATION

10.1 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	16/11/21	18/11/21	
Councillor Andy Wilson Cabinet Member	Cabinet Member for Finance and Performance	16/11/21	18/11/21	
Andrew Travers, Chief Executive	Chief Executive	16/11/21	17/11/21	
Fiona McDermott, Strategic Director	Finance and Investment	15/11/21	16/11/21	
Christina Thompson, Director	Finance and Investment/ Finance and Property	15/11/21	17/11/21	Throughout
Andrew Pavlou, Principal Lawyer Governance	Legal and Governance	19/10/21	20/10/21	
Sarah Keeble Democratic Services Officer	Legal and Governance Democratic Services	12/11/21	15/11/21	

REPORT HISTORY

Original discussion with Cabinet Member	17.05.21
Report deadline	01.12.21
Date final report sent	01.12.21
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 July Financial Planning and Medium Term Strategy Report
Appendices	Appendix 1 - Capital Investment Programme 2021/22 to 2024/25