Lambeth

Medium Term Financial Strategy 2022/23 to 2025/26

Table of Contents

1. Context and Background

1.1 The Council continues to face a very uncertain time, even with the first multi-year Spending Review (SR21) since 2015, the provisional settlement announced in December 2020 was for one year only. There are encouraging signs of increased funding from the provisional settlement and SR21, however, there are also likely to be significantly new costs resulting from social care reforms, adding to the existing demand pressures placed on our already stretched services and budgets and responding to a global pandemic. This report sets out our current Medium Term Financial Strategy (MTFS) story throughout 2021/22 and how we have changed it to now cover the four year planning period 2022/23 to 2025/26.

1.2 The Fair Funding Review is still under consideration, so at this point in time we do not know the likely impact on Lambeth. The direction of change had been towards greater local Business Rates Retention, however recent comments from the Department for Levelling Up, Housing and Communities (DLUHC) has thrown some doubt over this approach as this may not be consistent with the levelling up agenda. Lambeth had been part of the London Business Rates Pool which allowed boroughs to keep more of the income generated in the capital. However, due to the uncertainty around income from office space and retail, there was no pooling arrangement in 2021/22 and Lambeth is not part of a pool in 2022/23. The boroughs have agreed to monitor the situation and will look to take advantage of pooling arrangements if and when the situation changes

1.3 In addition to the Fair Funding Review, there will be a full reset of the Business Rates baseline in 2023/24 at the earliest as well as the full impact of the trade agreement with the European Union following the UK's exit from the EU and the speed of economic recovery post pandemic.

1.4 Our current MTFS and the future changes have been and will continue to be developed to ensure that it underpins and supports the delivery of significant change, and our Borough Plan priorities and outcomes of driving inclusive growth, tackling inequality, and building strong and sustainable neighbourhoods.

2. Objectives of the MTFS

2.1 The main objectives of our MTFS are:

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

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

2.3 Whilst the most recent Settlement provides some assurance for 2022/23 and together with SR21 there is more clarity for the MTFS period compared to previous years, the future year projections of government funding within in the MTFS is carried through on a straight line basis or constant share of funding streams that are increasing over the next 4 years. The MTFS will continue to be updated as we gain greater certainty and clarify on the level of funding. The delivery of agreed savings is an area of significant risk, and detailed plans are required to ensure that the risk is mitigated, and the saving is actually delivered and on time. The Council considers key corporate risks via the risk register, which is monitored at Management Board in addition to Corporate Committee (the Council's audit committee).

3. National Context

3.1 Lambeth's financial and service planning takes place within the context of the national economic outlook, which affects departmental expenditure plans. Therefore, our MTFS will keep being updated as and when changes occur.

3.2 In the Chancellor's Spending Review 2021 Statement of October 2021, he set out the latest forecasts on the UK economy. These were provided by the Office for Budget Responsibility (OBR).

3.3 The pandemic and the developing trade relationship between the UK and the EU are significant factors in the OBR's forecast in recent times and it is difficult to separate out the effects of each. With the end of the transition period for the trade agreement, there has been a drop in exports to the EU but there has also been decrease with the rest of the world due to the pandemic. The exit from the European Union is likely reflect in the slower recovery of UK-EU trade when compared to the rest of the world.

3.4 The post pandemic economic recovery has been better than previously forecast with the growth in 2021 revised up to 6.5% and long-term scarring of the economy reduced to 2% from previous projections of 3%.

Table 1

	2021/22	2022/23	2023/24	2024/25	2025/26
GDP Growth Forecast (%)	6.5	6.0	2.1	1.3	1.6

3.5 The amount of money the government needs to borrow each year is called public sector net borrowing or the deficit. Whilst this has been decreasing in recent years, the fiscal response to the pandemic has required substantial borrowing, although these projections have been revised downwards since the peak in March 2021. As a percentage of GDP, public sector net borrowing is set to be 7.9% in 2021/22 and forecast to be 3.3% in 2022/23. Public sector net debt (PSNB) is the total amount of money owed by the public sector, this is projected to be over 98.2% of GDP in 2021/22 and remain over 90% but reducing over the planning period. Debt interest spending has been kept low by historically low rates of interest, however the high debt-to-GDP ratio does mean public finances are more exposed to changes in interest rates.

Table 2

	2021/22	2022/23	2023/24	2024/25	2025/26
Public sector net borrowing (£bn)	183.0	83.0	61.6	46.3	46.4
Public sector net borrowing (% of GDP)	7.9	3.3	2.4	1.7	1.7
Public sector net debt (% of GDP)	98.2	97.9	97.8	94.7	90.5

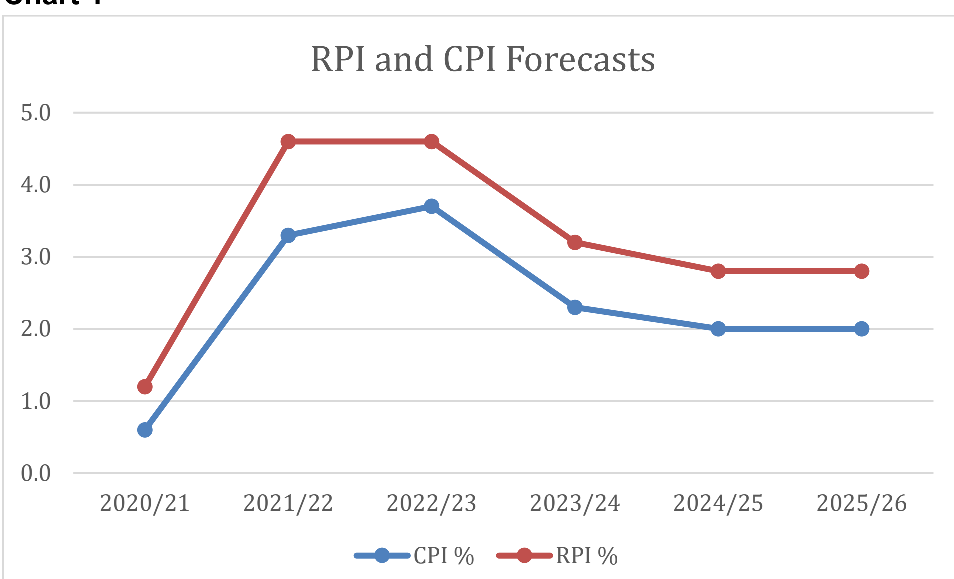
3.6 Interest rates are expected to remain very low for the foreseeable future. The base rate is the official borrowing rate and is set by the Bank of England. The current bank rate is 0.25% and was increased by 0.15% from 0.1%. This is the first time interest rates have been increased since August 2018 when it was raised to 0.75%.

3.7 The Retail Price Index and the Consumer Price Index are two commonly used measures of inflation. The Bank of England has a CPI target of 2%. Recovery from the economic shock brought on by the pandemic is expected to be seen in the change from the low rates of the past 2 years. With supply disruptions, increased economic activity and energy prices, inflation has been increasing significantly, reaching 5.4% in the 12 months to December 2020, the highest rate since March 1992. Over the longer term, the Bank of England expect pressures to ease with inflation returning close to 2% by the end of 2024.

Table 3 – OBR Inflation forecast

	Actual	Forecast				
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
CPI %	0.6	3.3	3.7	2.3	2.0	2.0
RPI %	1.2	4.6	4.6	3.2	2.8	2.8

Chart 1



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

4. Medium Term Financial Strategy

4.1 The Council's 2021/22 Budget report was agreed at Council in March 2021 which set out the council had a small surplus position over the period 2021/22 to 2024/25, and this position was after setting the Council Tax and NNDR base for the council.

4.2 In July 2021, we presented the July Finance Planning Report to Cabinet. This report confirmed a number of new pressures that we had factored into the MTFS. During the summer of 2021 Strategic Directors and their teams undertook to identify possible saving proposals or revised estimates on pressures to help close the funding gap.

4.3 In the December Finance Planning Report presented to Cabinet we presented a revised funding gap of £1.7m, with the expectation that this would be met through changes to fees and charges.

4.4 Since the reported December 2021 position there have been a number of further announcements, primarily the Spending Review 2021 (SR21) and the Provisional Local Government Finance Settlement 2022/23. We have also calculated our final Council Tax and NNDR tax base figures, which were agreed by Corporate Committee on 27 January 2022 and submission of NNDR1 form to the Department for Levelling Up, Housing and Communities (DLUHC).

4.5 The revised MTFS now shows a balanced position across all years. However, this must be considered in the context of the uncertainty around the funding and new burdens situation from 2023/24 onwards with many major changes such as the Fair Funding Review, Business Rates baseline reset and implementation of social care reforms to come. The current position is confirmed in the table below:

Table 5

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Total Funding Gap as per MTFS	13,698	4,975	2,790	-	21,463
Total Agreed Savings	(13,698)	(4,975)	(2,790)	-	**(21,463)**
Revised Funding Gap/(Surplus)	**-**	**-**	**-**	**-**	**-**

Spending Power

4.6 Whilst our spending power is forecast to increase significantly in 2022/23 with smaller increases through to 2025/26, it must be seen in light of the likely equally significant new burdens brought about by social care reforms. We must also manage and fund a number of known pressures, which are directly linked to demographic growth and demand led pressures within the borough. We have also not seen the full long term impact of the pandemic on existing pressures.

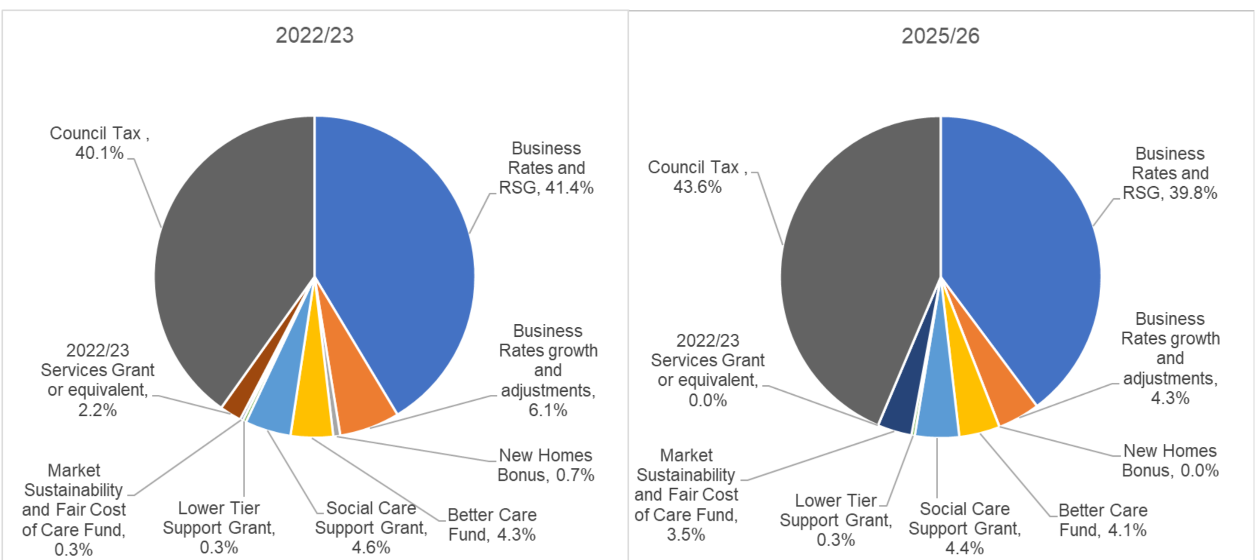
4.7 The demand led pressures within Adult Social Care, Children Services and Temporary Accommodation continue to grow, and we have built assumptions around these key areas within our Medium Term Financial Strategy, however, as we have seen in recent years the demand led pressures continue to grow beyond assumptions.

4.8 The absolute values of our forecast funding position are set out in the table below and the relative position captured in the pie charts:

Table 6

Funding Source	2022/23 £'000	2025/26 £'000
Business Rates and RSG	144,911	144,911
Business Rates growth and adjustments	21,218	15,500
Council Tax	140,580	158,848
Better Care Fund	14,945	14,945
New Homes Bonus	2,451	0
Social Care Support Grant	16,196	16,196
Lower Tier Support Grant	1,201	1,201
Market Sustainability and Fair Cost of Care Fund	1,018	12,574
2022/23 Services Grant or equivalent	7,688	
Total Cash Limit	**350,208**	**364,175**

Chart 2



4.9 The Settlement Funding Assessment (SFA) is our needs assessment, and then Core Spending Power (CSP) is assessed using all elements of our funding even council tax. The SFA is made up of Revenue Support Grant, Business Rates Retained and Business Rates Top-up. The issue with having council tax in the core spending power calculation is that the level it is at is assumed. Central Government always assume council tax is at the maximum level, so including the maximum allowable increases and using a trend of prior year base increases. Therefore, any short-term shocks (such as the pandemic) or planned changes to the CTS scheme which will both have significant downward effect on council tax income, this will not be shown through to the CSP calculation going forward until at least the year after.

4.10 The message from DLUHC currently is there will be transitional arrangements in place in the early years of the new funding allocation. At this stage we can only surmise that there will be winners and losers of the new formula. This is a time of significant uncertainty with Fair Funding Review due to be implemented in 2023/24 as well as the delayed to the Business Rates baseline reset due at the earliest for 2023/24 and a third consecutive single year settlement for 2021/22, albeit mitigated by the 3 year Spending Review.

4.11 The implementation of Social Care reforms and the associated cost and funding is likely to be significant in this MTFS period. It is clear that there will be increases costs as a result and that local government has as a sector been provided with funding. However, whether the funding will match the increase responsibilities is unclear. For this update, we have assumed that any new funding will be matched by new burdens while remaining mindful that it is possible for new costs to outstrip new available resources.

Council Tax Policy

4.12 As part of addressing the funding gap, we have modelled to increase the Lambeth element of the Council Tax by 1.99% in 2022/23, this proposal is the maximum allowed without the need for referendum as set out in the Provisional Settlement in December 2021. In addition, we have also included the maximum 1% Adult Social Care precept.

4.13 We have modelled a further 1.99% increase in the remaining years of the MTFS 2023/24 to 2025/26 below the level required for a referendum. Together with the 1% Adult Social Care precept in 2023/24 and 2024/25, this further helped us in balancing the Council's budget over the MTFS. This assumption is included in the figures, and the recommendation to increase Council Tax in 2023/24, 2024/25 and 2025/26 is subject to decision by Cabinet and Council and will be addressed in future years budget reports.

Business Rates Retention

4.14 The introduction of the Business Rates Retention Scheme in 2013/14 provided an incentive for authorities to grow their business base by virtue of retaining a proportion of business rates growth achieved, in Lambeth's case 30%. However, it also means that Councils must manage the downside of changes to the business rate base, and as Business Rates are susceptible to economic downturns, and as our funding reliance grows in respect of Business Rates, the future risk around this important funding stream further increases.

4.15 With effect from 01 April 2018 the Business Rates London Pilot Pool commenced, and this was a 100% retention scheme, meaning Lambeth and the GLA shared 100% of Business Rates, with the exact split being 64% to Lambeth and 34% to the GLA. With effect from 01 April 2019 the Business Rates London Pilot Pool continued, but under different rules, with it being a 75% retention scheme, this means that Lambeth and the GLA shared 75% with the remaining 25% going to Central

Government. The exact split of the 75% was Lambeth's share as 48% and GLA share as 27%. Although there was no pilot pooling arrangements for London in 2020/21, all London Boroughs and the GLA formed a pool based on the 67% retention (Borough share 30% and GLA 37%).

4.16 With the uncertainty and large downside risk to business rates income due to the on-going effect of the pandemic, a joint decision was taken by all the Boroughs and the GLA to not form a pool for 2021/22 and also for 2022/23. However, this will be monitored through the year and there is still an intention to pool when the situation becomes more clear and potentially beneficial to all again.

4.17 The future of increased Business Rates retention is now less certain as this is considered by DLUHC to be inconsistent with the levelling up agenda. Under previous assumptions the change would be to a 75% retention scheme as this means that primary legislation is not required, when it would be required for a 100% retention scheme. The reset in 2023/24 is assumed to wipe out any growth from the system. Future reset frequencies and types are yet to be decided, although revaluation of properties is due be reduced to every 3 years.

Strategy to Deliver Borough Plan

4.18 We have worked to ensure that our financial strategy supports the delivery of the Borough Plan, by ensuring we are investing to better focus our service provision for both vulnerable children and adults, so we help to bridge the inequality gap. In parallel, we must continue to transform our universal service provision to enable us to manage within the cash limit.

Managing the Delivery of Savings

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

Reserves and Balances

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

4.21 Prudent reserves have been set aside over time to manage local risk and protect normal council business and these are reported each year within the annual statement of accounts. These reserves are maintained to fund exceptional items or pressures which are difficult to predict, and which are not included in revenue budgets or within the capital programme. There are also reserves from specific government funding that is carried forward from year to year to be used as required.

4.22 The level of balances remains subject to the scrutiny of the section 151 officer who must ensure that any one-off contributions to the budget are appropriate and affordable. The budget proposals for 2022/23 does not include a planned release of reserves outside of the large Collection Fund deficit arising from the late announcement of the expanded retail reliefs which are fully funded and paid to local authorities in 2021/22.

4.23 **Balances:** The council held General Fund balances of £25.780m as of 31 March 2021. The Director of Finance (the Council's s151 officer) has stated that 'I have consistently advised members that in my professional opinion the minimum level of balances (i.e. unallocated reserves) that the Council needs to maintain to ensure financial stability, and so provide a strong environment within which outcomes can be continuously improved, is 5% and that the Council should plan to hold balances of approximately 10% of net revenue expenditure.' The current general fund balance of £25.780m represents 8.7% of net expenditure in 2020/21. There is a planned contribution of £0.500m to balances each year built into the MTFS.

4.24 **Earmarked reserves:** The total General Fund earmarked reserves balance at 31 March 2021 was £151.068m and the HRA earmarked reserves balance was £17.944m, therefore equating to total earmarked reserves of £169.012m. This large increase over previous years was due to late announcement of Covid-19 related business rates reliefs for 2020/21 which was compensated in full by Central Government in year, when the budgetary impact is in 2021/22. The council's strategy on earmarked reserves is to use them only to fund the specific pressures for which they were created.

4.25 **Provisions:** In accounting terms, liabilities occur because of past decisions made by an organisation which will then result in an obligation for the organisation to settle this in the future with an outflow of money or provision of a service.

4.26 Provisions are required to be recognised in the Council's accounts in accordance with proper accounting practice when the criteria for recognition are met. There is no discretion in this recognition, or on the level of provisions held. The Council held General Fund provisions totalling £46.690m as at 31 March 2021. At 31 March 21 HRA provisions totalled £24.614m, resulting in total provisions for the council of £71.304m.

5. Capital Programme

5.1 Revenue expenditure is concerned with the day-to-day running of services, whilst capital expenditure is a key element in the development of the Council's services concerned with investment in the assets required to deliver services. Decisions on the capital programme do have an impact on the revenue budget; however, and this could relate to: the revenue costs of financing capital and the ongoing running costs of new assets.

5.2 Historically capital receipts have been the primary funding source for capital projects but going forward we expect to have much smaller amounts of capital receipts available and therefore will need to use prudential borrowing to finance a proportion of the capital programme. This in turn means there will be a revenue impact to pay interest and to set aside funds to repay the borrowing. The MTFS has been updated to reflect this need to borrow and gives an indication on the council's borrowing capacity for the capital programme.

5.3 We are currently in year 2 of the 5 year capital investment programme approved by Council in February 2020. The Programme at the time of approval totalled £715m, made up of £370m of General Fund capital investment, £227m for the HRA capital programme, £103m for RTB buybacks and £15m for the Redress Scheme. Since that time, the pandemic has severely reduced capital expenditure with restrictions slowing or stopping developments and works. As reported to Cabinet in December 2021, the capital programme at that time was £660m, made up of £343m of General Fund capital investment, £199m for the HRA capital programme, £86m for RTB buybacks and £32m for the Redress Scheme.

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

6. Financial Planning Cycle and Timetable

6.1 Table 7 below confirms the financial planning timetable that we will endeavour to meet each year. However, due to pressures and availability of key staff and Members, there may be movement to this timetable as we move through the MTFS. However, we will always meet the deadline in February, whereby the budget setting report will get approval from Cabinet and then Full Council by the end of February. We will also always provide two financial planning reports to Cabinet throughout the year. We envisage this to happen in July and November, but this is flexible and will be amended to reflect the specific circumstances in each given year.

Table 7

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