Appendix 1

FINANCIAL MANAGEMENT STRATEGY 2013 – 2016

1. Context and summary

1.1 The council publishes an outline Financial Management Strategy as part of the Budget report agreed by Council each February. This sets out an overview of our approach to make the best use of our financial resources to help achieve the Council’s vision and ambitions for the Borough and maximise sustainable benefits for the people of Lambeth.

1.2 Over the last year, the economic climate has continued to worsen with the effects of the global recession felt across central and local government, our local communities and businesses and our service users. The financial context within which the council is operating continues to be extremely challenging. Fast paced and substantial economic changes nationally and internationally coupled with significant shifts in national government policy including the onset of the “age of austerity” continue to impact considerably on council activity.

1.3 Furthermore, recent changes to local government funding mean that the council is no longer insulated from swings in the economic cycle; instead we are exposed to direct risks to our income streams and expenditure projections during this current period of extended economic downturn. We are continuing to see increased demand for some of our services from those of our residents requiring additional support as well as needing to provide additional discounts on council tax charges. Reduced business activity across the borough is impacting on business rate income whilst a stalling property development sector is affecting our potential income from New Homes Bonus and Community Infrastructure Levy. Our investment income is reduced and our asset values have been hit, reducing our flexibility to make strategic investments in priority outcomes.

1.4 The council has and will face cuts in Government funding of 45% over 6 years. As a result we will have had to reduce spending by an estimated £174m between 2011/12 and 2016/17. At the same time, the Council administration has maintained its commitment to residents to keep our council tax as low as possible and Lambeth’s Council Tax will now be frozen for the fifth year in a row.

1.5 This revision of our strategy reflects our current approach to meeting these challenges. These significant financial pressures clearly cannot be contained through “efficiency gains” alone and in order to safeguard the council’s objectives we are continuing to think clearly and creatively about what we can actually afford to do and how we should best go about it. The council is adapting through building a new, co-operative relationship between the council as commissioner and those citizens and communities who need and use our services. We are on track to deliver a co-operative commissioning council by 2014 with new commissioning processes and structures in place by May 2013. The following table summarises the co-operative principles which now underpin the council’s financial management strategies:
<table>
<thead>
<tr>
<th>PARTNERSHIP</th>
<th>with the community, with the council as a strong, local, democratic leader recognising the voice of a diverse range of groups</th>
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<tbody>
<tr>
<td>CO-PRODUCTION</td>
<td>of services, planned and delivered on an equal basis of shared responsibility via a variety of organisations</td>
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<tr>
<td>RECIPROCITY</td>
<td>such that community assets are fully utilised and citizens are incentivised to participate in commissioning</td>
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<tr>
<td>LOCAL EMPLOYMENT</td>
<td>allowing residents to develop enhanced job-related skills through engaging in civil society</td>
</tr>
<tr>
<td>MAXIMUM ACCESSIBILITY</td>
<td>such that public services are joined up and can be accessed easily by everyone</td>
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1.6 We recognise that our new commissioning approach will bring its own opportunities and challenges but will allow us to respond quickly to maximise benefits within the borough from the eventual upturn in national economic growth.

1.7 In summary, the key priorities for our financial management over the coming year are:

- The council is tackling the fundamental change in business and function that funding reductions of 45% over six years and rising demand pressures must necessarily entail by building a new, co-operative relationship between the council as commissioner and those citizens and communities who need and use our services. As part of this approach, we are developing our financial planning processes with the community to ensure we allocate our resources most effectively (both revenue and capital) to deliver co-produced priorities and away from lower priority services. This will allow us to manage our spending within our substantially reduced funding.

- We will seek to minimise dependence on Central Government funding by maximising income from other sources including regional and international funding and will maximise opportunities afforded by recent national policy and legislative changes (including local business rates retention, NHB, CIL and new community rights as enshrined in the Localism Act 2011).

- We will maximise the potential income and expenditure opportunities from a shared service approach with other local authorities, public sector partners and social enterprises if they contribute to the council’s priorities. Current examples being developed include the “One Oracle” project with 5 other Boroughs and a joint approach to homelessness across three South London Boroughs.
• We will explicitly and transparently manage the level, purpose and planned use of our reserves to strike a balance between protecting services from immediate financial risk and investing in transformation to safeguard priorities in the longer term. Our Reserves and Balances Strategy is set out in section 2 of the main report.

• We face a substantial shortage of capital funds for investment in our asset base. Rationalisation of the asset portfolio continues and further mechanisms for co-operative ownership of assets to enhance community access are in development. However, we cannot rely indefinitely on disposal of surplus assets to fund future investment requirements, and will need to generate additional internal – including revenue – investment resources. We will also seek to build community capacity by supporting “Community Right to Bid” applications and will also seek alternative funding solutions for strategic developments to try and minimise the public sector capital financing burden. These could include leveraging more value from existing assets through commercial/social enterprise arrangements.

• We will complete the restructuring of the finance function to achieve an agile and innovative service which can actively facilitate the council’s co-operative ambitions. Together with the implementation of the new accounting system Oracle R12, this will improve efficiency, reduce costs and provide high quality financial management, standardised across the organisation. It is planned that the finance function will support and enable the development of not only the council’s in-house co-operative commissioning and delivery functions but also eventually the borough-wide co-operative public service economy.


2.1 In this document we have set out:

• Our Financial Management strategy (Section 3)
• Outcome and risk frameworks (Section 4) including
  • Corporate and Political priorities
  • Financial Management values and principles
  • Risks to our key financial strategies


3.1 This section sets out our strategies in detail (the approaches or courses of action we are undertaking to achieve our outcomes). The strategies are split into three areas of focus:

• building financial resilience within both the Council and its communities
• managing our assets
• providing high quality financial management across the organisation.
Financial resilience strategies for the Council and its communities

- Co-operative strategies:
  - Develop the financial planning process with the community to allocate resources transparently (both revenue and capital) to co-produced priority outcomes and away from lower priority services, allowing us to manage a further reduction in spending of £82m
  - Support the development of a new Financial Resilience Strategy to build resilience within our local communities through targeted investment and hence reduce dependence on public services and support.
  - Invest in capacity building in the 3rd Sector to help bring additional funding from alternative sources into the Borough and to work with the Council in co-operative service provision models

- Funding strategies:
  - Minimise dependence on Central Government funding by maximising income generation from other sources including lobbying, accessing other funds (for example, European grants or Mayoral projects) and commercial/entrepreneurial opportunities such as traded services
  - Increase income from our fees and charges, having due regard to our social and environmental responsibilities
  - Build our Council tax base and protect our income stream by maximising collection as well as through discretionary use of discounts and premia
  - Drive local economic growth and development and hence capitalise on the opportunities afforded by recent national policy and legislative changes (including local business rates retention, New Homes Bonus, Community Infrastructure Levy and new community rights as enshrined in the Localism Act 2011)
  - Exploit opportunities for sharing services with other local authorities, public sector partners or social enterprises if they contribute to the council’s priorities
  - Explicitly manage reserves and balances to strike a balance between managing immediate financial risk and investing in transformation to safeguard priorities in the longer term
Asset management strategies

- Co-operative strategies:
  - Map the borough-wide asset base to highlight deficiencies or opportunities such as potential duplication of provision within the community
  - Develop the co-operative mechanism to target capital resources and investment to deliver co-produced priority outcomes and away from lower priority services
  - Continue to develop principles and mechanisms for co-operative ownership of assets to enhance and simplify community access and benefits
  - Build capacity across the borough by supporting the “Community right to bid”

- Rationalisation strategies:
  - Review the planning and management of the Capital Investment Programme to ensure timely delivery of projects whilst also deriving maximum possible strategic benefit from anticipated resources as they become available
  - Continue to rationalise our asset portfolio, basing all investment or disinvestment decisions on integrated information on the value, efficiency and cost of assets (both capital and revenue) as well as their relevance to delivery of priority outcomes
  - Explore innovative funding solutions for strategic developments to minimise the public sector capital financing burden including leveraging additional value from existing assets, special purpose vehicles and commercial/social enterprise developments
  - Explore alternative internal funding sources (including increased revenue contributions and internal borrowing) and external funding sources (including regional and European funds)
### High quality financial management strategies

| Financial management focus | • Complete the transformational restructure of the finance function to allow greater standardisation of approach through centralisation together with improved efficiency and agility  
• Develop a greater Business Partner capability to bring evidence-based rigour and financial perspective to all business decision making  
• Support development of improved financial and budget management skills among service managers and potential co-operative partners  
• Actively seek to capture efficiency gains with our partners and other neighbouring authorities through pooling resource capacity, economies of scale and shared best practice in service provision |
| Financial governance and control | • Capitalise on the opportunities afforded through the introduction of Oracle R12 to improve routine controls over financial transaction and balance sheet data  
• Develop extended financial governance across new co-operative arrangements to support transparency, probity and propriety in the stewardship of all public monies and help partners minimise the risk of errors, financial mis-management, fraud or corruption arising |
| Data quality and transparency | • Agree a financial data quality approach with the community to produce accessible and relevant council data to support co-operative commissioning decisions and improve transparency and accountability  
• Work with co-operative partners to extend this approach to cover financial data relating to all commissioned spend of public monies |
| Financial intelligence | • Utilise the full reporting capability of the new Oracle R12 to align financial and non-financial reporting and give greater insight into trends and exceptions in business performance  
• Maintain a detailed, comparative understanding of unit, transaction, marginal and total costs for key services to underpin co-operative resource allocation decisions |
4. **Outcome and Risk frameworks**

4.1 The Council’s Corporate Plan sets out the aims and ambitions of the Council for how we and our services will contribute to achieving the vision and long-term outcomes for the Borough.

The 3 **CORPORATE PRIORITIES** for Lambeth are:

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<tr>
<th>An enabling borough</th>
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<tr>
<td>A safe and secure borough</td>
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<td>An aspirational borough</td>
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There are 2 additional **TRANSFORMATIONAL PRIORITIES**:

<table>
<thead>
<tr>
<th>Becoming a co-operative council</th>
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<td>More preventative and targeted services</td>
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4.2 The Council’s Labour administration made the following five key **MANIFESTO COMMITMENTS** to residents on their re-election in May 2010:

<table>
<thead>
<tr>
<th>To keep council tax low</th>
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<tr>
<td>To protect front-line services by ensuring better value for money and driving out cost</td>
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<tr>
<td>To work more closely with communities and service users as a cooperative council to improve service quality for everyone</td>
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<tr>
<td>To deliver rapid and sustainable improvement in the housing service</td>
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<td>To protect the most vulnerable whilst expanding opportunity for all</td>
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4.3 5 detailed commitments have particular relevance for financial management:

| Keep council tax as low as possible with better value for money and high-quality services |
| Make people who refuse to pay their council tax and rent pay up so honest residents aren’t left to foot the bill |
| Crack down on fraud with police working full-time in the town hall |
Protect frontline services by joining up with other organisations to cut costs
Publish all key council costs over £500 to increase public scrutiny and stop wasteful spending

4.4 **Financial Management Values and Principles**

4.5 There is a strong financial management culture at Lambeth which is built around 4 values:

- **Ownership:** all Officers and Members demonstrate a strong commitment to effective financial management, whatever their day to day level of involvement with financial matters.

- **Responsibility:** all Officers and Members take full responsibility for financial management, each with a clear understanding of their respective roles as set out in the Constitution, standing orders, financial policies and procedures.

- **Early notice:** financial plans, monitoring and reports give sufficient time to respond effectively to new opportunities or potential problems.

- **No avoidable failure:** honest identification and management of business and financial risks underpins routine business-as-usual.

4.6 The following financial management principles are also integral to our work:

- **Value for money:** “Every pound must be spent with care and without waste” (Steve Reed, former Leader of the Council). Our Value for Money strategy sets out our approach to assessing, delivering and demonstrating optimum value to residents from our services.

- **Financial stability:** We ensure the organisation can respond flexibly to financial challenges by maintaining the level of general fund balances within a range of value. The minimum level held is £15m (approximately 5% of net revenue expenditure) in line with the London Authority Treasurers benchmark whilst the maximum held is £30m (approximately 10% of net revenue expenditure).

- **Financial discipline:** In order to continue to “live within our means” we operate rigorous financial controls and accurately record, report and forecast our financial position to allow meaningful and regular review.

- **Financial innovation:** For the first time in a generation there is a considerable shortfall in public sector resources to deliver public sector services. We can only bridge that gap by thinking creatively about what actually constitutes “public sector services” and whether they are best provided with public, private or 3rd sector resources. We are moving to a co-operative commissioning council to harness the resources and expertise of our community to help us achieve this successfully.
## 4.7 Risks to our key financial strategies

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<th>Risks</th>
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<td>Pressure to manage substantial funding reductions urgently undermines our ability to develop cooperative commissioning and protect priority outcomes</td>
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<td>Continued economic stagnation means the demand for services substantially outstrips projections</td>
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<tr>
<td>Continued depressed economic climate undermines our ability to generate supplementary income from alternative sources (including traded services and income streams related to growth and development)</td>
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<tr>
<td>Short term calls on reserves and balances to maintain financial stability reduce funding available for longer term investment in financial sustainability</td>
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<tr>
<td>Innovative funding solutions for strategic projects cannot be negotiated in this economic climate</td>
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