Lambeth

Cabinet **14 July 2014**

Council **23 July 2014**

Financial Planning Report – Allocating Resources to Outcomes

Wards: All

Report Authorised by: Strategic Director Enabling: Guy Ware

Portfolio: Deputy Leader (Finance & Investment): Councillor Paul McGlone:

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Report summary

1.1 **Introduction** - The February Budget Report outlined the Council's need to find savings to address a 3-year funding deficit of £96m for the period 2014/15 to 2016/17. This was part of the rolling series of budget reductions that have been made since the Government began its programme of public sector austerity in 2010. For the period 2010/11 to 2016/17, the Council estimated that core funding from Government would have reduced by approximately 50%. The Council has now extended its assumptions on core funding and unavoidable pressures to 2017/18 and has revised its saving requirement to cover this period.

1.2 Of the original savings target of £96m, £25.4m has been delivered for 2014/15. The position has been updated to identify a funding deficit of £90.4m over the period 2015/16 to 2017/18. This report has requested that the indicative savings of £37.6m identified for 2015/16 and 2016/17 be confirmed, resulting in a remaining savings target of £52.8m .

1.3 The Government plans to maintain this programme in order to achieve a balanced national budget by 2019. Independent observers, including the Institute of Fiscal Studies, conclude that, while the cuts to date have been severe, we are only about a third of the way through the programme: we will see cuts at least as heavy as those already experienced over the next few years. With continuing relative protection of some budgets such as Health, Schools, and Pension-age welfare, there is no reason to suppose that Local Government will not continue to be amongst the hardest hit.

1.4 In 2014/15 we introduced a new process of "Outcome-Based Budgeting (OBB)" to help support the council's commissioning approach and address the huge reduction in available resources. This process aligned resources to the thirteen outcomes identified in the Community Plan. Following the local elections, the council has the opportunity to set out a four-year view of its ambitions and the financial planning approach needed to underpin them. The new Cabinet has established three Outcome Panels to lead the work of commissioning and delivering outcomes under three headline areas. We now need to build on the OBB process to help the Panels consider the total resources available – the Council's gross revenue spend; its capital assets and potential investment; and the resources of our partners and communities – to secure the best possible deployment of the resources we will have available. At the same time, in order to set the budget each year, we need to ensure effective target-setting and control of the Council's net revenue spending.

1.5 Having set this year's budget in February, **Section 2 (Resource Allocation)** of this report rolls forward our medium term financial view to 2017/18. It indicates a potential General Fund revenue funding deficit of £90.4m over the three years 2015/16 to 2017/18. However, the 2014/15 OBB process identified indicative savings for 2015/16 and 2016/17 which it is currently estimated will reduce that deficit by £37.6m, leaving a revised revenue deficit of £52.8m to 2017/18.

1.6 This report recommends that the commissioning strategies and the indicative plans for closing the deficit identified in February (and since updated) be confirmed, and that Outcome Panels be charged with the task of developing and overseeing robust implementation plans to secure their delivery. It further proposes revenue and capital "resource envelopes" and net revenue spending targets for the Outcome Panels for 2015/16 through to 2017/18. Rather than fixed sums, these include "tolerance bands" to allow some flexibility to respond to the need to prioritise – and therefore redistribute resources – between the three Outcome areas. The resource envelopes and targets will be reviewed and confirmed as the future budget process rolls forward. Over time, we aim to build on this resource allocation model to include a more sophisticated consideration of "whole system" investment, including the resources of our partners and communities alongside those of the council.

1.7 The Outcome Panels are tasked with the role of considering how to commission outcomes within the reduced revenue resources available, and, where appropriate, the potential capital investment (or disinvestment) required to achieve the planned outcomes at a reduced revenue cost.

1.8 **Section 3 (Outlook – Emerging issues in Local Government)** outlines the key changes that have affected local government finance. It also addresses the Council's response to those challenges and further proposals for change in the future.

1.9 The Council has a Financial Management Strategy in place for the period 2014 – 2017, agreed in the February Budget Report. **Section 4 (Financial Management Strategy & 2013/14 Outturn)** outlines developments that have taken place in the intervening period. It also discusses the 2013/14 revenue outturn and the risks for 2014/15 as set out in the May risk monitor.

1.10 The 2013/14 capital outturn is discussed in **Section 5 (Capital).** It also provides a review of the capital investment programme for the period 2010/11 – 2013/14 as well as setting out the investment programme for the period 2014/15 – 2016/17.

Finance summary

1.11 This whole report concerns the Council's overall financial position with a particular focus on the medium term.

Recommendations

Cabinet.

(1) To agree the approach to Resource Allocation being developed to support co-operative commissioning and to direct Outcome Panels to develop commissioning plans and capital investment proposals to deliver outcomes within the resource envelopes set out in Section 2.

(2) To re-affirm the Council's commitment to delivering the existing revenue savings plans for 2014/15 (£25.4m savings) and 2015/16 – 2016/17 (£37.6m savings) as set out in paragraphs 2.5 to 2.13.

(3) To note the 2013/14 General Fund outturn of £332.45m against a budget of £332.66m.

(4) To note the balanced outturn for the 2013/14 HRA.

(5) To note the 2013/14 Capital Investment Programme outturn of £183.6m against a budget of £186.0m and note the overview of Capital Investment of £543m over the four years to 2013/14 in Appendix 6.

(6) To note the key revenue risks for 2014/15 as set out in paragraph 4.27 onwards.

(7) To recommend approval of the revenue virements set out in paragraphs 4.36 and 4.37.

(8) To agree the proposed three year Capital Programme 2014-17 of £439.4m as described in paragraphs 5.16 to 5.18 and summarised in Appendix 4 with effect from 14th July 2014.

(9) To note the successful Big Lottery Bid which will fund the Lambeth Early Action Partnership (LEAP), as detailed in paragraph 2.8.

Council

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2. RESOURCE ALLOCATION

2015/16 Resource Allocation

2.1 Our approach to outcomes-based budgeting last year was a radical change in the way we planned our budgets and services. We were able to make much closer links between the outcomes we want to achieve and how we use Council revenue budgets. But we feel we can continue to improve our resource allocation process for setting the Council's budget for 2015/16 and beyond.

2.2 Given the scale of the reductions in our core funding, we will have to prioritise more clearly between the outcomes that we want to achieve. This will need to be informed by a clear vision of what the borough might look like in the future, based on the manifesto commitments of the Administration, and how we can deploy our resources to achieve that. The Cabinet has established three Panels to ensure the delivery of key outcomes for the Borough:-

- Community Wellbeing;
- Neighbourhoods, Environment and Sustainability; and
- Housing, Jobs and Investment.

Details of the portfolios for each panel are set out in Appendix 1.

2.3 Whilst we will need to make savings compared to our current position, we want to take a more positive approach to how we use our resources. Rather than just considering where we can save money, our planned approach is to consider how we can make best use of the resources that remain available to us. This will mean that we are investing in the activities and interventions that are the most effective at achieving our outcomes, either because there is a clear evidence base that shows they work or because we have tested an innovative approach ourselves.

2.4 Council revenue budgets are not the only mechanisms available for us to achieve our outcomes. This year we will better integrate the allocation of capital resources alongside revenue, as well as grants and ring-fenced funding streams. This will allow us to take a more holistic view of how the council invests its resources. We also recognise that the council is often not the only agency investing resources in the achievement of our outcomes. We want to better understand how our public sector partners use their resources in the borough, and if possible community sector partners too. This will enable us to take better informed decisions about where the council's limited resources can be best invested to have the greatest impact when complementing activities that are being resourced elsewhere. This also demonstrates our commitment to cooperative commissioning in recognising the assets that are available in the community.

How we are implementing OBB 2014/15 and beyond

2.5 In order to implement OBB 2014/15 and beyond, a robust and rigorous planning approach was required to ensure that scheduled activity, financial implications and risk were clearly defined and identified in order to ensure successful implementation and timely delivery of savings. Implementation plans for all proposals as set out in the 2014/15 Budget Report, including indicative savings, have been considered and will inform the work of the three Outcome Panels.

2.6 Contained within this are details of specific activities such as key decision points, community engagement and co-production, procurement, required resources, and critical dependencies and enablers with other activity outside the immediate scope of the plan. Cooperative Investment Funding (CIF) has been aligned against planned activity in order to support the delivery of savings.

Fulfilling Lives – A Better Start (Big Lottery Fund – Lambeth Early Action Partnership (LEAP))

2.7 The final stage application was confirmed as successful in June 2014. A £38m grant has been awarded (of which £5m is capital) over 10 years with Lambeth and Health match funding of £1.8m. This will fund the Lambeth Early Action Partnership (LEAP) project. This is a 10 year programme to transform early years services from pregnancy to age 3 in the Coldharbour, Stockwell, Tulse Hill and Vassall wards. Funding will be administered through the NCB (National Children's Bureau). This is a real 'good news story' being only one of only 5 awards nationally.

Revenue funding deficit 2015/16 to 2017/18

2.8 The February report set out a three year savings target of £95.6m for the period 2014/15 to 2016/17. The 2014/15 savings target of £25.4m was approved with indicative figures of £15.6m and £16.8m for the following two years. This report recommends that the commissioning strategies underlying those indicative savings be confirmed, and notes that, following detailed review of the proposals our estimate of the savings available has risen to £17.2m in 2015/16 and £20.4m in 2016/17. Consultation and Equality Impact Assessments will be undertaken in accordance with our commitment to engage with our citizens. Details of the commissioning proposals and the revised savings are set out in Appendix 2 and summarised in the table below:

	2015/16 £'m	2016/17 £'m	2017/18 £'m	Total £'m
Funding Deficit	**(36.9)**	**(26.6)**	**(26.9)**	**(90.4)**
Identified Savings (see Appendix 2 for details)				
Community Wellbeing	8.1	9.8	0.0	17.9
Neighbourhoods, Environment & Sustainability	5.8	7.3	0.0	13.1
Housing, Jobs & Investment	0.3	0.3	0.0	0.6
Enabling	3.0	3.0	0.0	6.0
Remaining Deficit	**(19.7)**	**(6.2)**	**(26.9)**	**(52.8)**

2.9 ***It will be an immediate priority for the Outcome Panels to develop detailed implementation plans to secure the delivery of these commissioning and savings proposals.***

2.10 The projected revenue deficits for 2015/16 and 2016/17 have now been updated in light of a review of assumptions and the availability of more robust information. A target for 2017/18 has also been calculated to provide a three year savings envelope. Given the Government's indicated 2015/16 settlement figures, the resource position for 2015/16 can be viewed as reasonably reliable; however, the targets for 2016/17 and 2017/18 inevitably involve a greater degree of forecasting, and cannot be viewed with such certainty.

2.11 The main changes to the 2015/16 and 2016/17 overall targets are due to:

- Projections of the likely Council Tax Base have been revisited in the light of 2013/14 outturn and activity during 2014/15; and
- Factoring in the impact of greater clarity on the accounting treatment of Section 31 grant arising from the Government's commitment to support small businesses.

2.12 These and some other minor changes have had a positive impact on our initial assumptions. The revised savings target for 2015/16 through to 2017/18 is included in the previous table.

Revisions to Council Tax Base

2.13 The Council has revised its assumptions as at June 2014 for growth in the Council Tax base for 2015/16 and 2016/17, (i.e. factors that increase the forecast for the number of Band D properties, not the actual Council Tax rate which has been frozen since 2008/09).

2.14 The revised assumptions take into account factors such as housing developments within the borough, improved collection rates (including those for Council Tax Support recipients) and also reductions in the level of anticipated discretionary discounts awarded to eligible residents.

2.15 No assumptions have been made with regard to any increase in Council Tax charges. If Council Tax were to increase by 1.99% (the referendum limit) over the next 4 years there would be a permanent increase to the Council's finances as set out in the table below:

	2015/16	2016/17	2017/08	2018/19	Total
	£m	£m	£m	£m	£m
Increased revenue – 1.99% increase in Council Tax per year	1.57	1.60	1.63	1.66	6.46
Cumulative impact	**1.57**	**3.17**	**4.8**	**6.46**	

2.16 The figures above have been calculated with reference to the latest Council Tax base which includes allowances made for the Council Tax Support (CTS) scheme. It is expected that the base will increase in which case the permanent increase in resources would be even higher.

Business Rates Growth, Reliefs and Core Funding

2.17 The Government outlined in the 2013 Autumn Statement several Business Rates reliefs to further assist businesses.

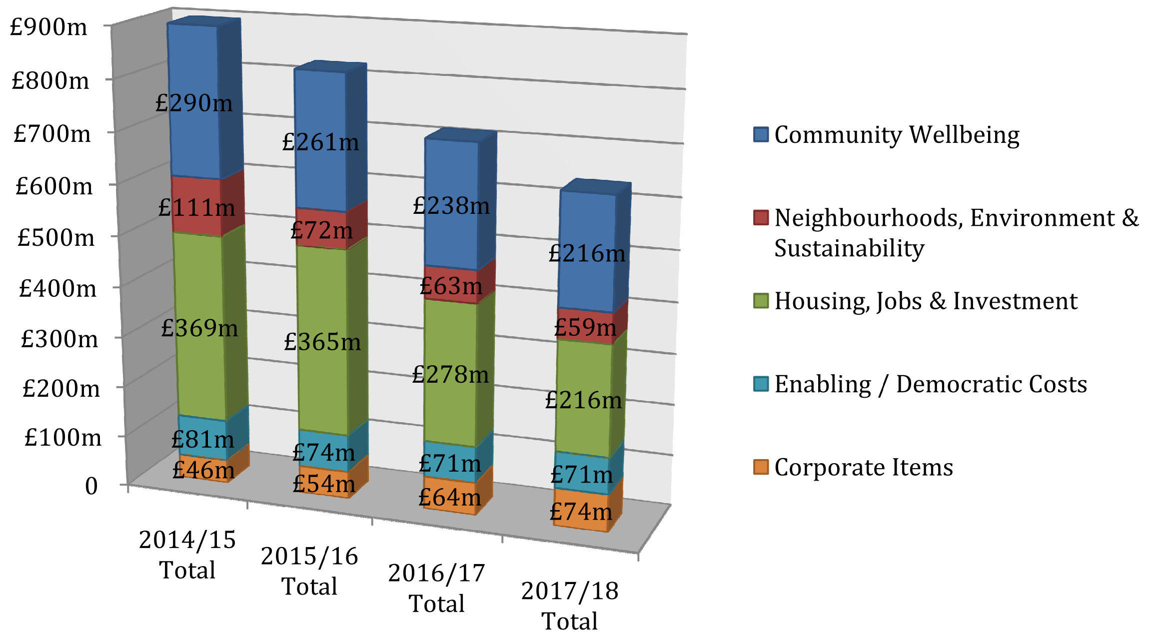
2.18 Before the Business Rate Retention scheme was introduced, such reliefs would not have been such a strategic (or operational) concern as they would have only impacted the Collection Fund in the Statement of Accounts. However, because of the way the BRR scheme now works, these reliefs reduce the total amount of Business Rates collectable for a borough and therefore impact the locally retained share of Business Rates which forms part of the Council's overall core funding. As a result, the Government compensates authorities via s31 grants.

2.19 The timing of these announcements and the confirmation for how these should have been treated meant that it was not possible to reflect these in the overall position for the February 2014 Budget Report.

Projected overall Resource Envelopes

2.20 The charts on the following pages illustrate the reduction in overall resources, and the impact of this reduction on the activity areas of the three Outcome panels. They have been scaled to show the impact of reduced resources over the next three years.

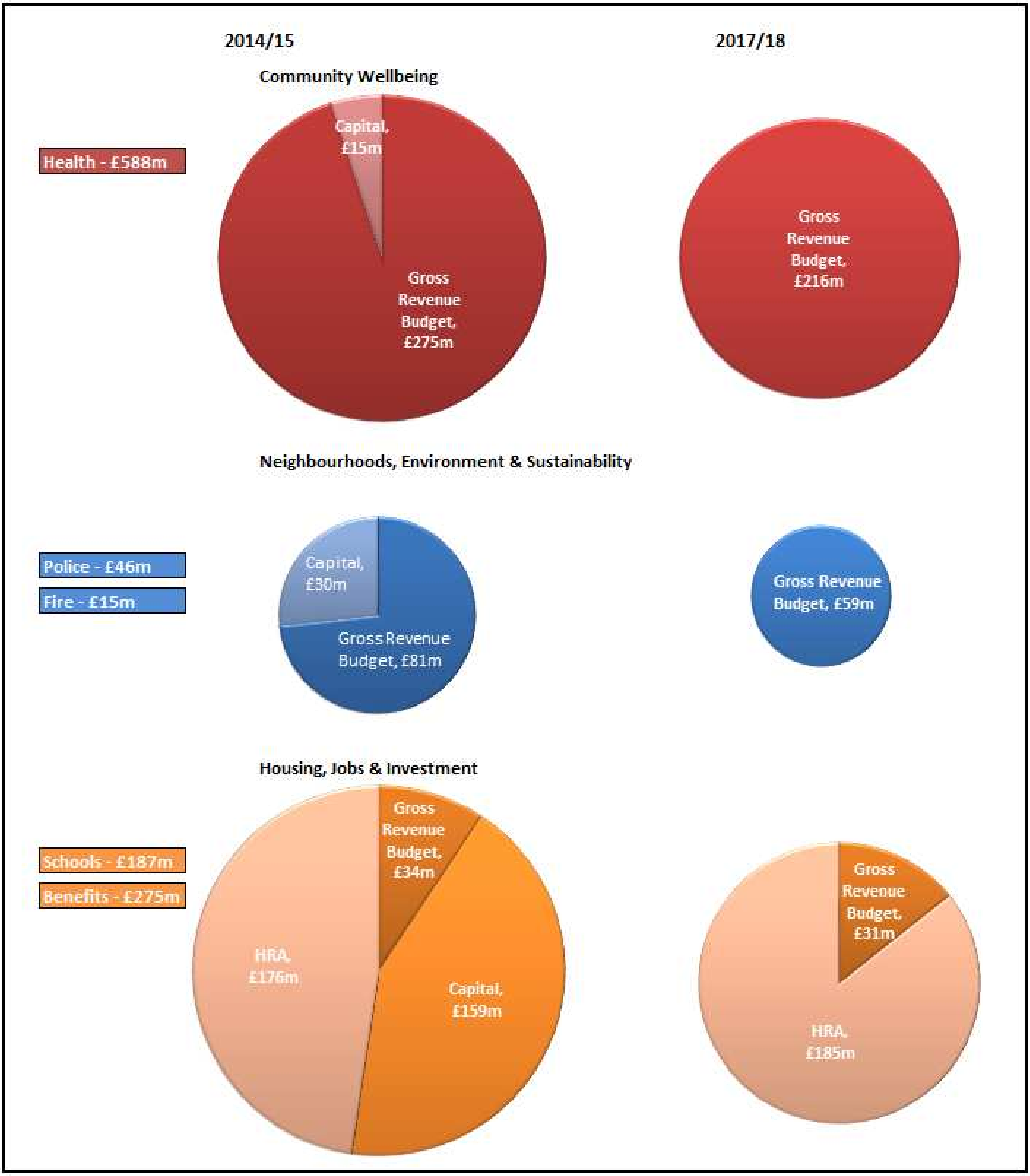
2.21 The histogram below shows the movement of the total resource envelope from 2014/15 to 2017/18 including the budgets for the Housing Revenue Account and capital, but excluding the Schools and Benefits budgets as they are effectively transfer payments, and not directly controllable by the Council.



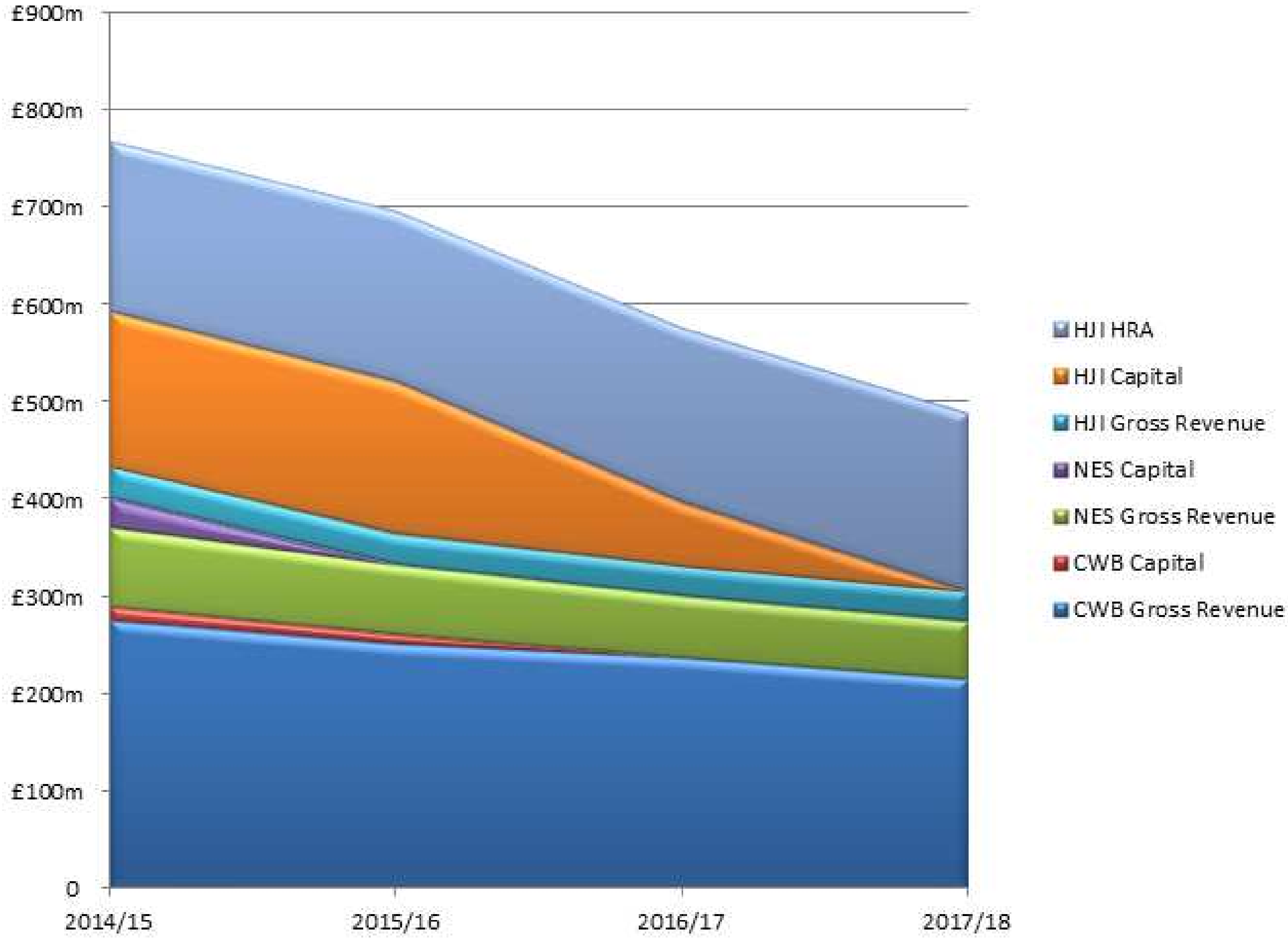
2.22 The bubble pie chart and area chart below illustrate the total revenue and capital resources currently allocated to the three Outcome Panel areas and the reduction in available resources by 2017/18. Gross revenue and capital figures are presented together in order to illustrate the overall investment level, and to promote an approach that considers the relationship between capital investment and revenue needs, rather than considering each in isolation. The charts reflect only the currently funded Capital Investment Programme. Therefore the overall reduction in year 4 reflects the capital investment falling out as well as the reductions in revenue .***A key task for the Outcome Panels will be to consider how to commission outcomes within the reduced revenue resource envelopes available, and, where appropriate, the potential capital investment required to achieve the planned outcomes at reduced revenue cost***.

2.23 Although not part of the Outcome Panels, the Enabling and Co-operative Business Development clusters are also subject to a reduction in resources through the Smart support review. The emerging commissioning strategies and changes to the scale of the council's activities will drive further changes in support services.

Outcome Resource Envelopes 2014/15 – 2017/18



Outcome Resource Envelopes 2014/15 – 2017/18



Prioritising between outcomes

2.24 The charts represent the position where the anticipated reduction in revenue resources is equally distributed – i.e. where there is no prioritisation and redistribution between the headline outcome areas (although prioritisation between outcomes within each Panel's remit would, of course, be possible).

2.25 However, in order to create the potential for prioritisation and redistribution **between headline** outcome areas, and to reflect the uncertainty inherent in forecasting resources to 2017/18, it is proposed that, at this stage, the resource envelopes for 2016/17 and 2017/18 are set within 'tolerance bands' – i.e. as a range of values for the Outcome Panels to plan towards.

2.26 For commissioning purposes, we will want to consider the total resources available – including both gross revenue and capital spend. However, for budget-setting and control purposes we also need to consider net revenue spend targets. The table below therefore sets out the proposed tolerance bands for both gross and net revenue spend:

		2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Outcome Panel					
Community Wellbeing	Gross	275	252	235-241	209-223
	Net	168	145	128-134	101-117
Neighbourhoods, Environment & Sustainability	Gross	81	72	62-64	57-61
	Net	42	33	23-25	19-21
Housing, Jobs and Investment	Gross	34	33	31-33	30-32
	Net	11	10	8-10	7-9
Total	**Gross**	**391**	**357**	**328-338**	**296-316**
	Net	**222**	**188**	**159-169**	**127-147**

2.27 Developing commissioning proposals within these tolerance bands will allow for options to be considered to achieve the best possible range of outcomes across all three areas. As the new budget process rolls forward each year, these ranges will be reviewed and confirmed, and a clear net resource figure set for each Outcome Panel.

Cooperative Investment Fund

2.28 The February budget report set out the current position of the Cooperative Investment Fund (CIF) and the proposed calls to be made on it as part of the Outcome Based Budgeting process. These were indicative figures at the time pending approval by the CIF panel and detailed business cases being worked up.

2.29 The majority of these business cases were reviewed by the CIF panel on 11 June 2014 and the revised calls on the reserve agreed. There were a number of cases that were requested to present more information or were not reviewed at that session and will be bought to a future panel. The table below shows the updated position of the reserve taking account of the agreed changes and also other individual projects which have been agreed since the February report was produced. There is also a line for those bids provisionally agreed that still have to return to panel.

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Opening Position	**8,857**	**2,538**	**747**	**350**
Existing agreed calls on fund	(2,148)	(39)	(17)	-
Existing agreed repayments to fund	103	127	170	210
OBB calls on fund approved 11/06/14	(2,391)	(1,185)	(550)	-
OBB provisional calls on fund	(1,884)	(694)	-	-
Carried Forward Balance	**2,538**	**747**	**350**	**560**

Community-Based Commissioning

2.30 Community-Based Commissioning (CBC) is formally defined by the Council as “the operation of the cooperative commissioning cycle at the local level, with ward members at the centre.”

2.31 Between July and November 2014 the council will be prototyping an approach to community-based commissioning in two wards in the borough. Following these prototypes, and building on the learning from other local commissioning and community involvement activities, the council will seek to embed the community-based commissioning approach at the centre of its resource allocation model for 2016/17.

3. CONTEXT

Context & Outlook

3.1 The Government's October 2010 Spending Review outlined plans to reduce the national deficit and introduced other policy reforms impacting Local Government for the periods between 2011/12 and 2014/15. The June 2013 Spending Round also outlined additional funding reductions and measures that would impact Local Government in 2015/16.

3.2 Between now and the General Election in May 2015, the Council faces a further degree of uncertainty over the future of funding and how policies will impact the organisation. This is irrespective of whether there is a change of Government as it would be prudent to assume that any new incoming Government in assessing the state of the economy and national deficit would remain cautious in terms of raising public expenditure back up to the levels of before the economic downturn.

3.3 Also, as discussed in the February 2014 Budget Report, the Council maintains that regardless of economic growth, policy reforms or a change of Government there are underlying demographic pressures particularly in London (and many of which existed before the economic downturn) which will strain resources and service provision.

3.4 A report on global risks and public services by Zurich Municipal reiterated some of the demographic pressures and their impacts that London Councils' had raised in their Autumn 2013 Statement. This included the ability for governments to manage growing ageing populations and addressing the growing disparity of income. Neither of these have short-term solutions. Certain services in the public sector have been largely protected from the Government's austerity measures, such as Health Schools and pension age welfare. Some have argued that national politicians are essentially "trapped" into protecting these services not least because they are highly visible to the public whereas many of the services provided by Local Government are not immediately so. As result, the public's demand and opinions on these protected services are difficult to ignore.

3.5 The consequence of actively protecting certain services from austerity measures (whatever the reason) is that services such as Local Government, Police and Fire will bear the cost. With the Government's target to reduce the national deficit by 2019, there is an expectation that most of the public sector and especially Local Government can expect the next five years to be similar to the last three years.

Emerging Issues in Local Government Finance

Complexity of Core Funding

3.6 The Council's concerns on the transparency of how the Government calculates and distributes core funding and the risks for the Council's ability to plan have not diminished since being raised in previous reports. The continued practice of hold-backs and top-slices of the Revenue Support Grant (RSG) creates uncertainty for financial planning. Furthermore, despite the 'unringfencing' and 'rolling in' of grants, Local Government funding is getting more, not less, complex and unpredictable.

Business Rates Growth, Reliefs and Core Funding and Section 31 Grant

3.7 As referred to earlier in the report, the Government announced in the Autumn 2013 statement several measures relating to Business Rates designed to ease the financial burden on businesses. This included capping the planned increase to Business Rates by 2% rather than uplift by RPI as planned. The uplift by RPI had been built into the Business Rates Retention (BRR) scheme so for the Council there was an expectation that both the top-up payment and locally retained share of Business Rates would increase by approximately 3.2%. The Government advised that local authorities would not lose out financially from this cap, the difference between the planned RPI uplift and 2% cap was allocated in the December Settlement via a s31 Grant.

3.8 The Government also outlined in the 2013 Autumn Statement the following Business Rates reliefs to further assist businesses:

Business Rates Reliefs 2014/15	(£'m)
Doubling of Small Business Rates Relief	0.795
Empty Property Relief	0.060
Retail Relief	0.892
Total	**1.747**

3.9 Before the BRR scheme, such reliefs would not have been such a strategic (or operational) concern as they would have only impacted the Collection Fund in the Statement of Accounts. However, owing to how the BRR scheme works, these reliefs reduce the total amount of Business Rates collectable for a borough and therefore impact the locally retained share of Business Rates which forms part of the Council's overall core funding.

3.10 As a result, the Government compensates authorities via s31 grants, which must be budgeted for in the Council's medium-term planning as part of overall core funding .

Reform of the Administration of Business Rates – post 2017

3.11 In April 2014, HM Treasury announced a review to discuss the administration of Business Rates in England with a mind to reforming the current system after April 2017 when the next revaluation of rateable values is planned.

3.12 The Government is inviting discussion on how properties are fundamentally valued, with a view to creating a simpler and fairer system. Currently, Business Rates are calculated by applying a nationally set multiplier to the "rateable value" of a property. The rateable value is set by the Valuation Office Agency and broadly relates to the market rent of a property.

3.13 Any change to the way Business Rates are administered, including valuation methodology, will impact on the Business Rates Retention scheme in its current guise. It is essential that the Council is no worse off as a result of the new regime.

Council Tax

3.14 The economic downturn has resulted in financial hardship for both residents and the Council through year on year reductions to core funding.

3.15 The Council has responded to this by continuing to freeze its share of Council Tax since 2008/09 for residents. Assuming that Council Tax could have been increased by 1.99% every year since 2008/09, below is the approximate cost that has been avoided by residents at Band D.

Fin Year	Lambeth Share of Band D Council Tax (£)	Cumulative Cost Avoided by Residents over 2008/09 (£)	Comment
2008/09	925.29	0	Impact of a year on year increase to Band D Council Tax of 1.99%
2009/10	943.70	18.41	
2010/11	962.48	55.61	
2011/12	981.64	111.95	
2012/13	1,001.17	187.83	
2013/14	1,021.09	283.64	
2014/15	1,041.41	399.76	

3.16 This has had a permanent impact on the ability to raise Council Tax. Also, the funding gaps for future years take no account of a Council Tax increase. If Council Tax in Lambeth did increase by 1.99% (which is under the current cap) then at Band D rates that would result in an additional £1.57m of Council Tax income over existing modelled income, (adjusted for a collection rate of 95%), for essential front-line services.

Council Tax Support Scheme

3.17 In 2013-14 the national council tax benefit scheme was abolished by government and replaced by Council Tax Support (CTS) scheme. Funding of the new scheme was also reduced by 10%, nationally.

3.18 In the first year of the CTS scheme, 39,385 awards of CTS were made by the Council, totalling £25.3m of which the Lambeth element was £19.0m (the remainder is the GLA share).

3.19 It is anticipated that the trend for 2014-15 will closely mirror the profile of the previous year in terms of expenditure and number of recipients

Council Tax Reforms

3.20 There have been calls for some years now for a reform of the whole Council Tax system, namely the updating of the 1991 property values that formed the basis of the current Council Tax bands.

3.21 The Institute for Fiscal Studies and the European Commission have also both recently called upon the Government to address the “distortions” of the current system which means that in effect “taxes on higher value property are lower than on lower value property in relative terms due to the “regressivity” of the current rates and bands within the Council Tax system.”

3.22 There is no indication that the Government will respond to these calls in the medium-term but the increasing price of property in London will only further the distortion of the current system.

Independent Commission on Local Government Finance

3.23 In June 2014, the launch of an independent commission by CIPFA and the LGA to review Local Government Finance was announced. Specifically, the commission will be examining the impacts of the current Government’s policies to “remove the begging bowl” from Local Government funding. As part of the review, the commission will examine the localisation of Business Rates and New Homes Bonus.

3.24 The review will also look into related issues to Local Government Funding such as economic growth, house-building and health and social care integration.

3.25 An interim report is expected by this autumn with a final report expected in 2015 ahead of the General Election to give all political parties an opportunity to address the results in their manifestos.

3.26 It is worth noting that the last large scale review of Local Government, the "Lyons Inquiry" was completed over a three year period with the final report being issued in March 2007. The inquiry examined the form, function and funding of Local Government and recommendations to the Government for the medium term included:

- Revaluing Council Tax to update the base and improve fairness;
- Reforming Council Tax by adding new bands and reducing bills for lower valued properties (this would be particularly relevant for London); and
- Considering assigning a fixed-rate proportion of income tax to London.

3.27 The Mayor's report on the London Finance Commission in May 2013 also outlined the possibility of the devolution of income tax to London albeit in the context of whole scale devolution of powers and responsibilities to London and not before devolving property taxes to London.

3.28 To date, these recommendations have not been accepted by the Government despite widespread support from key stakeholders; however there are some developments in progress relating to the London Finance Commission (see below).

Fiscal Devolution for London

3.29 Following on from the London Finance Commission's (LFC) report in May 2013, in April, the Chair of London Councils and the Mayor of London were called to give evidence before the Communities and Local Government Select Committee for their inquiry into Fiscal Devolution for London.

3.30 In a letter to the Chair of the Communities and Local Government Select Committee, a number of points were set out on behalf of London Boroughs:

- For there to be a realistic opportunity on Fiscal Devolution for London, the Government must commit to a serious consideration of the support and evidence from experts and the LFC view that the rationale for devolution for London is broadly the same as that of Wales which the Government has already accepted;
- Once the Government commits to considering devolution for London, there needs to be an agreement on which organisations/bodies would be involved in resulting negotiations. The principal parties would likely include: the Government, officials from CLG and HM Treasury, Congress of Borough Leaders, Mayor of London, officers from London Councils and the Greater London Authority;
- There needs to be an agreement on what is actually being negotiated such as which taxes to devolve to London, how these would be set and the amount to be retained by each part of "London Government," ringfencing of London taxes within London and which grants would cease or reduce in lieu of taxes devolved;
- An agreement for a framework of principles which would underpin the governance within London once devolved; and
- Consideration of other practical implications following the above negotiations such as inclusion of devolving stamp duty to London, enforcing Council Tax revaluations by legislation, possibility of a hotel bedroom tax and new Tax Increment Financing (TIF) zones.

3.31 The progress of the discussion on devolution will continue to be monitored.

Public Health

3.32 Responsibility for Public Health transferred to Local Authorities on 1 April 2013 and Lambeth received a ring-fenced grant of £25.4m for 2013/14 and £26.4m in 2014/15. The grant funding is based on historic expenditure and the contracts that were being paid by Health have been transferred to the Local Authority. Therefore, in broad terms, the grant received for public health is committed to the contracts that transferred to Lambeth.

3.33 The 2015/16 allocations for local authorities have not been announced yet, and if there are large underspends in 2014/15 the Department of Health reserves the right to reduce future allocations.

3.34 There are a number of risks associated with the Public Health transfer, but the most significant is the demand led nature of some of the transferred contracts. Some services are accessed by people directly at NHS facilities without any reference to the Local Authority with the resultant costs simply being charged to the Council. Demand has significantly increased for sexual health testing and treatment services in 2013/14. The resulting cost pressure was managed from the ring-fenced grant in 2013/14, and the growth in 2014/15 mitigates the risk of overspend. Commissioners are working to reduce the demand through prevention services and mitigate the costs by negotiating with the providers.

3.35 There are also opportunities that the transfer has brought to Lambeth. An opportunity to share services has already been taken with the shared Director of Public Health, a shared specialist team with Southwark and joint commissioning arrangements for sexual health services with Southwark and Lewisham. The future commissioning of services will seek to take further advantage of integration with other Council services.

Better Care Funding (formerly Integration Transformation Fund)

3.36 The Better Care Fund was originally announced as part of the Spending Round 2013 as the Integration Transformation Fund. It identified £3.8bn of funding nationally in 2015/16 to be managed through pooled budget arrangements between Social Care and Health. The aim of the fund is to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people. The fund is made up of a number of areas of existing funding that are currently spent either in Local Authorities or in the NHS. For Lambeth the fund will include existing Council expenditure on social care and Disabled Facilities Grant capital funding, reablement, and the funding to benefit health and social care. The creation of the fund in 2015/16 will result in a formal pooled fund with agreement for use of the fund required from the Clinical Commissioning Group (CCG), the Health and Wellbeing Board and to some extent central government. The Council already has to obtain the agreement of the CCG and Health and Wellbeing Board and agrees the expenditure on reablement with the CCG.

3.37 There are some funding impacts for 2014/15 with an additional £200m national allocation to prepare for the implementation of pooled budgets in April 2015, of which £1.5m will be received in Lambeth. Funding arrangements for 2014/15 will not change and therefore a formal pool is not required, but the Council must continue to agree with health partners on how the funding is best used within social care.

3.38 For 2015/16 the fund for Lambeth has been set as a contribution from the CCG of £22.007m and £1.455m of Council funding, made up of capital grants and Disabled Facilities Grants, giving a minimum Better Care Fund for Lambeth of £23.462m. The CCG's contribution includes amounts the Council already obtains in the form of reablement funding, obtained from the CCG, and monies to benefit health and social care, obtained from NHS England. The rest of the fund is made up from CCG budgets for intermediate care, continuing care, registered nursing care contributions, equipment loans and Mental Health services.

Care Bill

3.39 The Care Bill is going through its final stages and is an extensive piece of legislation which impacts on the Council's responsibilities significantly. The areas of the Bill that are expected to have the most significant financial impact are:

- People currently paying for their own care may become eligible for state support if their expenditure on care exceeds the care cap or Dilnott cap;
- People with a disability at 18 will not have to contribute to the costs of their care;
- Carers can receive increased support; and
- There could be a significant increase in the number of people and/or their carers that approach the Council to be assessed.

3.40 There are also a range of other more minor changes which may have financial implications.

3.41 Modelling of the expected costs of the bill is currently being undertaken and is a complex process because the information required to provide accurate potential costs is not readily available to the Council as it includes information such as the number of self funders and the income and wealth of individuals. Added to this, the care bill is not fully finalised and the government's funding support for Councils is highly indicative at present which makes the net impact unclear. Finally people that become eligible for state support have to approach the Council and it is not clear they will wish to do so in all cases.

Deprivation of Liberty

3.42 On 19 March 2014, the Supreme Court handed down its judgment which could have significant financial implications for the Council regarding meeting the requirements of the Deprivation of Liberty Safeguards (DoLS) in the Mental Capacity Act 2005.

3.43 A significant consequence of the Supreme Court judgment is the need to consider deprivation of liberty for many new adults within settings outside of hospitals and care homes including domestic settings and to take these cases to the Court of Protection. The resultant legal costs could be significant as well as the cost of Doctors and Best Interest Assessors assessments.

3.44 Officers will be developing an action plan in accordance with ADASS (Association of Directors of Adult Social Services) recommendations and assessing the likely financial implications.

Deregulation Bill and CCTV Parking Enforcement Income

3.45 On 27 September 2013 the Government announced its intention to amend significant elements of local authority parking policy, including the proposal to stop the use of CCTV for parking enforcement.

3.46 Using CCTV is a cost-effective method of collecting parking revenues. CCTV parking revenues amount to 29% of all CCTV penalty charge notice revenues (which also includes bus lane and moving traffic enforcement) and 13% of total penalty charge notice revenues. Any change in the law could impact the Council's finances by up to £1.3m.

3.47 If a ban was to be applied, the costs of decommissioning CCTV equipment and technology by the Council would need to be considered. Additionally, the Council would still have an obligation enforce traffic regulations and would need to make more use of on-street civil enforcement officers in cases where this could be a viable alternative.

3.48 There are no further opportunities for reducing costs for non-CCTV parking enforcement. Therefore, these additional cost pressures would mean a reduction in the surplus used to fund defined transport schemes.

3.49 In June 2014, the Government's Deregulation Bill was presented before the House of Commons for reading. Part of the LGA's response to this included a call for an actual exemption to clause 25 which had originally outlined the ban on the use of CCTV for enforcing parking regulations at bust stops, bus lanes, outside schools and clearways.

3.50 The Government has indicated it would consider the exemptions but has not made any firm commitments. The Council will continue to monitor developments and will update for the November Financial Planning Report as appropriate.

Land Registry and Land Charges

3.51 In May 2014, proposals were announced by the Land Registry to centralise local land charges services. This was strongly opposed by local authorities and the Council of Property Search Organisation (CoPSO). CoPSO viewed the proposals as being harmful to the efficient operation of the property market.

3.52 The proposals implied that there would still be a need for local data to be input by individual authorities, for which no remuneration would be received, creating cost pressures for authorities. Also, a decision to only digitise the Local Land Charges Registry back 15 years would mean that any "encumbrances to land registered before that will not be immediately apparent" leaving the future of listed buildings at risk as local knowledge would be lost in the centralisation.

3.53 Also in May, the Guardian reported that there were proposals from the Civil Service to privatise the Land Registry (presumably after centralising local land charges services). Privatisation would either be achieved through a joint venture between the Government and a private company or just fully through a private company. Critics believe that privatising the operations of the Land Registry would mean that a private company would arbitrate on potential conflicting interests between sellers, buyers, lenders and neighbours. The Government would still have to retain an office for the Chief Land Registrar (CLR) as their statutory powers cannot be passed over to the private sector.

3.54 As at June, a bill was at the second stage of reading in the House of Lords which included clauses to transfer the responsibility for local land charges from individual local authorities in England and Wales to the CLR.

4. FINANCIAL MANAGEMENT STRATEGY

Overview and Update

4.1 In February, the Council agreed a new Financial Management Strategy for the period 2014 – 2017 which 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. This strategy has been reviewed and developed since it was implemented and updated can be seen in Appendix 3.

Revenue

2013/14 Draft Outturn

General Fund

4.2 During 2013/14 we identified and reported a significant risk of overspending within clusters, offset by an expected underspend on Corporate Items budgets. This has produced an overall outturn within budget (see paragraph 4.6), but will not fully address the ongoing pressures which have been highlighted in the May Risk Monitor. Further risks will materialise as services are delivered with reduced resources and the Council goes through a period of planned restructuring. It is therefore essential that the momentum gained thus far in responding to change and challenging circumstances is maintained.

4.3 The draft Statement of Accounts has now been finalised and shows that we closed 2013/14 with an overall overspend on the General Fund of £0.2m after making a net contribution to earmarked reserves. This is made up of a £4.5m overspend position from service departments offset by an underspend of £4.7m in corporate budget items.

4.4 The General Fund balance stands at £24.9m, an increase on last year's balance of £24.7m. At the same time, earmarked reserves have fallen slightly from £68.0m to £67.8m.

4.5 The Housing Revenue Account gave a balanced outturn after adjusting for contributions to earmarked reserves. The HRA balances now stand at £8m together with total earmarked reserves of £23.6m, up from £11.2m.

General Fund Outturn

4.6 The 2013/14 General Fund budget was £332.7m and incorporated previously agreed savings of £12.5m. The overall outturn position was an underspend of £0.2m. However, below this top-level figure, it should be noted that there was an overspend in services of £4.5m, which was offset by an underspend in corporate items of £4.7m. The below table summarises the Council's outturn position by cluster:

Cluster	**Annual Budget (final)** **£000's**	**Adjusted Outturn** **£000's**	**Variance** **£000's**
Commissioning	33,823	33,335	(488)
Delivery	290,985	297,824	6,839
Enabling	3,197	(567)	(3,764)
Co-operative Business Development	(1,121)	(48)	1,074
Clusters Sub-total	**326,884**	**330,545**	**3,661**
No Recourse to Public Funds	2,904	5,743	2,839
Drawdown from one-off NRPF reserves	2,000	0	(2,000)
Services Sub-total	**331,788**	**336,288**	**4,500**
Corporate Items	869	(3,836)	(4,705)
Total - General Fund	**332,657**	**332,453**	**(204)**

Please note that the final budgets are calculated after adjustments to better reflect total cost principles (as apply to published accounts) – but overspend variances are preserved, for management information purposes.

4.7 Corporate Items and movements in reserves has a net underspend of £4.7m as a result of lower than expected contract inflation requiring central support, increased interest from investments and lower than expected increases to pension costs, along with other smaller items.

4.8 The **Commissioning underspend of £0.5m** is mostly attributable to the Communities service group, where Leisure has generated surpluses.

4.9 The **Delivery overspend of £6.8m**, is principally due to the following areas:

- **Adult Social Care –** There was an overspend of £1.7m, primarily due to the demand for higher cost placements increasing over the year for Physical Disabilities and the total number of clients supported in Mental Health increasing over the year;
- **Children's Social Care –** There was an overspend of £6.5m due primarily to the following reasons:
    - The demand for high cost placements for children with complex needs and more placements than the Children Looked After budget can support;
    - The increasing use of agency staff for Children in Need;
    - Legal costs – The increase in number of proceedings is a London/National issue. There is an increase in threats of judicial review, which has resulted in the service using additional counsel and experts in assessments resulting in higher costs; and
    - Special Education Needs (SEN) – Increased pupil numbers in non-maintained special provision which cannot be met locally
- **Temporary Accommodation –** There was an overspend of £4m, mostly attributable to the increasing use of bed and breakfast, which was partially offset by underspending of £1.1m in other types of accommodation;
- **Libraries –** There was an overspend of £1.1m as the service adjusts to deliver savings**;** and
- **Environment Services –** There have been one-off factors giving rise to an underspend of £2.6m.

4.10 The **Enabling underspend of £3.8m** is due to increased levels of vacancies in expectation of restructures, and a higher rebate than budgeted on agency staff, since numbers have increased while awaiting restructures.

4.11 The **Co-operative Business Development** outturn was £1.1m overspend due mostly to unachievable income targets in the Events Team.

4.12 The **No Recourse to Public Funds overspend of £0.8m** is made up of an overspend of £2.8m offset by a contribution from reserves of £2m.

4.13 **Corporate Items and movements in reserves has a net underspend of £4.7m** as a result of lower than expected contract inflation requiring central support, increased interest from investments and lower than expected increases to pension costs, along with other smaller items.

Housing Revenue Account

4.14 The Housing Revenue Account gave a balanced outturn after adjusting for contributions to earmarked reserves. The HRA balances now stand at £8m together with total earmarked reserves of £23.6m.

4.15 The contributions to reserves during 2013/14 of £12.8m were funded primarily from:

- Better than expected income from hostels;
- Increased income from leaseholders as a result of actual bills being higher than budgeted;
- Lower than budgeted cost of borrowing due to alternative funding streams being utilised;
- Underspend on Housing Development and Strategy as a number of projects have been delayed; and
- Private Finance Initiative financing to set up the payments smoothing mechanism

Balances and Earmarked Reserves

4.16 As at 31 March 2014, the GF balance (i.e. the cumulative surplus on the GF) stood at £24.9m. This is within the range advised by the Strategic Director of Enabling in his capacity as s151 Officer, who, in the February budget report, 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.

4.17 As per the most recent audited Statement of Accounts, at the 31 March 2013 Lambeth had the fourth lowest level of reserves in comparison to 2012/13 net revenue expenditure of all Inner London Boroughs.

4.18 The aim of maintaining the balance between these percentages is to ensure financial stability and provide a strong environment within which services can be delivered. The use of these balances as a temporary mitigation measure against budget reductions would put the Council in a vulnerable financial position in the event of a sudden future economic downturn at either local or national level.

4.19 Movements in balances are summarised below:

i. The GF balance as at 31 March 2014 (excluding schools balances) is £24.9m compared with £24.7m at the start of the year.
ii. The Locally Managed Schools balance as at 31 March 2014 stands at £18.6m, compared with £15.7m at the start of the year
iii. The HRA as at 31 March 2014 stands at a £8.0m surplus, compared with £10.0m at the start of the year.
iv. Long term debt outstanding as at 31 March 2014 stands at £412.7m, compared to £412.7m at the start of the year.

4.20 The Council is holding £24.9 million of general fund balances against an annual expenditure of approximately £1 billion. This balance represents the only resource available to the council to deal with unexpected emergencies, or a failure to deliver services against budget. A 5% overspend on the net general fund budget would result in a call on balances of approximately £17 million which would reduce them to an unacceptably low level. Because of the magnitude of change and savings required this scenario is not far-fetched.

4.21 In addition to balances, the Council holds earmarked reserves to meet the cost of specific projects or to mitigate known risks. In closing the 2013/14 accounts, and in line with our Financial Management Strategy objective of building the council's financial resilience, we have taken the opportunity to strengthen the balance sheet by making contributions to specific earmarked reserves. This will help us manage the transition to a Co-operative Commissioning Council through a period of high financial risk caused by severe funding reductions. Effective balance sheet management provides the tools to facilitate change and to weather the impact of financial risk. Reserves and balances can only be spent once: in setting the Council's budget, it would be imprudent to use them to substitute for the need to make savings in underlying budgets in the longer term.

4.22 The annual review of all earmarked reserves has been carried out at year-end by the Section 151 Officer to determine the appropriate level of each balance based on the best information available at the time.

4.23 In addition to the s151 Officer's statutory assessment, the Deputy Leader (Finance & Investment) has reviewed the reserves and balances held on the Council's Balance Sheet and have confirmed his view that having the right level of both is essential for the financial health of the organisation in a time of unprecedented resource reductions and service demands.

4.24 While a number of reserves have been used for the purposes for which they were created, or released as they are no longer needed, the overall outturn position on both the General Fund and the HRA for 2013/14 has meant a small decrease in General Fund earmarked reserves of £0.2m and an additional contribution to HRA earmarked reserves of £12.8m. These contributions address our strategy of strengthening the balance sheet in order to manage the challenges facing the Council in the coming years – the transformation to a Cooperative Commissioning organisation, to mitigate key financial risks and to support capital investment in the infrastructure of the Borough and the Council

4.25 Key additions to reserves include:

General Fund

- Increasing the Capital Investment Reserve by £2.0m. The Capital Investment Programme (CIP) and Pipeline are underpinned by an active disposals programme as the level of government support reduces and revenue resources are not available to fund borrowing. However, the Council cannot rely on these proceeds going forward as its marketable asset base reduces. Accordingly, it must set aside resources to ensure investment in its infrastructure is maintained;
- Increasing the No Recourse to Public Funds reserve by £1m to £3m. The activity reflects pressures experienced over the last three years and expected to continue into 2014/15. As plans are developed to mitigate these pressures and joint lobbying activity pursued the reserve can be used to meet unbudgeted costs; and
- A dilapidation provision of £2.5m has been moved into a new reserve for Your New Town Hall and savings from the YNTH programme of £1.7m have also been added, giving a total reserve of £4.2m.

Housing Revenue Account

- The Welfare Reform Reserve has been increased by £1m. Current estimates indicate that introduction of the benefit cap and bedroom tax could impact income collection by £1.5m to £2.5m. The increase to this reserve will allow the Council to continue to manage this area through working with tenants to ensure all are adequately prepared to manage the new arrangements thus reducing potential bad debt issues.
- A new litigation reserve of £1m has been established to ensure proper risk management of this area within the HRA.
- The Lambeth Housing Standard (LHS) reserve has been maintained at £6m and a new Capital Reserve of £6.3m has been set up for capital investment other than the LHS.

General Fund – current position 2014/15

4.26 The main issues for the budget in 2014/15 are highlighted below

Delivery

4.27 **Adults Social Care –** The outturn for Adult Social Care in 2013/14 included £1.2m relating to ongoing packages of care which is an underlying budget pressure carried forward into 2014/15. Outcome Based Budgeting (OBB) savings requirements total £3.4m and so far implementation plans have been developed with an expectation that £2.6m of those savings should be fully achieved in 2014/15, with slippage on the further £800k.

4.28 **Children's Social Care –** There are pressures totalling of £4.35m. There are increased levels Children Looked After as well as higher cost placements, including children with disabilities, many with very complex needs. There are increasing numbers of care proceedings resulting in increased legal costs. There continues to be pressure on the home to school transport budget for pupils with prescribed travel plans and the numbers of children placed in independent boarding schools is rising as well as their needs increasing.

4.29 **Communities, Housing & Environment** – The Commercial Waste service has an ongoing pressure of £1.5m due to market competition which is preventing the service from increasing its income stream. This pressure has existed for a number of years and has worsened as the competition has increased.

4.30 There are very significant pressures coming out of Temporary Accommodation Services resulting from the ever increasing number of clients getting housed in Bed & Breakfast accommodation, which is much more expensive. (The service is being left with little choice other than to use Bed & Breakfast since landlords are not coming back to the leasing schemes, since demand appears to be greatly outstripping supply).

4.31 **Education, Learning and Skills** – Pressures on Libraries income budgets of £250k will be closely monitored in year. The income was predicated against events being organised in libraries, but it is uncertain how much progress has been made in this on the ground. Furthermore, it is understood that the corporate Events team was expected to contribute to efforts – however, considering that the Events team has a similar difficulty in delivering its own income target, this business model should be reviewed.

4.32 **Enabling** – There are base budget pressures of £450k in Corporate Affairs due to budgets in the Valuation and Asset Management Service being set to recover cost plus profit from internal services for the management of the commercial portfolio of buildings and properties.

4.33 **Co-operative Business Development** –The Events team within Campaigns & Communications is carrying a historic income target that was not based on robust business models, with a consequent overspend in 2013/14 of approximately £1m. The service is developing its strategy, but it is unlikely to be able to grow its income to cover the entire target in the medium term, and 2014/15 is indeed still likely to present challenges.

4.34 **No Recourse to Public Funds** – There is a potential pressure of £3.3m based on activity levels as for 2013/14, (316 units in total, of which 86% are children and family units), increasing by 5 additional cases per month. This is made up of a total spend of £6.1m against a base budget of £2.8m.

4.35 **Other – Smart Support** – The savings proposals in the February budget report included £8m over three years listed as Support Services Review, with £2m of that target in 2014/15. This is being delivered through the Smart Support project. The project is due to be delivered over 3 stages – Consolidation, Finding efficiencies and Alternative resourcing. It is anticipated that significant savings will be found as part of the Consolidation process. However, there is a risk that the full £2m will not be delivered in 2014/15 with some slippage into 2015/16.

Revenue Virements

4.36 A virement for £4m within Adult Social Care and Commissioning was required to reflect the funding that has been received from NHS England and agreed as part of a s256 agreement with Lambeth Clinical Commissioning Group, the Health and Well-being Board and NHS England for money to benefit Health and Social Care. Expenditure budgets have been increased to reflect the core expenditure that is being supported by the funding and is matched by an income budget for the amount to be received from NHS England.

Review of Corporate Items

4.37 The risks highlighted in the foregoing narrative are above and beyond the savings envelope set out in paragraph 2.9. The pressures highlighted above are base budget issues and have in the most part been met from contingency budgets built into Corporate Items. These have then been utilised to offset the overspending in the old departmental budgets. There is now an opportunity to ensure that the base budgets are properly aligned to the expenditure as far as resources allow. This will ensure a more accurate starting position for the prioritisation both within and between resource allocation envelopes for the outcomes.

Virement	Amount £'m
Temporary Accommodation	3.00
Children's Social Care	3.00
Commercial Waste	1.50
Adults Social Care	1.20
Events Income	0.75
Valuation and Asset Management	0.45
Corporate Items – Welfare Reform Contingency	(2.00)
Corporate Items – Temporary Accommodation Contingency	(1.00)
Corporate Items – Other	(6.90)

4.38 Members are requested to approve the above realignment of resources in accordance with the Scheme of Delegation.

4.39 The rationale for realignment is as follows:

4.40 **Temporary Accommodation** – £1m required to address deficit position due to the CLG not agreeing to the transfer of hostels from the HRA to the General Fund. £2m required to mitigate some of the pressures arising from Welfare Reform which have resulted in significant increases in caseload. In April 2013, the average number of units in use was 166; in March 2014 it was 398, an increase of 232 units or 140%. Careful consideration of eligibility criteria continues to be critical. The position will be closely monitored during the year.

4.41 **Children's Social Care –** £3m required to provide funding for an area that has faced significant budget pressures over the years. Main areas of demand include:

- 20,000 contacts per year come into the LA with safeguarding concerns; this translates into around 4500 assessments (the highest in London);
- Approximately 350 children with Child Protection Plans (up by 50 on 12 months ago);
- Looked After Children number 540 (up by 40 on 12 months ago); and
- Main drivers of overspend are costs of agency staff and costs for placements of Looked After Children (approx. two-thirds of the total spent).

4.42 Early intervention will assist in reducing costs going forward but acknowledgement and addressing existing cost pressures is essential.

4.43 **Commercial Waste** – £1.5m required to address a shortfall in budgeted income. The service has been losing customers steadily over the past few years, down from 1,824 in 2011/12 to 1,391 in 2013/14, partly because prices are uncompetitive, which is mainly due to high disposal costs – the Council has to pay £142/tonne for disposal, whereas private sector firms only pay £80/tonne. A review of the service is under way to address these issues but it is unlikely to mitigate all of the pressures and a correction to the income budget is required.

4.44 **Adult Social Care** – £1.2m required to address unmanageable budget pressures. The service overspent by £1.6m in 2013/14 and £1.2m of the overspend was due to increases in expenditure on packages of care for social care clients. The clients that the cost relates to remain a social care responsibility and therefore the adult social care budget will overspend by £1.2m in 2014/15 unless there is an increase in budget. An extensive programme of initiatives is taking place from 2014/15 onwards that are designed to reduce the cost of adult social care placements and improve outcomes but the expected cost reductions will only meet savings agreed as part of OBB and not pressures that have arisen due to an increase in client numbers.

4.45 **Events and library Income** – £0.5m required to address a base budget shortfall in Events and £0.25m in Library income. The budget in Events has increased to £1.455m as a result of increased income targets arising from the Service and Financial Planning process. The process in identifying additional income streams was ambitious and, in reality, overstretched. The service is looking at opportunities to maximise income streams such as the Calling Festival on Clapham Common and charging for the Fireworks. However, this will not fully address the gap, for which a budget virement is required.

4.46 **Valuation and Asset Management Services** – £0.45m required to address a base budget issue which relates to the service operating on the basis of recharging “cost + profit”, which is not sustainable and inconsistent with Council policy. This correction is essential to ensure costs/income properly reflect activity.

No Recourse to Public Funds

4.47 The May Risk Monitor highlights a potential pressure of £3.3m, based on activity levels as at 2013/14 35 new cases per month are coming forward and on average 6 are being accepted .This is in line with activity in 2012/13. The Council has set aside a reserve which will be utilised to meet costs as the year progresses. An officer board has been convened to look at improved gate keeping and London Councils are looking into lobbying the Government to provide resources to meet this unfunded additional burden.

Housing Revenue Account

4.48 There were no ongoing pressures identified when setting the 2014/15 budget and no significant issues were raised in the May Risk Monitor.

5. CAPITAL

Maximising the Impact of our Capital Investment

5.1 The council continues to face the huge challenge of an ever shrinking revenue resource. It is therefore more important than ever that we derive maximum value from our existing asset base as well as ensuring that capital is invested wisely to reduce or even eradicate revenue costs wherever possible rather than increasing them.

5.2 We have now completed an initial review of our approach to managing capital in order to target investment more effectively and maximise its impact. In this next phase of implementing our resource allocation framework, the focus of the Outcome Panels will ensure that the interplay between capital investment and revenue spend is transparently considered in all commissioning decisions. Capital investment needs will be transparently determined and necessary investment targeted to support community priorities alongside revenue funding through the commissioning strategies.

5.3 The capital programme had already been re-analysed to show more clearly which capital projects are primarily supporting each community outcome. With the introduction of the Outcome Panels, this analysis has been taken further to help show how capital resources are spread across the 3 areas of focus of the Panels or where, via Enabling projects, investment is supporting the entire organisation.

5.4 We now plan to develop our asset management strategies further in order to optimise the value of our existing resources. In particular, we will seek to ensure:

- that we secure continuing future capital investment in the borough in a world of rising property values but shrinking public sector resources;
- that we capitalise on the opportunities provided by the wider public sector asset base of the borough through further linkage with key partners such as the NHS and the Metropolitan Police;
- that we maximise the impact of the new Community Infrastructure Levy (CIL) income to further our critical infrastructure needs;
- that we facilitate direct community input into capital investment decisions at neighbourhood level through the introduction of the Co-operative Local Investment Plans (CLIPs); and
- that we continue to support and refine mechanisms to facilitate community asset transfers or co-operative models of asset management.

5.5 The key objectives of our asset management strategies will remain:

- To maximise returns from assets, whether those returns be financial (for example, revenue savings as a result of capital investment or future increases in asset values) or non-financial (for example, the contribution made to the achievement of the community outcomes);
- To identify opportunities to dispose of surplus or relatively unproductive assets and hence determine a 4 year disposal target for capital receipts which can then be recycled into future investment; and
- To identify opportunities to acquire new assets to facilitate commissioning strategies, regeneration initiatives or to capitalise on the future returns of a rising property market.

5.6 New operational arrangements for administering the capital programme have also now been implemented. These comprise:

- a new Asset and Investment Management Group (AIMG), who scrutinise and challenge any bids for capital funding to ensure the council is investing effectively in line with commissioning strategies to achieve its community outcomes, and
- a Capital Delivery Group who will ensure that commissioned projects are successfully managed and the intended benefits of the investment are achieved.

5.7 A holistic overview across the entire capital programme is currently provided through the Asset Management Cabinet Advisory Panel which allows robust challenge of individual proposals in the context of all competing investment needs.

5.8 It is envisaged that as the Outcome panels identify capital investment needs, the resultant bids will continue to be presented to AIMG for initial challenge/endorsement. AMCAP will also still fulfil the essential role of balancing the competing demands of different outcomes into an affordable capital investment programme that can be fully funded within projected capital resources. In the light of the recommendations from these Groups, asset and investment decisions can then be taken by the appropriate individuals according to the Scheme of Delegation.

Capital Expenditure and Achievements 2010-2014:

2013/14 Capital Outturn

5.9 In 2013/14, Capital Expenditure totalled £183.6m against a budget of £186.0m, an underspend of £2.4m or 1.3%.

5.10 Details of Capital Expenditure by Community Outcome are shown in Appendix 5, along with variances against budget. Major areas of spend included:

- Refurbishment of properties to Lambeth Housing Standard (£83.9m);
- Expansion and Enhancement of Primary Schools (£33.0m);
- Resurfacing of Footways and Carriageways (£13.1m); and
- Bringing Empty Properties into Use (£10.4m)

2013/14 Disposals

5.11 The disposal target for the current financial year 2013/14 set in the February Budget Report 2013 was £24.2m. By the end of the year to the 31st March, we had realised £51.2m, achieving an additional £27m.

5.12 Key Disposals made in 2013/14 include:

- Old Lilian Baylis Building (£3.96m) ring-fenced to the Primary School expansion programme;
- 126 Atkins Road (£2.08m) ring-fenced to the co-operative Libraries and Community hubs programme; and
- Annie McCall Hospital Site (£1.43m)

4 Year Outturn 2010/11 to 2013/14

5.13 Over the period April 2010 to March 2014, a total of £543.1m has been invested in capital projects. This is shown in Appendix 6.

5.14 This investment has resulted in substantial improvements to the Borough's infrastructure and facilities, including:

- Opening both the award-winning Clapham One leisure centre, library, health and community facility with private and affordable housing and the new Streatham Hub leisure and ice facility; construction of the new West Norwood Health and Leisure centre substantially complete and scheduled to open in 2014/15;
- £170m invested in schools in the four year period;
- Completion of both phases of the BSF programme with one new and four rebuilt/substantially refurbished/extended mainstream secondary schools and two new/rebuilt SEN schools and one PRU;
- Further new secondary school (academy) nearing completion ahead of programme;
- Substantial investment in creating additional primary school places with 19 additional forms of entry created and further 10.5 under development. With 33 bulge classes sufficient places have been available to accommodate every child needing a place in spite of 34% increase in application (over 60% in south of borough), although some have had to travel long distances;
- Refurbishing Raleigh Hall to provide a new, world class Black Cultural Archives exhibition centre in the heart of Brixton which is due to open in July 2014;
- Over 5000 homes being brought up to Decent Homes standard;
- Creating the award-winning Windrush Square in the heart of Brixton and other significant improvements to public spaces across the borough including Jubilee Gardens and regeneration

of Lower Marsh in Waterloo, Robson Road junction in Norwood, Venn Street in Clapham and the Streatham reservation. Van Gogh Walk in Stockwell was awarded “Best Community Led Scheme” (Local Government News 2013);

- Achieving both regional and national recognition with awards for schemes including provision of new cycling storage facilities and improvements to walking spaces
- The Neighbourhood Enhancement Programme, which delivered infrastructure improvements across the borough following consultation with the local community, won a Local Authority Research and Intelligence Award; and
- Enhancing over 140 roads to prevent the network deteriorating, improving road and footway access to disabled citizens and improving road safety for all users, particularly cyclists.

Disposals 2011/12 to 2013/14

5.15 The total receipts raised since 2011 are £106.9m, exceeding the very ambitious £100m, 3 year target set in the February 2011 Budget Report.

Looking Ahead: Capital Investment Programme 2014/15 to 2016/17

5.16 At the time of the February Budget Report, the 3 year Capital Programme 2014/15 to 2016/17 totalled £422.7m. Since then, the following major changes to the programme have been made, based on confirmation of new funding, reprofiling between years and adjustments to take into account the 2013/14 outturn:

- From internal resources, £4.2m for a new Day Care Centre for Older People at Coburg Crescent, £1.5m for Adult Social Care IT and £300k for Children’s Social Care IT was approved at the Asset Management Cabinet Advisory Panel (AMCAP) in March;
- £2.5m was committed to enhancing roads across the borough from the Council’s Parking Reserve;
- Carry Forwards of budgets from on-going projects underspending from 2013/14 totalled £3.5m; and
- At the AMCAP of the 9th June, two projects were recommended for inclusion in the programme: £5m for investment in Affordable Housing, and £300k for development of the Framework Financials IT system for Children’s Social Care.
- The following virements have been made between projects: £389k was transferred from New Norwood School to Clapham Manor School Extension; and £594k was transferred from Customer Access to the Cooperative Website project.

5.17 The above changes resulted in a current 3 year Capital Investment Programme 2014/15 to 2016/17 of £439.4m. This is shown by Outcome Panel, Community Outcome and Sub-outcome in Appendix 4.

5.18 There is a further capital investment proposal relating to the purchase of the International House Headlease, due to be considered elsewhere on the same Cabinet agenda as this report (Enabling Future Investment in Central Brixton). In the event that this is approved, that investment will be added to the Programme and reported to Council at the next meeting.

Looking ahead: the planned investment for 2014/15

5.19 The Capital Investment Programme in place for 2014/15 includes the following priorities:

- Investment in infrastructure including alterations to Vauxhall Gyratory, the Northern Line Extension and improvements to public realm around Waterloo;
- The development phase commencing on the Brixton Central Masterplan including Somerleyton Road;

- Public Realm improvements to include the completion of Stockwell Square works, the extension of the Legible London way finding system and further promotion of road safety by implementing various 20mph zones across the borough;
- £12m budget has been set aside for investment in roads across the borough with works this year including resurfacing of 62 carriageways and 40 footways;
- £45m budget is allocated for Primary Expansion to cater for the growing number of required school places within the borough. Major projects include Fenstanton, Woodmansterne, St John's Angell Town and Sudbourne;
- £96m will be invested in Lambeth's Housing stock, allowing the refurbishment of properties throughout the borough and the bringing of empty properties back into use. It is aimed to bring 100% of the council's stock up to a decent homes standard by 31 March 2017 (currently 66%);
- Parks and Open Spaces investment based on local needs assessments including regeneration of Streatham Common play area, conversion of Stable Block in Ruskin Park and construction of changing facilities on Clapham Common. Other major projects to be delivered include Brockwell Hall regeneration and Archbishops Park sports facility improvements;
- An estimated £8m, in addition to planned Lambeth Housing Standard funding will be invested to improve up to 17 sheltered housing schemes so that they can better meet the specific needs of older people;
- £6.5m investment to secure additional housing in the borough including the start of delivering homes at Council rent levels , Extra Care and Estate Regeneration plans and subsidy to RP partners; and
- Work will start on two Section 106 offsite schemes providing 78 new Council homes at St Oswald's Place and Lollard Street.

6. FINANCE

6.1 This report is all about the Council's financial position and the implications of this for service planning and delivery. Accordingly no further comment is required.

7. LEGAL AND DEMOCRACY

7.1 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 2014/15 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.

7.2 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.

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

7.4 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.

7.5 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 Strategic Director of Enabling (SDE) 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 2011 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 2014/15, the SDE will need to have regard to the statutory obligations which are placed on him personally when deciding on any particular actions to be recommended to Members to address his concerns.

8. CONSULTATION AND CO-PRODUCTION

8.1 This report has been consulted on with the people listed in the audit trail. Our commitment to being a cooperative council means that we want to involve citizens in the process of allocating resources as well as designing and delivering services. The proposals being implemented in the 2014/15 budget have either already involved citizens or have plans in place to engage citizens over the coming year. This will be mirrored in allocating resources and developing activities for 2015/16 and beyond. Rather than having occasional one-off consultations with citizens we hope to have ongoing dialogue about the borough and local neighbourhoods, with citizens involved at each stage of the commissioning cycle.

9. RISK MANAGEMENT

9.1 None for the purposes of this report, although risk management is built into the budget process.

10. EQUALITIES IMPACT ASSESSMENT

10.1 The council has a robust Equalities Impact Assessment (EIA) process in place. All changes being delivered through the 2014/15 budget included an EIA in the development process, and we have also produced a cumulative EIA which looks at the equalities impacts across the entire budget which will be updated and monitored through the year. We don't see equalities as something that is only considered at the end of the commissioning process; rather the consideration of equalities impacts is embedded into the commissioning cycle, and this includes the role of Cabinet members in applying their public interest test. This will continue as we develop the budget for 2015/16, in particular in ensuring that we achieve the equalities objectives as set out in our Community Plan.

11. COMMUNITY SAFETY

11.1 None for the purpose of this report, although the impact of particular proposals on community safety will be considered as part of Resource Allocation.

12. ORGANISATIONAL IMPLICATIONS

Environmental implications

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

Staffing and accommodation implications:

12.2 None for the purpose of this report, although the staffing and accommodation impact of particular proposals will be considered as part of the budget process.

13. TIMETABLE FOR IMPLEMENTATION

13.1 Subject to agreement by Cabinet and Council, the proposals contained in this report would be implemented in the 2014/15 financial year onwards.

13.2 If necessary, Cabinet will reconsider the matters covered by this report in the context of the November Finance Review 2014 or the February 2015 budget report as appropriate.

13.3 Within these over-arching deadlines, it will be the responsibility of the cluster(s) concerned to establish an appropriate timetable for the delivery of the item(s) which concern them.

Audit trail				
Consultation				
Name/Position	**Lambeth cluster/division or partner**	**Date Sent**	**Date Received**	**Comments in para:**
Guy Ware, Strategic Director	Enabling	16/06/14	17/06/14	Throughout
Andrew Pavlou, Legal Services	Governance and Democracy	01/07/14	02/07/14	Section 7
Anne Rasmussen, Democratic Services	Governance and Democracy	01/07/14	03/07/14	Section 7
Operations Board		24/06/14		
Councillor Paul McGlone	Cabinet Member for Finance & Resources	26/06/14	27/06/14	Throughout
Councillor Lib Peck	Leader of the Council	26/06/14		
Cabinet		26/06/14		
External				
For internal reports, list internal meetings where issue has been considered				

Report history	
Original discussion with Cabinet Member	20.06.14
Report deadline	07.07.14 (Cabinet)
Date final report sent	04.07.14
Report no.	22/14-15
Part II Exempt from Disclosure/confidential accompanying report?	No
Key decision report	Yes
Date first appeared on forward plan	16.07.13
Key decision reasons	1. Will amend Community Plan Outcomes Framework or Budget and Policy Framework
Background information	• Revenue & Capital Budget 2014/15 – Provisional Budget Strategy 2015/16 – 2016/17 • Draft Statement of Accounts 2013/14 • May 2014/15 Risk Monitor
Appendices	• Appendix 1 – Activities under each of the Outcome Panels • Appendix 2 – Commissioning Proposals and Revised Savings • Appendix 3 – Financial Management Strategy 2014 – 2017 • Appendix 4 – 3 Year Capital Investment Programme 2014/15 to 2016/17 • Appendix 5 – 2013/14 Capital Outturn and Explanation of Variances • Appendix 6 - Overview of the Capital Programme 2010/11 to 2013/14