

Appendix 1: FINANCIAL MANAGEMENT STRATEGY 2016 – 2019

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, there have been signs of recovery as far statistics which measure economic growth are concerned. The underlying rate of inflation is falling which, whilst theoretically increasing spending power, must also reflect little movement in terms of pay increases. Business is still reluctant to borrow and banks are maintaining rigidity with regard to lending criteria. With regard to the Council's finances, the Autumn Statement and December Settlement has signposted a further period of austerity for the public sector. The financial context within which the council is operating continues to be extremely challenging and the green shoots of recovery have yet to reach our local communities and businesses.
- 1.3 We are continuing to see increasing 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. It remains important for our focus to remain on regeneration as any increase in business activity across the borough impacts business rate income and the Council's overall financial position due to the introduction of the Business Rate Retention Scheme. Encouragingly, we are seeing a significant level of new property development which will generate income from New Homes Bonus and Community Infrastructure Levy and hence support investment in essential infrastructure. While our investment income has reduced due to the ongoing low interest rate regime, our asset values have benefited from improved market conditions which is enhancing our flexibility to make strategic capital investments in priority outcomes.
- 1.4 The Council is expecting to face overall cuts in core Government funding of 56% between 2010 and 2018. As a result we will have reduced spending by £182m between 2011/12 and 2017/18. At the same time, the Council administration has maintained its commitment to residents to keep our council tax as low as possible; Lambeth will implement an increase of 1.99% to assist in closing the funding gap created by unfunded additional burdens and reduced Government support. The Government has also introduced the flexibility to raise a 2% precept on Council Tax earmarked for adult social care. Cost pressures and increasing demand have necessitated the recommendation that the Council implements this increase.
- 1.5 Within this context the Leader of the Council has set out a vision of 'ambition and fairness for all' that builds on the work undertaken by the previous administration and places early intervention, prevention and resilience at the heart of the council's work. The Leader has been clear that through its cooperative commissioning approach the organisation should focus on how it will spend the resources remaining in our budget rather than being driven by the 50% reduction we need to make.
- 1.6 The government's austerity measures and the council's shift to cooperative commissioning (specifically the focus on outcomes this has entailed) have necessitated a

shift in the way that the council approaches its budget process. Having introduced an outcome-based budgeting approach in 2013/14, the council developed this further through 'resource allocation' - a process designed to enable financial resources between outcomes - in 2014/15. Three Outcome Panels were introduced to lead the work of commissioning and delivering our thirteen community outcomes under three priority outcomes areas - Community Wellbeing (CW), Neighbourhoods, Environment & Sustainability (NES) and Housing, Jobs & Investment (HJI). Financial envelopes were allocated to those panels and they led on identifying the resources that were needed to achieve the community outcomes, rather than through a traditional departmental and service focus. The substantive outputs of that work were considered by cabinet in December 2014 and were subsequently included in the February 2015 budget report. The position at that time reflected a balanced budget position for 2016/17. Subsequent to this, it became clear that the deliverability of some of the identified savings along with existing on-going pressures meant that the position needed to be re-evaluated. As a result, the December Financial Planning Report to Cabinet identified the need to identify £325m of savings to balance 2016/17. The three Outcome Panels were reconvened in January 2016 when a series of new proposals were agreed for inclusion in the February 2016 Budget setting report.

- 1.7 In March 2016 Lambeth will agree a new Community Plan with partners. This will set out a 10 year vision for the borough, and the positive changes we will seek to achieve with partners to make that vision a reality. Lambeth is a borough with significant opportunities and investment. Our challenge is to ensure the benefits of economic growth are shared by all our communities across the borough, creating a stronger and more prosperous borough.
- 1.8 This revision of our financial management strategy enables us to take a further step forward in our resource allocation process. This will emphasise that coproducing the kind of transformative and innovative approaches necessary to meet the outcomes our communities have identified with 50% of the previous resource available is (at least) a year-long process. It will also ensure that the allocation of resources reflects priorities between outcomes and develops a sense of the total resources (revenue, capital, non-financial community assets and (in time) 'whole system' budgets) committed to particular outcomes. The first few stages of the approach, identifying the level of resources available and Cabinet prioritising between outcomes and allocating resources accordingly will therefore need to be done as early as possible in 2016/17. That will provide Outcome Panels with a clear 6-month window within which to coproduce the plans and strategies for how to manage within such a drastically reduced resource envelope. These will include the range of financial management strategies set out within this document, developing our partnerships, understanding the total resources delivering outcomes in the borough and identifying further opportunities for integration.
- 1.9 Our new commissioning approach is bringing its own opportunities and challenges but is allowing us to respond quickly to maximise benefits within the borough from the eventual upturn in national economic growth.
- 1.10 In summary, the key priorities for our financial management over the coming year are:

- The implementation of a resource allocation framework that maximises the amount of time available to identify innovative, transformative and cooperative approaches whilst maximising the use of all resources, (both capital and revenue) to deliver outcomes, limiting spend on support and corporate overheads, and ensuring probity and stewardship of funds is maintained.
- 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 where they contribute to the council's priorities. For example, we are currently exploring shared service delivery teams with members of the current One Oracle Partnership in order to leverage the investment we have made in the shared technology platform. In addition, the Organisational Design Programme seeks to aggregate services, simplify processes and streamline activity. Over the next three years the Programme will enable the council to respond flexibly to the changing needs of the organisation and release savings to help meet challenging targets. We are also running replacement Local Welfare Assistance schemes for Lewisham and the City of London and are seeking to work with other Boroughs over the coming year.
- 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. The Cooperative Investment Fund has been strengthened to support this transformation process. Our Reserves and Balances Strategy is set out in section 3 of the main report.
- Rationalisation of our asset portfolio continues but we cannot rely indefinitely on disposal of surplus assets to fund future investment requirements. However, as our available capital receipts from asset disposal diminish, we are instead seeing a significant rise in income directly attributable to the substantial and exiting new build private developments underway across the borough and particularly in the north. These development income streams of s106 and Community Infrastructure Levy ("CIL") will allow us to secure key infrastructure improvements across the borough to support our community outcomes. Further mechanisms for co-operative ownership of assets to enhance community access are in development and we will continue to build community capacity by supporting "Community Right to Bid" applications. Where possible, we will continue to identify alternative funding solutions for strategic developments to try and minimise the public sector financing burden and seek to leverage more value from existing assets through commercial/social enterprise arrangements. We are also using capital investment to generate additional revenue resources, either through increasing income streams or reducing associated revenue cost.
- We will restructure the finance function to achieve an agile and innovative service which can actively facilitate the council's ambitions. Together with the implementation of the accounting system Oracle R12 in 2014/15, 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 functions but also eventually the borough-wide public service economy.

2. Summary of the Financial Management strategy 2016 – 2019

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; and,
 - Risks to our key financial strategies.

3. The Financial Management strategy 2016 – 2019

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; and,
- providing high quality financial management across the organisation.

Financial resilience strategies for the Council and its communities

Co-operative strategies:

- Develop the resource allocation process to
 - enable the allocation of resources according to priorities *between* outcomes
 - develop a sense of the total resources (revenue, capital, non-financial community assets and (in time) 'whole system' budgets) committed to particular outcomes
 - enable the coproduction of plans and strategies allowing us to manage a further estimated reduction in spending of over £55m between 2017/18 and 2019/20
- 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. A refresh of the Financial Resilience Strategy 2016 – 2019 was presented to Cabinet on 11th January 2016.
- Invest in capacity building in the Third 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

The council is reviewing its Asset Management Strategy to ensure it is responsive to and reflective of the new and unprecedented financial pressures. We are now developing our asset management strategies to ensure:

- That we regard our property assets as a corporate resource, to support and enable the Council to deliver on the community outcomes.
- That we maximise the benefits of our asset base, maximising the underlying value, and ensure the best use of this valuable corporate resource.
- In light of the significant budgetary pressures, that we review all our commercial property assets to ensure that we are maximising the revenue we receive from third party occupiers. We will roll out a programme of property principles to ensure fairness and transparency, with clear audit trails accounting for all decisions relating to occupiers.
- That we ensure that we are fully exploiting all the opportunities in the borough for new development, whether we undertake it ourselves or work with other partners to sweat our valuable assets to ensure we reap the maximum benefit from every plot of surplus land and space
- That we capitalise on the opportunities provided by the wider public sector asset base of the borough through further integration with key partners such as the NHS and the Metropolitan Police, sharing assets, reducing revenue costs and improving community access to services;
- 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 including 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 cooperative models of asset management.

High quality financial management strategies

<p>Financial management focus</p>	<ul style="list-style-type: none"> • Complete the transformational restructure of the finance function to allow greater standardisation of approach through centralisation together with improved efficiency and agility • 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
<p>Financial governance and control</p>	<ul style="list-style-type: none"> • 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
<p>Data quality and transparency</p>	<ul style="list-style-type: none"> • 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
<p>Financial intelligence</p>	<ul style="list-style-type: none"> • 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. Financial Management Values and Principles

4.1 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.

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

- **Value for money:** Under the Code of Audit Practice 2010 the Council's External Auditor is required to include in their audit report a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as "the VfM conclusion". Taking into account the Annual Governance Statement, produced by our internal audit function, and then the draft VfM Conclusion, produced by our external auditors, the organisation has had to recognise that there has to be improvement in our management of Children's Services. This is being addressed through the Children's Services Improvement Plan which is scrutinised at a senior management level and discussions are on-going at the time of writing regarding the VfM conclusion for 2014/15.
- **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) 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.