

## **CABINET**

**28 SEPTEMBER 2010**

### **MEDIUM TERM FINANCIAL PLAN 2011/14**

Portfolio Holder: Councillor Alan Jarrett, Finance

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#### **Summary**

This report reviews the major financial issues facing the Council in this and the next three years. It also provides a framework for the more detailed preparation of the draft Revenue Budget for 2011/2014.

#### **1. Budget and Policy Framework**

- 1.1 The council's annual budget and council tax setting establishes the council's budget framework, and sets out the funding of services. The Medium Term Financial Plan (MTFP) identifies the key issues that need to be addressed as part of that budget preparation. This MTFP will mesh with the review of the Council Plan for 2011/14 and seek to integrate budget setting with service planning and ensure priorities and funding are matched.

#### **2. Background**

- 2.1 The MTFP approved by Cabinet last September made a serious attempt to escape from the year to year budget preparation routine that has been a fact of financial life at Medway since vesting. The plan identified a 3-year scenario, quantified the issues in some detail and importantly, introduced a Value for Money strategy as part of the process for more robust financial planning. The approved budget for 2010/11 had some clear future dimension in respect of some high spending services of the Council (notably the Special Educational Needs (SEN) strategy and social care transformation measures), however, it is realised that there is still some way to go before a robust long term plan is fully developed.

- 2.2 On the positive side it needs to be recognized that the budgets we have set, certainly for the last two years, have probably been the most robust and less prone to financial risk that Medway has ever had. That is also true of the 2010/11 budget but this is against a backdrop of the last of the CSR 2007 settlements. Both 2008/09 and 2009/10 have yielded significant underspending against budgets reflecting that robustness in budgeting. This and the ability to deal with sizeable deficits at draft budget stage has the unfortunate side effect of inspiring a belief that all is well with the Council's finances.
- 2.3 This is most certainly not the case with Medway acknowledged as having a low resource base both in terms of per capita grant and council tax. For Dedicated Schools Grant (DSG) the position is also clearly more difficult than it has been for some time with falling pupil numbers and consequently less DSG but rising requirements for early years and SEN. The impact of academies seceding from the Council control and the generous terms of their set up that sees the Council losing both the delegated budgets for those schools but also a share of central budgets, diminishes the ability to provide core services from the centre. For the sake of consistency the resources set out in this paper assume a 'status quo' for both pupil numbers and associated DSG. The impact of academy transfers will need to be factored in to budget preparation.
- 2.4 For the past few years the Council's budget has been prepared against a backdrop of a serious deficit in resources and inevitably the focus has been on achieving the necessary balance for the immediately forthcoming year with less of a focus on future needs. A succession of Medium Term Financial Plans have prophesied the very deficits that manifest, usually to a greater degree, when the detail of budget preparation begins to become apparent.
- 2.5 It is also clear, even at this early stage, that the future budget requirement, incorporating investment in meeting strategic objectives allied with demographic change will exceed available resources, even without the threat of significant reductions in Government support

### **3. Advice and analysis**

- 3.1 The world wide economic recession and the massive growth in public sector borrowing in the UK, in particular, were always going to have an impact on the public sector regardless of the colour of Government. The post-election reality is that the Council has experienced unprecedented 'in-year' reductions in Government funding and a clear statement that future funding levels will be significantly lower than now.
- 3.2 In his emergency budget on 22 June the Chancellor announced that Governmental Expenditure Limits would be reduced by approximately 25% over the next four years. The NHS and International Aid budgets were to be excluded from this and the impact on Education and Defence budgets cushioned. The detail would be announced in the Spending Review scheduled for public announcement on 20 October 2010. If this follows past patterns it will give a departmental analysis of spending over the review period but we will have to wait for the detailed announcement of grant to see how Medway will fare. That is likely to be at the end of November/early December if past practice is followed. There is a suggestion that the announcement will be in the form of a two-year fixed settlement and an indicative second two years.

- 3.3 It is also quite clear that previous MTFP assumptions of a 5% increase in Council Tax are no longer tenable, either nationally or locally. A further part of the 22 June announcement was a statement that the Government would work in partnership with local authorities in England to freeze council tax In 2011/12. Specific details of how this will work have yet to be given but in the pre-election debate it was suggested that Councils that set an increase of less than 2.5% would be grant aided to reduce this to zero for residents. For the purposes of this document it has been assumed that the increase per annum would be constrained to 2.5%.
- 3.4 The budget also announced that public sector pay would be frozen for two years except for a flat rate increase of £250 per annum for employees earning less than £21,000 in each year. There is some conflict here between Government and the employers' negotiating body who have offered a nil increase this year; and the autonomy of that and other negotiating bodies is an issue. For the purpose of this MTFP it has been assumed that there will be a nil pay increase and there has been no provision for non-pay inflation in the assumptions.
- 3.5 High level spending needs have been reviewed as part of the preparation of this report and are narrated and summarised in sections that follow but if the plans already in place are to be achieved then the MTFP for 2011/14 must encapsulate the strategic priorities for Medway as set out in the Council Plan and the two guiding principles or core values of:

- Putting our customers at the centre of everything we do; and
- Giving value for money.

These themes are exemplified under the six key outcomes as follows:

- A clean and green environment
- Safer communities
- Children and young people having the best start in life
- Older and vulnerable people maintaining their independence
- People travelling easily and safely in Medway
- Everyone benefitting from the area's regeneration.

#### **4. Assessment of Likely Available Resources**

- 4.1 The size of the Council's revenue budget is determined by two major factors:
- The support from central government by way of Formula Grant, Area Based Grant (ABG) and DSG; and
  - The amount raised locally by council tax.
- 4.2 With regard to central government funding, the Local Government Finance Settlement to be announced later this year will be the first year of the new Spending Review cycle and as set out above is beset with uncertainty. There is some suggestion that it will be a two-year settlement for 2011/13 and a further indication of the settlement for 2013/15. This would fit with other suggestions that a review of the funding distribution mechanism will be undertaken in 2011/12 and could have effect for the second two-year period. Until 20 October this all remains speculation.

- 4.3 At this stage it is, therefore, only possible to make an estimate of the potential settlement and that is against a background of tremendous uncertainty for public sector spending as a whole. For planning purposes it is suggested that a nil increase in Government support is assumed although clearly that is inconsistent with the current thinking on public finance. To balance this sensitivities have been created around overall budget reduction requirements of –15%, -20% and –25%. These reductions are not considered unreasonable as over 80% of Medway’s net funding comes from Government illustrated as follows:

<b>Summary Funding 2010/2011</b>	<b>£million</b>
<b>Net Revenue Budget after income from Fees and Charges</b>	<b>560</b>
<b>Funding</b>	
Specific Grants	359
Area Based Grant	18
Formula Grant	85
<b>Sub Total</b>	<b>462</b>
Council Tax	98
<b>Total</b>	<b>560</b>

- 4.4 For Council Tax increases the position has become clearer with the publication of a consultation paper on referenda for ‘excessive’ Council Tax increases. Essentially this suggests that Government will determine the rate of increase above which increases are deemed to be excessive. This is similar to the old “capping” regime but the level will be announced before budget and council tax levels are set. Any proposal to exceed the set level will need to be supported by an alternate budget to meet the determined increase and subject to a local referendum.
- 4.5 Medway’s position remains one of the lowest in both our peer group of Unitaries (7<sup>th</sup> lowest) and nationally (27<sup>th</sup>). For non-schools (DSG) expenditure, Council Tax represents 41% of the resources supporting the 2010/11 budget; Formula Grant 47%; ABG 9% with the remaining 3% General Reserves and Collection Fund surplus. Given an inevitable constraint on Government funding streams there is a balance to be struck between the aspiration for a low tax increase (or none) and the need to maximise a significant part of our funding resource when other sources are likely to reduce. For the purposes of this MTFP it has been assumed that a 2.5% increase will occur.
- 4.6 The taxbase upon which the current council tax is set was agreed as 87,194 Band D equivalents. As at the end of August the taxbase was 87,382 so we are already in a surplus position for the collection fund in 2010/11, even after allowing for the contribution to supporting the 2010/11 budget. However there is a recurring component to that support which will require the 2010/11 excess and potentially part of the growth for 2011/12 to be used in meeting that requirement. Care also has to be taken in that there is a significant exemption/discount factor with, for example, some one third of dwellings claiming single person occupancy discount at 25%. Nonetheless it is reasonable to expect some growth in the yield arising from an increase in the taxbase and this is expected to be 0.5% year on year for 2011/14.

- 4.7 For DSG there is some logic in an expectation of a slightly better position overall although this is more likely to manifest as a reduced saving requirement rather than an increase in per pupil funding for 2011/14.
- 4.8 Table 1 below illustrates potential resources for 2010/14 based upon the assumptions in 4.2 to 4.7.

**Table 1: Potential Resources for 2009/2013**

Description	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m
<b>Formula Grant - % Increase</b>		<b>+0%</b>	<b>+0%</b>	<b>+0%</b>
<b>- amount</b>	<b>85.130</b>	<b>85.130</b>	<b>85.130</b>	<b>85.130</b>
		+0.75%	+0.5%	+0.5%
Taxbase	87,194	87,837	88,276	88,718
<b>Council Tax (£1,119.15 baseline)</b>	<b>97.583</b>			
Increase in taxbase		<b>0.737</b>	<b>0.516</b>	<b>0.532</b>
Increase @ +2.5%		<b>2.440</b>	<b>2.519</b>	<b>2.595</b>
<b>DSG (based on forecast pupil numbers)</b>	<b>173.627</b>	<b>171.599</b>	<b>169.434</b>	<b>167.223</b>
<b>Pupil Numbers</b>	39,902	39,436	38,938	38,430
<b>Funding per pupil £</b>	4,351	4,351	4,351	4,351
<b>Area Based Grant</b>	<b>18.092</b>	<b>16.131</b>	<b>16.131</b>	<b>16.131</b>
<b>Summary Resources:</b>				
<b>DSG</b>	<b>173.627</b>	<b>171.599</b>	<b>169.434</b>	<b>167.223</b>
<b>Non-DSG (Council Tax @ +2.5%)</b>	<b>200.805</b>	<b>202.021</b>	<b>205.056</b>	<b>208.183</b>

- 4.9 Clearly Table 1 is flawed in the assumption that resources (in grant terms) will remain static at 2010/11 levels. The sensitivity for Formula Grant is that a 10% reduction would see a £8.5 million reduction and for Council Tax a 1% change is almost £1 million. For DSG the position is complicated by the forecast pupil numbers but if the per pupil funding were to shift by 1% up, or more likely down, then funding would move by some £1.7 million.
- 4.10 Paragraph 4.3 identified the concept of a sensitivity analysis based on potential reductions in budget spend of 15%, 20% and 25%. These are for simplicity tabulated below and spread evenly over four years in accord with the budget announcement. Of course they may not apply evenly over time, across geographical area, or almost certainly not evenly between schools and other services.

**Table 2: Potential budget reductions**

	2011/12	2012/13	2013/14	2014/15	Total
	£m	£m	£m	£m	£m
<b>General Fund</b>					
-15%	7.530	7.530	7.530	7.530	30.120
-20%	10.040	10.040	10.040	10.040	40.160
-25%	12.550	12.550	12.550	12.550	50.200
<b>DSG</b>					
-15%	6.511	6.511	6.511	6.511	26.044
-20%	8.681	8.681	8.681	8.681	34.724
-25%	10.852	10.852	10.852	10.852	43.408

4.11 In addition to the revenue resources referred to above the council does have access to reserve balances. However, whilst the balance of General Reserves (i.e. those not allocated for an earmarked purpose) has increased in recent years as a result of budget underspending, it is still at a minimal level. As at 31 March 2010 the uncommitted general reserve and the contingency balance amounted to some £17 million. Taken in context to the recurrent saving requirement illustrated by the table above, and the risks and costs associated with achieving financial balance, it is clear that they are inadequate and whilst prudence would dictate that reserves are built up from present levels that is unlikely given the financial situation outlined in the plan. The one off impact in respect of redundancy, early retirement costs and part year effect of the current year public spending reductions has yet to be quantified and will be a call on our reserves. In addition, future budget savings and school reorganisations will place further, as yet unknown, demands on these limited resources.

## 5. Spending Priorities

5.1 It is clear that for 2011/12 and beyond the Council will need to be restricting rather than identifying increased spending requirements. That is evident in the assumptions made for pay and prices. However there will be areas where either for legislative reasons or because of uncontrollable demands, there will still be spending pressures that will serve to magnify the nature of the problem in balancing the budget equation.

5.2 It is not the purpose of this document to plan the service needs of departments but nonetheless there are a number of key spending issues that sit alongside the priorities of the council. These are highlighted below and set out in Table 3 that follows.

### *Regeneration Community and Culture*

- The agreement, now concluded on the Medway Tunnel, passes ownership and responsibility for maintenance in whole to the Council. There is a limited reserve available to offset these maintenance costs, which are currently running at some £1m a year and significant Government capital funding has been secured for improvements to the tunnel which should reduce the future maintenance liability. However, it is realised that the maintenance fund is finite and at the current rate of expenditure, the sum will be exhausted before the period under review. Efforts are continuing to seek Government support

for the tunnel in common with all other strategic routes such as that upon which the tunnel sits;

### *Children and Adults*

Children and Adult Services is the largest directorate, representing the greatest call on available resources, and continues to be subject to a rigorous and challenging inspection regime for both elements of the service:

- The ongoing demographic pressures on key, demand-led, services for the elderly and disabled have an inevitable consequence for spending demand. It is anticipated that demographic growth in elderly care, physical disability care and learning disability care will cost £0.6m, £0.2m and £0.2m respectively for 2011/12 and further similar pressures beyond. Against this the potential savings from the enablement agenda will have to be pursued with equal vigour;
- For children's social care there are pressures on services outside of the DSG, most notably to accommodate the needs of a growing 'looked after children' (LAC) population;
- The major part of the directorate service provision is funded by the DSG and to that extent service growth will be determined by the funding provided by Government through this means. However there is a balance within the DSG between the funds delegated to schools and the funds retained centrally to manage other pupil services. The level of retained funding is restricted by the 'Central Expenditure Limit' (CEL). In recent years there has been sustained growth pressure within SEN services particularly in relation to independent and non-maintained sector placements and these are forecast to grow further at £0.5m. These form part of the CEL and whilst the 'headroom' between the minimum funding guarantee to schools and the actual DSG may be used to support growth it has to be with the agreement of the Schools Forum. It is going to be increasingly difficult to get such an agreement if schools budgets are going to be under the pressure anticipated for 2011 and beyond; and
- The closure and mergers programme necessary to effectively plan for pupil demographics is also likely to generate costs that under current arrangements fall to the non-schools component of the DSG or the General Fund. These include redundancy, retirement and deficit balances where they exist.

### *Business Support/Corporate Issues*

- There is a need to fund the non-recurring support that was provided to the 2010/11 budget This was £1m from the 2009/10 underspend, £1.6m from VAT recovery, £0.5m from the recurring use of the collection fund surplus, and a further £0.5m used from the General reserve to reduce the council tax increase from 2.95% to 2.46% – a total of £3.6m;
- The cost of progression on the council's incremental scales averages some 3% per point. With almost 2/3 of staff in receipt of an increment (albeit this is a reducing figure) the actual cost averages at about 2% of paybill. The table illustrates this cost at £1.5m, £1.25m and £1m respectively for the years in question. The recommendation at 13.4 is that Cabinet authorises the commencement of a consultation aimed at freezing incremental progression to mitigate this cost;
- The revenue costs of new borrowing to support capital investment outside of the 'prudential' regime is funded by Government in the grant formula and is

therefore incorporated in the resource Table 1 above (albeit a zero increase in formula grant is predicted) and in the additional resource requirement in Table 3 below. 'Supported borrowing' is running at about £10m a year and the associated annual cost for interest and principal amounts to some £1m. Invariably, full borrowing approvals are not applied to the capital programme each year and there will always be some rollover. Currently this rollover, coupled with current year approvals as yet unallocated amounts to some £10 million and will also create a pressure for 2011/12 of a further £1 million a year albeit an improvement in investment yields would negate this. Current revenue monitoring reports for Treasury Management are showing a breakeven position but there is real concern that interest rates will not recover in the short term resulting in a potential overspend.

- A recent notification from the Department for Environment Food and Rural Affairs (defra) has confirmed that the charging of a fee for a personal search of the local land charges register is 'incompatible with the Environmental Information Regulations 2004 (EIRs) and the underlying 2003 EU directive'. Government has therefore revoked the £22 fee and the consequential loss of income to the Council is estimated at £100,000 a year.

**Table 3: Summary Additional Resource Requirement – against 2010/2011 base**

	2011/2012	2012/2013	2013/2014
	£m	£m	£m
Pay/Price Inflation @ 0%	0.000	0.000	0.000
Pay Increments	1.500	1.250	1.000
<i>Regeneration, Community and Culture</i>			
Medway Tunnel			1.000
<i>Children and Adults</i>			
Elderly/Disability Care	1.000	1.000	1.000
Looked After Children	0.500	0.500	0.500
SEN (DSG)	0.500	0.500	0.500
School Mergers & Closures (Non DSG)			
<i>Business Support/Corporate Issues</i>			
Non Recurring Support removal	3.600		
Debt Financing	1.000	1.000	1.000
Loss of Land Charges income	0.100		
<b>TOTAL</b>	<b>-GENERAL FUND</b>	<b>7.700</b>	<b>3.750</b>
	<b>-DSG</b>	<b>0.500</b>	<b>0.500</b>
		<b>0.500</b>	<b>4.500</b>

- 5.3 This is not an exhaustive list and is focussed on high level and headline pressures that already exist or are seen as unavoidable. Inevitably there will be many enhancements to services that the Council would also wish to see, but as a summary of the larger issues already presenting as probable pressures, they tabulate to a sizeable challenge for re-directing resource. Table 4 below summarises the net effect of these amounts when compared to additional resources as set out in Table 1. However this does **NOT** take into account the potential funding reductions exemplified in Table 2.



**Table 4: Net Resources**

	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m
Summary Resources:				
DSG	<b>173.627</b>			
Additional DSG (based on forecast pupil numbers)		2.028	2.165	2.211
Additional Resource Demand		500	500	500
Net (Surplus)/Deficit		<b>2.528</b>	<b>2.665</b>	<b>2.711</b>
General Fund	<b>176.273</b>			
Additional Council Tax		(3.177)	(3.035)	(3.127)
Additional Resource Demand		7.700	3.750	4.500
<b>Net (Surplus)/Deficit</b>		<b>4.523</b>	<b>0.715</b>	<b>1.373</b>

## 6. Balancing Resources and Demands

6.1 There is a need to make immediate progress in a number of areas where there are potentially significant efficiencies to be gained without impacting significantly on service delivery to residents. Initial areas to be covered are:

- The 'achieving better for less' project which aims to reduce duplication of administrative and other processes within the Council;
- SEN re-provision (DSG);
- Enablement (including extra care) and personalisation;
- E-back office;
- Review of pay and allowance issues;
- Shared service arrangements with other councils and public agencies;
- Property rationalisation;
- Procurement; and
- Opportunities for market testing.

6.2 In addition to the areas identified above it is important that the Council embarks upon a rational review of costs, performance and priorities. The Council's approach to managing performance has improved significantly over the last two years and our external auditors have acknowledged a "step change improvement" in the way the Council monitors itself and is able to report on and manage its performance.

6.3 The development of the Council Plan forms the backbone of these improvements. It was not written for inspectors – it was written for the Council itself to use to deliver its priorities that were developed by services, drawing from consultation and evidence of quality of life in Medway.

6.4 Officers are now proposing that the Council builds on the strengths of the existing Council Plan but responds to the implied flexibility promised by Government, but also the restricted resource scenario outlined above. Ultimately by April 2011, alongside the budget preparation for next year,

- Develop a more streamlined and focused Council Plan which includes the key projects that the Council can afford and will deliver, itself or with partners, to achieve its priorities.
  - Use the citizens' panel to gauge residents' views on the most important things the Council should continue to do in the context of shrinking resources, and to identify the outcomes they believe we should focus.
- 6.5 The plan will be underpinned by a limited and high level set of measures of success, so that for each priority members can track a cluster of indicators to gauge progress, to enable members to see how well the Council's actions are making a difference and are giving value for money, and provide a way of communicating with the public about the difference the Council is making.
- 6.6 Making these changes over the period to April next year ensures that the Council's business plan is consistent with the budget setting process, and allows us to respond to national changes as they are confirmed.

## **7. Value for Money (VFM)**

- 7.1 Value for money is an integral part of delivering services in Medway ensuring that the best value is being secured for our residents, customers and service users. Medway has adopted VFM as one of its two core values and the Council has agreed a VFM Strategy to gain a better understanding of VFM and to demonstrate that this is being achieved and maintained. The Strategy is supported by a performance monitoring and service planning regime that identifies both costs and performance of services and a mechanism to demonstrate VFM through service self assessment.
- 7.2 Alongside the budget preparation process for next year a more streamlined and focused Council Plan will be developed which includes the key projects that the Council can afford and will deliver, by itself or with partners, to achieve its priorities and, with the very real prospect of severely limited resources, VFM is essential.
- 7.3 Subject to approval by Council, the review of the current Council Plan will include the following specific actions relating to improving efficiency and delivering VFM for our residents:
- Work proactively with partners to share services for greater efficiency;
  - Continue to develop our workforce;
  - Embed a VFM and performance culture in Medway and improve the effectiveness of the council's business planning and performance management systems; and
  - Ensure our procurement delivers the best value for the council.
- 7.4 Appendix 1 sets out progress against the objectives of the VFM strategy approved last year.

## 8. Timetable

- 8.1 The timetable for production of the Medium Term Financial Plan and Draft Budget Proposals is as follows:

Report to Cabinet	28 September 2010
Report to Overview & Scrutiny	04 November 2010
Portfolio/Directorate reviews	September to November
Initial budget proposals to Cabinet	30 November 2010
Reports to Overview & Scrutiny	December/January
Draft budget to Cabinet	15 February 2011
Budget proposals to Council	24 February 2011

- 8.2 Business and service planning will run in tandem with the budget setting process.

## 9. Conclusion

- 9.1 The Medium Term Financial Plan identifies our spending needs for 2011/12 and beyond. Whilst there remains a lack of clarity about the quantum of the reduction in Government support for the Council's spending requirement, it is clear that there will be a substantial figure involved. There is therefore a need to both curtail aspirations and identify efficiencies and changes to service delivery to produce a balanced financial position over the next three years.
- 9.2 Irrespective of the forecast shortfall in resources arising from the budget requirement, it must remain the Council's main strategic aim to achieve a sustainable budget without recourse to reserves. To that effect it is critical that both existing and emerging requests for pressures are challenged out of the process where possible and that due weight is given to driving forward the efficiency agenda and the search for more radical and cost effective means of delivery. This is consistent with the VFM strategy and the measures described in section 6 will be a key part of that process over the term of this plan.

## 10. Financial and Legal Implications

- 10.1 These are contained within the body of the report.

## 11. Risk Management

- 11.1 The risks exposed by a failure to effectively manage the resource planning and allocation process to achieve priorities and maintain effective service delivery are great. The uncertainties about recovery from the current recession and the consequences in terms of future financial assistance and targets imposed by Government will make this process difficult.
- 11.2 Formula Grant and DSG are but one aspect of Government funding with a significant sum being received through specific grants and Area Based Grant. All of these funding streams are at risk in the next spending review period and the outcome of that process will postdate this report.

## **12. Diversity Impact Assessment**

- 12.1 The council has legal duties to give due regard to race, gender and disability equality in carrying out its functions. This includes the need to assess whether any proposed changes have a disproportionately negative effect on people from different ethnic groups, disabled people and men and women, which as a result may be contrary to these statutory obligations. The Medium Term Financial Plan identifies the resources available which will determine the service priorities within the Council Plan. Diversity Impact Assessments will be undertaken and reported to Members as part of the budget and service planning process as the quantum of resources and hence the impact on Council services unfolds.

## **13. Recommendations**

That Cabinet:

- 13.1 Endorses the underlying aims of the Medium Term Financial Plan;
- 13.2 Endorses the forecast level of overall funding outlined in Section 4;
- 13.3 Instructs portfolio holders and directors to identify savings and efficiencies to achieve a balanced budget for 2011/2012; and
- 13.4 Authorises the commencement of a consultation aimed at freezing incremental progression as set out in paragraph 5.2 and, if approved, and implemented, this be kept under review.

## **14. Suggested Reason for Decision**

- 14.1 This is a preparatory document to meet the budget process and timetable set out within the constitution.

## **Background Papers**

MTFP 2010-2013 – Report to Cabinet 22 September 2009

Capital and Revenue Budgets 2010/2011 – Report to Council 25 February 2010.

These reports are available via the Council's website: [www.medway.gov.uk](http://www.medway.gov.uk)

## MEDIUM TERM FINANCIAL PLAN 2011/14

### VALUE FOR MONEY STRATEGY - UPDATE

#### Background

Medway Council has Value for Money (VFM) as one of its two core values and is aiming to ensure that VFM is embedded throughout the organization and, to reinforce the importance adopted a VFM Strategy as part of the service and financial planning process during 2009. The strategy sets out what we mean by value for money, our aims and objectives and how we will continue to improve how we manage and deliver value for money.

The objectives of our VFM strategy are to:

- Benchmark cost and quality outcomes against comparable organisations in the public, private and voluntary sectors and identify local factors;
- Carry out our service review programme on targeted areas and to act on review findings to improve future performance and efficiency;
- Target resources towards meeting the needs of local people through the most economic, efficient and effective means;
- Measure the impact these resources have on our community;
- Meet or exceed targets for efficiency improvements in Medway;
- Adopt recognised good practice where this is appropriate for meeting the needs of our community in Medway;
- Continue to embed a culture of VFM across the organisation and to integrate VFM principles within existing management planning, review and scrutiny processes;
- Promote a culture of continuous improvement; and
- Train and develop staff and help them fulfil their obligation to achieve VFM for the council as an integral part of their work.

At a high level the Council can, and has, demonstrated a basket of good performance which when allied to the low resource base and especially Council Tax, points to the achievement of value for money. As we know this has been confirmed again in the 2009 Use of Resources (UoR) assessment. Following the decision by the Government to abolish the Audit Commission, the Commission will not be replacing the use of resources assessment and are reducing auditors' VFM work and removing any requirement for a scored assessment. However, with effect from 2010/2011 external auditors will give a statutory VFM conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria, specified by the Commission, related to an audited body's arrangements for:

- Securing financial resilience – focusing on whether the audited body is managing its financial risks to secure a stable financial position for the foreseeable future and
- Challenging how it secures economy, efficiency and effectiveness – focusing on whether the audited body is prioritising its resources within tighter budgets and improving productivity and efficiency.

External auditors will plan a local programme of VFM audit work based on their local audit risk assessment. They will report their VFM conclusion and the key messages

from their work, including suggested areas for improvement, to the Council's audit committee and in a clear and accessible annual audit letter. Auditors may qualify their VFM conclusion if they are not satisfied that the audited body has adequate arrangements in place.

The Council has already been faced with a grant loss of over £5 million in the current financial year as part of the Government's public spending reductions and the Medium Term Financial plan is suggesting that budget reductions of between 15% and 25% may be required between 2011/2012 and 2015/2016. It is imperative, therefore, that, notwithstanding abolition of the UoR assessment, there is an overriding need for the Council to achieve VFM in the provision of its services.

### **Current Position**

Although securing VFM is an imperative of service provision, it has been recognised that review of similar activities across the Council could yield significant efficiencies. Members will be aware that PWC have been appointed to conduct their 'Perfect Storm' exercise, now renamed 'Achieving Better for Less' to review these cross-cutting activities. Experience in other local authorities suggest that this exercise is effective even in councils that are reputedly low cost and high performing. A Project Board comprising senior officers of the Council has been set up to, amongst other things, oversee and coordinate this exercise.

Stages 1 and 2 of the PWC exercise have been completed. Stage 1 involved a comprehensive data collection exercise. Stage 2 evaluated the data, performed Gap analyses and subsequent workshops with officers of the Council and PWC identified recommended 'themes' to be taken forward for outline business cases (OBC) to be developed. Given the potential scope for benefits, the results of the gap analysis and the outcome of the evaluation process, the following nine themes are being proposed as for OBC development:

- Better Customer Management;
- Better Decision Making;
- Better Administration;
- Better Procurement;
- Better Performance;
- Better Staff Management;
- Better Strategy and Consultation;
- Better Financial Management and
- Better Technology.

The final Stage 3 of the process is to produce OBCs for the above themes, prioritise the areas into those that will yield the greatest benefits to the Council, quantify these costs and benefits and develop implementation plans where appropriate. It is intended that a final report will be available for the Board identifying the case for change during October. Once evaluated, this will be reported to Members and the anticipated results of any agreed action incorporated in the budget preparation process for 2011/2012.