Agenda No

AGENDA MANAGEMENT SHEET

Name of Committee	**Cabinet**
Date of Committee	**13 July 2006**
Report Title	**A Medium Term Financial Planning and Budget Process**
Summary	The report seeks approval of a revised medium term financial planning strategy for recommendation to Council. In light of the strategy the report also seeks approval to a medium term financial planning and budget process that will enable delivery of the strategy to be taken forward.
For further information please contact:	Virginia Rennie Group Accountant Tel: 01926 412239 vrennie@warwickshire.gov.uk
Would the recommended decision be contrary to the Budget and Policy Framework?	Yes.
Background papers	None

CONSULTATION ALREADY UNDERTAKEN:- Details to be specified

Other Committees	☐	....
Local Member(s)	☐	……………………………………
Other Elected Members	☒	Cllr Tandy, Cllr Roodhouse - for information
Cabinet Member	☒	Cllr Farnell, Cllr Cockburn – “approved for consideration”
Chief Executive	☒	Jim Graham - reporting officer
Legal	☒	David Carter – comments included as part of the consideration by the Strategic Directors Management Team
Finance	☒	Dave Clarke - reporting officer
Other Chief Officers	☒	The report has previously been considered by the Strategic Directors Management Team

District Councils	☐	....
Health Authority	☐	....
Police	☐	....
Other Bodies/Individuals	☐	....

FINAL DECISION NO

SUGGESTED NEXT STEPS:		Details to be specified
Further consideration by this Committee	☐	....
To Council	☒	The medium term financial strategy is part of the budget and policy framework and therefore needs to be approved by Council.
To Cabinet	☐	....
To an O & S Committee	☐	....
To an Area Committee	☐	....
Further Consultation	☐	....

Executive Summary

This report seeks approval for a revised medium term financial planning strategy and its recommendation to Council. In light of the strategy, the report also seeks approval to a medium term financial planning and budget process, that will enable delivery of the strategy to be taken forward.

The report is long and, at times, complex however in considering it the key points to note are:

- Our previous medium term financial planning strategy has been a key strength of financial administration in the County Council. However, the changes to the grant system have made this redundant. As a result a new strategy is crucial if the authority wishes to achieve its objective of becoming a 4-star authority.

- The new strategy will have a different backdrop. Growth in revenue from Government is expected to be much lower and instead the authority faces significant financial constraints.

- However, the new strategy needs to recognise the authority is ambitious and wants to achieve. This means that development resources will be required and, therefore, need to be identified.

- The key points of the proposed strategy are outlined in paragraph 5.2. Briefly these are:
    - Limiting the amount of money used to fund pressures (to the revenue generated from council tax, grant and disinvestment),
    - Separation of the capital programme into two parts; the maintenance of our infrastructure and new developments, providing a base capital budget for the maintenance element.
    - Spend on new initiatives only to the extent that we improve efficiency, and
    - Focus growth wholly on key priorities.

- It is suggested that cross-cutting development bids should come forward based on corporate priorities rather than individual directorates and be supported by proper business cases.

- The delivery of an effective strategy does rely on agreement about the key priorities and the County Council's direction of travel.

- However, within any broad agreement, it is recognised that the pace of change will always be a political issue. It is the pace of change and fine-tuning that will be the primary focus of the annual budget process.

- The timescale for delivering this for 2007/08 is tight and an interim a pragmatic approach may be needed. Significant progress can be made by ensuring that any priorities for funding are reflected in an emerging corporate vision.

Agenda No

Cabinet - 13 July 2006

A Medium Term Financial Planning and Budget Process

Report of the Chief Executive and Strategic Director, Resources

Recommendation

It is recommended that Cabinet approve:

- The model of medium term financial planning outlined in paragraphs 2.2 and 2.3;
- The medium term financial planning strategy outlined in paragraph 5.2 and its recommendation to Council for approval;
- The medium term financial planning and annual budget process, as outlined in section 9 of this report;
- The timetable for delivering this in time for setting the 2007/08 budget and 2007/08 to 2009/10 medium term financial plan shown in section 11;

1 Introduction and Background

1.1 For several years the County Council has operated within a medium term financial planning strategy framed around four key elements.

- Guaranteeing minimum budgets for all services, with increases for education/schools and social services driven by the uplift in government funding for these services.
- An annually increasing provision for e-government to ensure adequate provision for the delivery of government targets.
- The treatment of a small element of costs as a corporate responsibility (limited to the landfill tax, but in practice, extended to capital financing charges as well).
- The delivery of year-on-year improvements in "efficiency".

1.2 Allocations made through this process have accounted for about 98.7% (2005/06) of total allocations. The change in the grant system for 2006/07 rendered this approach inoperative.

1.3 As a consequence, the budget resolution approved by Council in February 2006 required that a more detailed medium term financial planning framework be developed and adopted by July 2006. It stated that the framework should build on the foundations already in place to create a more efficient, effective and sustainable organisation. It should also, not only look at the contribution new resources can make to the advancement of the Council's priorities, but the ways in which existing resources can be used more effectively and, where necessary, re-directed.

1.4 As well as approving a medium term financial planning framework there is a need to agree an annual budget process, which integrates with it and will allow sufficient time for the preparation and scrutiny of any proposals.

1.5 This report combines these two requirements. It proposes a new model for the medium term financial plan and outlines a process for its development. Following on from this, the consequential implications for the annual budget process are identified.

1.6 It needs to be appreciated that this process cannot be taken forward independently of other corporate planning processes. It is imperative that the development of the Corporate Business Plan for 2007/08 to 2009/10 is integrated with the development of the medium term financial plan to create a comprehensive and effective planning and monitoring process.

1.7 The report covers the following areas:
- A model for medium term financial planning and the process for its development;
- The economic and financial context within which the authority is operating;
- A proposed medium term financial strategy;
- The development of a medium term service planning process to deliver the strategy;
- Confirmation of how the medium term efficiency plan can be incorporated;
- Proposals for the 2007/08 annual budget process;
- Discussion of some of the critical factors which will determine the success of the new arrangements; and
- The timetable needed to deliver this in time for setting the 2007/08 budget.

2 A Proposed Model for Medium Term Financial Planning

2.1 The desirability of medium term financial planning is often taken as a "given". However, in trying to further develop our current model it is worthwhile to remind ourselves of the benefits of an effective medium to long-term financial planning framework. They include:

- **Supporting the delivery of the vision of the organisation** – but also ensuring expectations in terms of the progress towards the delivery of the vision are realistic given the resources available.

- **Providing a clearer framework for decision-making** – identifying likely needs and resources enables key choices to be more clearly identified.

- **Avoiding abortive work and unnecessary cost** – only policies with a realistic prospect of implementation are advanced.

- **Providing a longer planning horizon** – capital investment and development proposals require longer timescales for both their implementation and the full realisation of any benefits.

- **Providing a framework for rationing** – identification of higher and lower priority services and the medium term financial context means rationing decisions are made in a systematic way.

- **Assisting in the preparation and timetabling of detailed programmes** – programmes can be more carefully phased to smooth peaks in workload. Programmes can also be dovetailed more effectively internally, between services, and externally with other agencies.

- **Planning changes in non-financial resources** – changes in human and other resource requirements can be planned and managed more effectively, including the introduction of new technologies and systems.

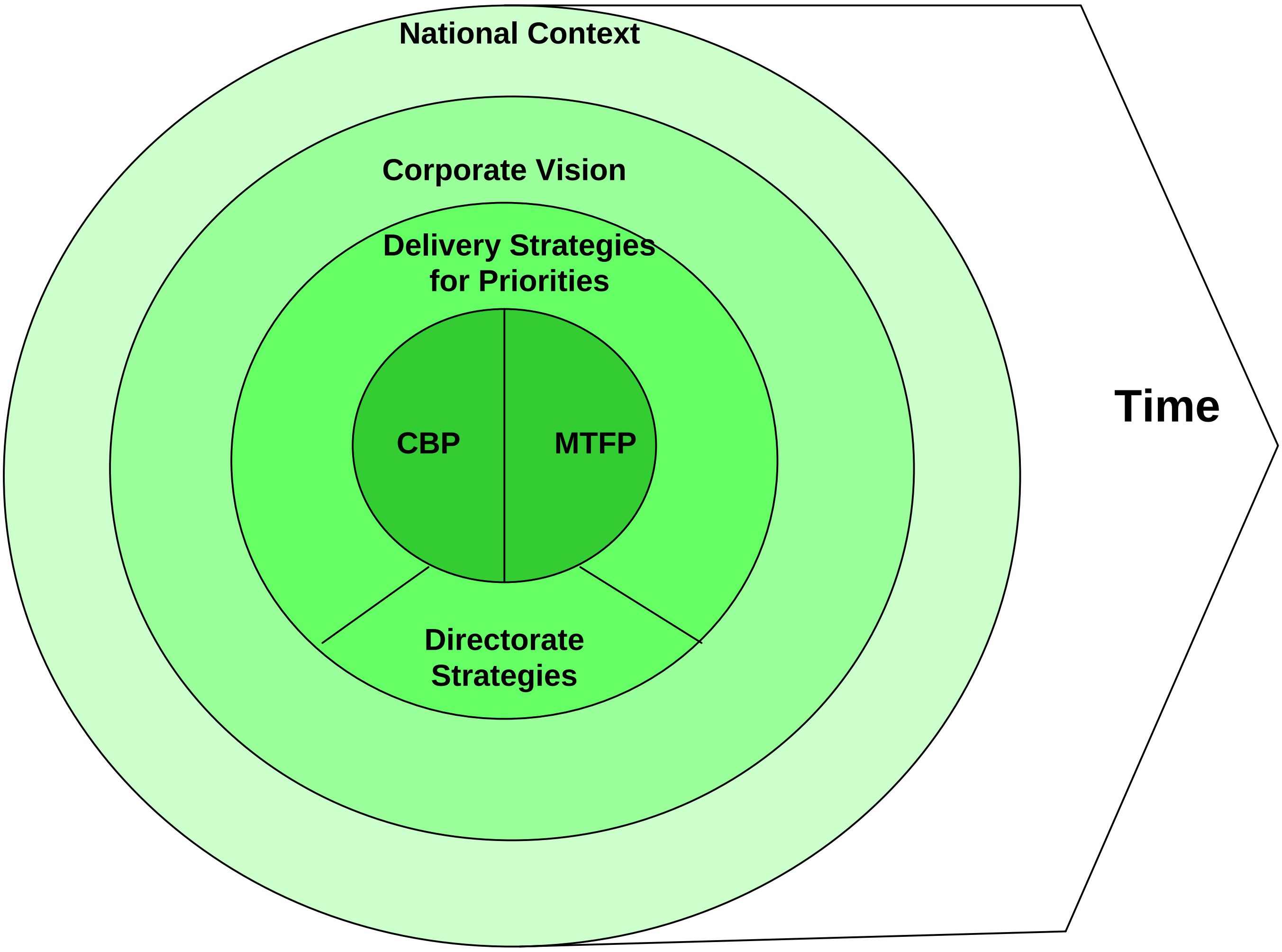
- **There are fewer surprises** – a long-term plan requires almost continuous review to ensure it remains up to date and relevant. Budget pressures and issues can therefore be picked up at an early stage and their implications planned into the larger programme.

2.2 Ensuring that these benefits are delivered is critical to both the longevity and the overall satisfaction (from a corporate, service, customer and member perspective) with the model. Central to achieving these benefits is the need for a clear corporate vision for the organisation and its services, fully aligned to the economic and financial context in which the organisation expects to be operating over the medium term.

2.3 Having the corporate vision at the centre of our service and financial planning processes will ensure a single direction of travel. However, the corporate vision will be at too high a level to enable the prioritisation of services and their development in any detail over the medium term. Therefore it is proposed that, supporting the vision, should be a series of cross-functional service strategies for delivering the corporate priorities. A service strategy would be developed for each separately identified priority in the vision. The corporate business plan and the medium term financial plan would then bring these together reflecting the annualised spending allocations and benefit realisation targets. In turn these would cascade down, in more detail, into plans and medium term budgets prepared at directorate level. The planning process would also need in a reciprocal way, to reflect issues arising from the development of the resulting directorate strategies. This concept is shown more clearly in Diagram 1 below.

2.4 Cabinet are asked to approve the model of medium term financial planning outlined in paragraphs 2.2 and 2.3.

Diagram 1: A Model for Medium Term Financial Planning



2.5 There is a danger that the cross-functional strategies may be defined at too high a level to be used as an effective template to determine priorities for investment and disinvestment. As the Corporate Business Planning process develops, we may need to revisit how the strategies/plans can be prepared in sufficient detail to enable them to be used effectively to determine priorities within the budget process and the consequential impact in directorates.

3 Economic Context

3.1 The model outlined above makes it clear that the development of service strategies and the medium term financial plan needs to be firmly based in the economic and financial context in which we expect to be operating. It is also true the economic and financial context will be a source of tension, both in terms of the content of any plan and the processes needed to deliver it. Current expectations are that over the medium term:

- **Increases in government support for revenue will be at or below the rate of inflation**. The current system of government support for local authority revenue funding means that every authority will receive at least a minimum percentage increase in its formula grant each year (i.e. to a "floor" level). Our assessed formula grant in 2006/07 is well below the level of grant floor. As a result, even if we receive relatively good settlements over the next few years, we are likely to only receive the "floor" increase in grant for several years to come. Given the tightness of the national finances any assessment of affordability means it is unlikely that these floor increases in grant will be above the rate of inflation.

- **The government will continue to use specific grants and capital grants as a mechanism for exerting influence over local spending priorities.** If we were assessed as an "excellent" authority again then we would have freedom over the use of government grants. Some additional freedoms are possible through the process of agreeing our Local Area Agreement. However, for planning purposes, we need to acknowledge the implicit prioritisation that government grants imply for the development of our services.

- **There will be continued downward pressure on council tax levels.** This pressure will come from a number of sources – the threat of capping, the negative perception of the council tax with taxpayers and political expectations (and targets in the corporate business plan) that we will be low taxing relative to other shire counties.

- **The general economic picture will remain relatively stable resulting in continued low inflation and interest rates and near full employment locally.** In making this statement it needs to be acknowledged that this picture will not be uniform across the county. There will continue to be inflationary pressure particularly for oil and other energy based costs. Also pockets of social and economic deprivation will remain across the county.

- **The demographic pressure from the increasing number of older people across the county will continue.** The consequent impact of these demographic changes on the demand for services to meet the needs of this client group will need to be accommodated within any medium term proposals.

- **The increasing expectations about the quality, choice and availability of services from users will continue**.

- **The role of partnerships in terms of both shaping priorities through the Local Area Agreement as well as in the delivery of services will continue to develop**.

- **The need to deliver real efficiency savings will become more important.** The government's efficiency agenda will continue with the likelihood of increased targets for local authorities being included in the 2007 Comprehensive Spending Review.

- **The need to look wider than the County Council to identify sources of finance/service delivery will be necessary.** This will include partnerships, other public/private sector resources and providers, grants etc.

4 Financial Outlook

4.1 It is possible to put these general economic expectations into a financial context, to determine the likely level of available resources over the medium term. (This will only vary if there is disinvestment from our current levels of service provision in some areas.) This builds on the basis for planning agreed by members as part of the Council resolution in February 2006. The resolution approved the following as a minimum basis for planning:

"Subject to a satisfactory settlement in future years, the County Council will plan on the basis that for 2007/08 and 2008/09:
- *All directorates will be allocated sufficient resources to meet pay and price inflation.*
- *The corporate costs of financing the approved capital programme will be funded.*
- *Overall the authority will deliver 2.5% efficiency savings of which at least half will be cashable."*

4.2 Providing for only these spending allocations means limited additional revenue resources will be available for investment over the medium term. Table 1 shows that even with an average of a 4% council tax rise and 2.5% cash efficiency savings there is just over £3 million available in 2007/08. This increases slightly in future years as the cost to the authority in 2007/08 of funding any single status agreement falls out. An average 4% council tax increase has been used as this is the maximum increase that will still allow us to meet the target, in the corporate business plan, of our council tax increase (based on a four year moving average) being at or below the shire county average.

Table 1: Available Revenue Resources 2007/08 to 2009/10

	2007/08 £m	2008/09 £m	2009/10 £m
Government Grant	75.826	77.722	79.665
Council Tax (assuming 4% increase each year)	202.481	211.423	220.540
Cash Efficiency Savings (2.5% each year)	5.917	6.154	6.400
Collection Fund Deficit	(0.300)	(0.300)	(0.300)
Local Authority Business Growth Incentive Scheme	0.528	0.500	0.500
Total Available Resources	**284.452**	**295.499**	**306.805**
Less Spending Allocations			
• Base Budget	(265.657)	(275.682)	(289.145)
• Inflation	(8.658)	(8.969)	(9.291)
• Customer Service Centre #	(0.785)		
• Cost of Capital Programme (corporate only)	(2.062)	(2.000)	(2.000)
• Single Status (£2m one-off in 2007/08) #	(4.000)		
Net Available Revenue Resources *	**3.290**	**8.848**	**6.369**

#	the on-going impact of these allocations is shown in the base budget figure in 2008/09 and 2009/10
*	it is assumed the net available resources are used to fund on-going spend

4.3 The spending allocations shown in the table include no allocations in any financial year to meet:

- the cost to directorates of demographic changes (for example in the case of adult social services),
- the increasing cost of waste disposal,
- the revenue impact in directorates of contributing to the cost of the borrowing undertaken to finance the capital programme,
- the full year effect of spending allocations approved in the 2006/07 budget, or
- any other unavoidable spending pressures.

As part of the process for setting the 2006/07 budget directorates identified £5.924 million of such "unavoidable" pressures for 2007/08 and a further £3.635 million for 2008/09.

4.4 The most uncertain figures in the table are those estimates for the financial impact of single status. As work on the single status implementation project progresses it will be necessary to keep these figures under review to ensure the implications in 2007/08, and over the medium term, are accurately incorporated.

4.5 The figures also assume that no allocations are made to top-up spending on schools and pupil services. This is because it is expected that Dedicated Schools Grant will increase faster than the level of revenue resources available to fund the authority's other services. It also assumes no provision of funding for the impact of single status in those service areas funded by the Dedicated Schools Grant. There is however a clear choice here as to whether the back pay and on-going costs of single status for staff funded by the Dedicated Schools Grant are treated separately. In particular there is concern about schools being required to pick up a potential multi-million pound charge for back pay.

4.6 In terms of capital resources for future years we have more flexibility. A draft programme already exists for 2007/08 and 2008/09 in line with the government's supported borrowing allocations for local transport and schools. Outside of this we have the freedom to borrow money to finance any level of capital spending, providing it is prudent and affordable. The figures in the table assume we continue the current policy of taking up all supported borrowing allocations. The key determinant of the level of capital spending, once need has been assessed, is the amount of revenue we can afford to meet the borrowing costs. This is an added reason why the introduction of a single process for determining both the capital and revenue spending allocations is the right way forward.

4.7 Whilst the financial context outlined above reflects the currently approved medium term financial planning framework, assuming pay and price inflation are funded and that a separate 2.5% efficiency savings target is implemented this is just one possible option. However this is taken forward, there are a number of issues that need to be considered when formulating a medium term financial strategy for the future. These include defining approaches to:

- The cost of
    - Inflation
    - Capital spend and the financing of any revenue impact, including the cost of borrowing
    - Other “unavoidable” spending pressures and cost increases.
- Funding service developments, and
- Meeting any externally set efficiency target.

5 A Proposed Medium Term Financial Planning Strategy

5.1 Following discussions in the Strategic Directors Management Team (SDMT), and before that COMT, paragraph 5.2 outlines a new medium term financial strategy. This would replace the existing strategy rendered inoperable by the changes to the grant system. Our medium term financial planning and annual budget process would then be designed to deliver this strategy.

5.2 A draft medium term financial strategy is proposed as follows:

“The County Council will plan on the basis that:

- Inflation and the corporate costs of capital (through to the end of the current approved programme) will be funded from government grant and council tax income.

- Subsequent to this the corporate costs of funding a base capital budget to ensure the long-term maintenance of our asset infrastructure will be funded from council tax income.

- Any other unavoidable pressures members wish to meet will be funded from the balance of council tax income and reducing investment in low priority services.

- Spending on schools and pupil related services is guaranteed to the level of the Dedicated Schools Grant.

- New developments will be funded from efficiency savings (with a minimum of 2.5% savings generated each year) and any further reduced investment in low priority services.”

5.3 Cabinet are asked to approve the proposed medium term financial strategy and recommend it to Council for approval.

5.4 The impact of this proposed medium term financial planning strategy on the figures detailed in Table 1 is shown in Table 2 below.

Table 2: Available Revenue Resources 2007/08 to 2009/10 with new Medium Term Financial Strategy			
	2007/08 £m	2008/09 £m	2009/10 £m
Government Grant	75.826	77.722	79.665
Council Tax (assuming 4% increase each year)	202.481	211.423	220.540
Collection Fund Deficit	(0.300)	(0.300)	(0.300)
Local Authority Business Growth Incentive Scheme	0.528	0.500	0.500
	278.535	**289.345**	**300.405**
Less Spending Allocations			
• Base Budget	(265.657)	(275.682)	(289.145)
• Inflation	(8.658)	(8.969)	(9.291)
• Cost of Capital Programme (corporate only)	(2.062)	(2.000)	(2.000)
• Single Status (£2m one-off in 2007/08)	(4.000)		
Net Available/(Shortfall) in Resources to be met from disinvestment in low priority services	**(1.842)**	**2.694**	**(0.031)**
Development resources:			
Cash Efficiency Savings (2.5% each year)	5.917	6.154	6.400
Less Spending Allocations			
• Customer Service Centre #	(0.785)		
Net Development Resources	**5.132**	**6.154**	**6.400**

The generation of £1.842 million resources, from disinvestment in low priority services, would be required to deliver a balanced medium term financial plan in 2007/08. But resources of £0.821 million would be available over the three years.

6 Medium Term Service Planning Process

6.1 If we continue to operate our familiar planning process the economic and financial information set out above can be viewed as presenting a depressing picture of the medium term position. The budget debate will continue be dominated by rationing large numbers of disparate bids from directorates. The medium term financial strategy looks at this slightly differently by proposing that developments are funded from efficiency savings and/or disinvestment. However, whichever way this is viewed it does lead to one simple conclusion – that in the round **everything we need to do to deliver the corporate vision has to be self-financing unless alternative external sources of funding are identified.** Or, in reverse, the corporate vision and service strategies need to be specified in a way that reflects the lack of any significant additional financial resources over the medium term. Therefore disinvestment is given as high a priority as new investment. In some ways this stark reality focuses the mind. The medium term plan and annual budget has to be about doing things differently.

6.2 Progress has already been made in the development of medium term efficiency planning and the integration of this into the medium term financial planning framework is dealt with in more detail below. The focus of this section is medium term service planning.

6.3 The medium term financial planning framework, as outlined in the budget resolution, in addition to the specific comments in section 4.1 also stated:

> *"A more detailed medium term financial planning framework is to be developed urgently and adopted by July 2006. The framework should identify the priorities outlined in section 1 …… the key theme ….. is modernisation."*

This recognition that investment should lay the foundations for a more efficient, effective and sustainable organisation, that will bring long-term benefits to all areas of service provision, gives rise to two fundamental questions:

- What services do we want to deliver over the medium term?

- What is our approach to delivery of these services in the medium term?

6.4 The answer to these questions is essentially hierarchical – there is a priority between services and then a priority within services. For the medium term financial plan the priorities for investment and disinvestment are needed. It is assumed that this information will come from **the development of a corporate vision for services.** This vision would provide the medium to long-term answer to these questions. And, as such, provide a context within which all changes to service provision should take place.

6.5 Given the scarcity of resources equal consideration will need to be given to those services that priorities dictate we provide less of over the medium term, or provide in a more cost effective way that can release resources for redirection.

6.6 Once we know, as an organisation, where we want to be in the medium to long term and the relative priority of our services the next step is **an analysis of where we are now** – as an organisation and as individual services within it. Developing this baseline position requires, for each service, an analysis of:

- What services we provide.
- How we deliver those services.
- What our current level of performance is.

As this analysis is at the level of the corporate priority it will be cross-functional with each directorates activities being analysed over probably several baselines. This will identify/quantify **the gap** between our current position and the corporate vision and strategies for the delivery of the corporate priorities.

6.7 At this point we will have reached the heart of the medium term planning process **- how we plan to get from where we are now to where we want to be.** For any such analysis to be used as the basis of prioritisation and to determine the pace of change across priority areas the information produced needs to be consistent and clearly focussed on the realisation of benefits from the change. It is therefore proposed that for each priority area a business case is produced that will outline proposals about how we move from where we are now towards the vision. A standard template for the production of all business cases is currently being developed and it is proposed this template is used for the medium term planning process.

6.8 Using a standard business case and project management methodology also means governance, change management responsibilities and accountabilities can be agreed in advance, along with the accountability and responsibility for benefits realisation.

6.9 Any such degree of change, as well as the time period for its implementation would contain a series of incremental steps on the path to delivering the vision over the medium term. These incremental steps would then form the allocations made as part of the medium term financial planning process. Such allocations would be indicative for 3-5 years ahead enabling directorates and services to plan in a more certain environment. However, it is accepted that medium term financial planning needs to be a dynamic process. This gives a clear role for the annual budget process as a way of fine-tuning and adjusting allocations to reflect any changes identified through monitoring and/or a changing environment. Diagram 2 in section 9.1 shows this process more clearly.

6.10 One key benefit from the development of such medium term business cases is that it will enable revenue and capital proposals to be evaluated and prioritised as part of a single process. It will ensure capital proposals are placed within a clear priority service context and enable consideration of more capital intensive solutions to service delivery to be evaluated.

6.11 For the whole process to be successful, a clear and transparent challenge process needs to take place, to both validate the business cases and determine the pace of change both within and between priority services. This prioritisation is a political judgement. Ideally this needs to be undertaken on a cross-party basis to provide the benefits of certainty and stability to take the organisation forward.

6.12 Within any process agreed there is also a need to retain the ability for members to exercise political choices. In any common framework and scrutiny process the political choices are about the pace of change. It is envisaged these will continue to be exercised through the annual budget process. This is discussed in more detail in section 8 below.

7 Medium Term Efficiency Planning Process

7.1 Members have already approved a medium term efficiency plan as part of approving the 2006/07 Annual Efficiency Statement for submission to the government. The medium term efficiency plan is comprised of three separate elements:

- Efficiencies derived from corporate projects designed to deliver new ways of working. These, crucially, will involve end-to-end re-engineering of processes, to take full benefit from initiatives such as the Customer Service Centre.

- o Efficiencies from service led projects initiated by directorates to deliver both service improvements and make the cash savings target included in the annual budget and medium term financial plan, and
- o Efficiencies to be delivered through longer-term reviews to specifically target areas where our costs relative to our performance indicate a failure to provide the best value for money.

7.2 Work is already underway to produce more detailed plans and estimates of savings from these projects.

7.3 The financial context assumes 2.5% revenue cash savings each year. Historically this has always been allocated as a top-slice across directorates and has been delivered through a mixture of efficiency savings and small-scale disinvestment. The introduction of a medium term service planning process provides, for the first time, the opportunity for a more differentiated approach to be adopted. The identification of services for disinvestment will be based on the corporate vision and the relative priority of services. It does not however negate the need to retain targets for the continued delivery of efficiency gains across all service areas – both high and low priority.

7.4 When the value for money strategy and medium term efficiency plan are reviewed, they will need to feed off the priorities identified as part of the medium term financial plan. This will ensure we maintain an integrated planning process across all our activities. This should create a significant degree of overlap between the content of the medium term efficiency plan and the effect of investment in specific priorities e.g. customer access, agreed as part of the medium term financial plan, to deliver the service strategies.

8 Annual Budget Process

8.1 If the medium term financial planning process outlined above is agreed then the annual budget process will inevitably be a much more focussed process. The medium term financial plan would already have provided indicative allocations for:

- pay and price inflation (or the alternative recommended from the options in paragraph 4.7)
- the investment/disinvestment needed to deliver the corporate vision, and
- the efficiency savings targets to deliver the medium term efficiency plan

Therefore the focus of the annual budget process will be:

- some technical and political fine-tuning and adjustment of indicative allocations based on new information
- changes to the medium term financial plan, and
- feedback from the monitoring and review processes supporting the delivery of business cases.

8.2 One added requirement of the budget is that Dave Clarke, as Chief Financial Officer, is required to certify that the budget is balanced. This includes being satisfied that the decisions/actions needed to deliver the agreed budget will happen. In operational terms this means an element of unidentified savings targets in the budget is acceptable providing:

- It is a reasonable target (up to 2.5% each year), and
- Members have demonstrated their willingness to take the necessary decisions to implement the previous years targets.

However, beyond 2.5%, specific savings areas will need to be identified for them to be included in the budget and for it to be signed off as balanced. With the introduction of medium term efficiency planning it is hoped that, at some stage in the future, we can increasingly rely upon targeted efficiency savings rather than the more crude approach of top slicing.

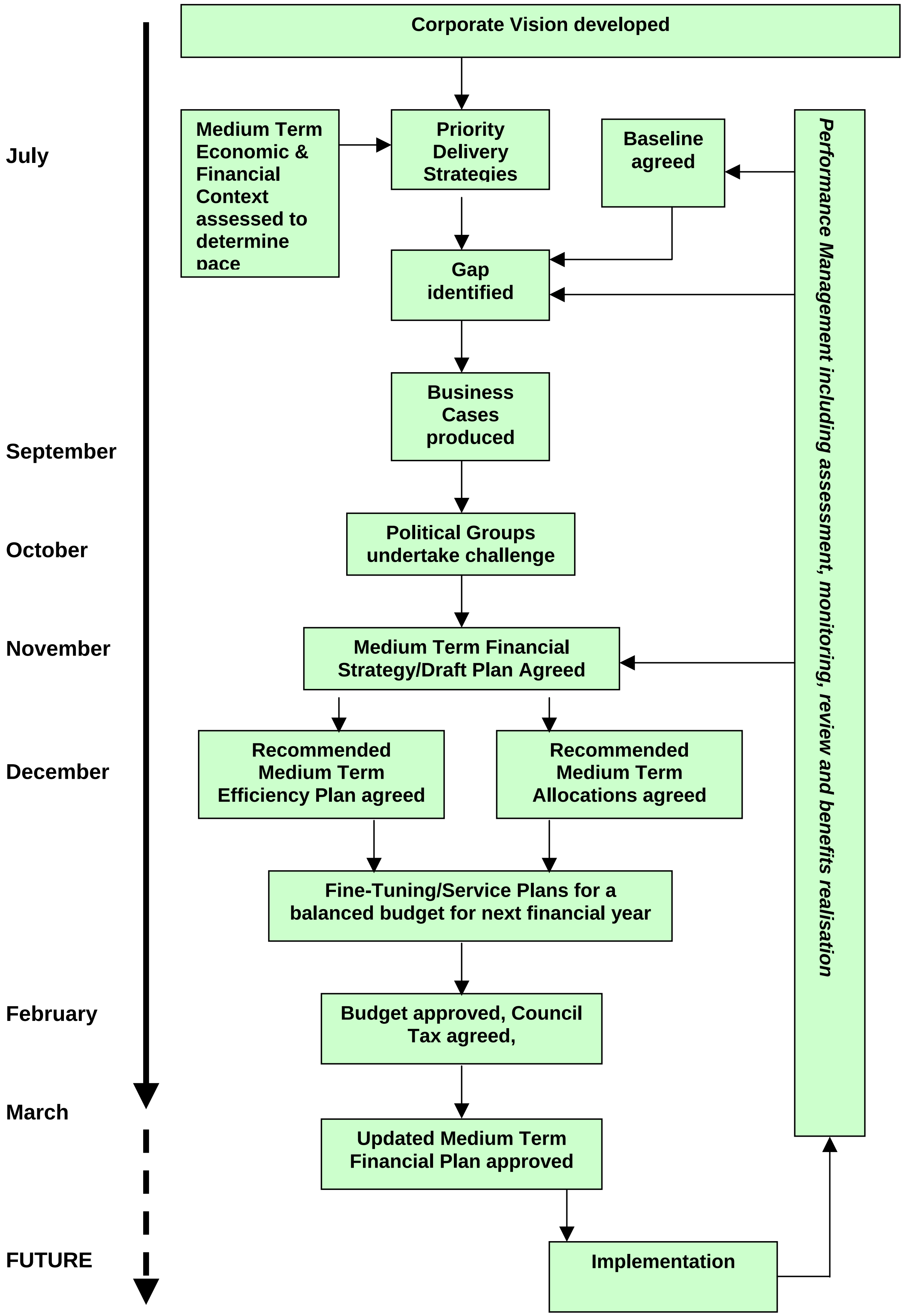
8.3 Whilst it would be preferable if this fine-tuning element of the budget process could also be undertaken on a cross-party basis, it is accepted that this is unlikely to be possible. At this stage it is likely to become a political process where the pace of change (both overall and between services), which of the incremental steps and which proposals for generating savings the political groups are willing to accept may vary.

9 Summary of the Medium Term Planning and Annual Budget Process

9.1 Diagram 2 below provides a pictorial representation of the proposed medium term financial planning and annual budget process, as has been detailed in sections 6 to 8 above. It should be noted that the diagram has been constructed to outline the delivery of the medium term financial plan and annual budget. Clearly, in practice, there are a wide range of other factors that will influence the development of the corporate vision.

9.2 The timescales shown on the diagram are those that would fit in with the annual financial cycle. The implications of this and the possibility that as the processes are embedded it becomes a continuum are discussed in more detail in section 11 below.

Diagram 2: Medium Term Financial Planning and Annual Budget Process



10 Critical Success Factors

10.1 The process for medium term financial planning and, particularly, the setting of the annual budget are a departure from our current short-term focus on marginal and minor changes. The medium term focus being proposed requires much more consensus to be developed over the way forward as it is much more heavily dependent on a clear corporate vision and supporting strategies for the delivery of service priorities. It also highlights the focus on real measurable service benefits from investment – be it revenue or capital investment - and the need to deliver significant efficiencies and/or service disinvestment to fund any additional investment and ensure the medium term financial plan is in balance.

10.2 There are a number of aspects that will determine whether the proposals are a success. Most of these have been mentioned already but it is worth bringing them together to form the basis of a discussion as to how best to achieve them.

- The agreement of a corporate vision, supported by strategies for the delivery of corporate priorities, for the medium to long term that is supported by all political groups to provide the certainty and stability needed.

- The medium term financial planning process is fully integrated with other corporate planning processes.

- The focus on strategies for the delivery of service priorities with their cross-functional linkages as the basis of planning rather than simply directorates.

- The need for members to identify lower priority services for disinvestment and the willingness to take some of the decisions needed to implement any resulting savings/cuts proposals.

- The performance management processes to monitor and assess the implementation of the medium term financial plan, in particular the benefits realisation.

- The removal of the presumption that what are traditionally called “unavoidable” budget pressures over and above inflation will be funded and the consequent need for directorates to consider how this can be managed internally over the medium term.

- The implications for the LTP and education capital funding processes, currently dominated by government supported borrowing allocations, if the priorities from the new medium term financial planning process are different.

10.3 Cabinet are asked to comment on the issues outlined in 10.2 above and identify any other critical success factors that need to be reflected in the detail of any process.

11 Timetable for 2007/08 and Next Steps

11.1 The medium term financial planning process needs to go hand-in-hand with the Council's corporate planning process. Financial resources need to be directed to priority areas. The difficulty for 2007/08 is that the corporate planning process is unlikely to be as sharply developed in time for the full implementation of the medium term financial planning process outlined in this report. It will therefore be necessary to take a pragmatic approach to the delivery of the 2007/08 budget while working towards full implementation of the medium term financial planning process for 2008/09 onwards.

11.2 It should be recognised that, whilst we are operating within the fixed deadline of having to set a council tax and fix a budget by 28 February each year, this process is a continuum. Setting the budget should merely mean we are agreeing a position at that point in time for the purposes of generating the necessary resources from council tax and creating a deadline for the co-ordination of the annual update.

11.3 The timetable to deliver this process for agreeing the 2007/08 budget and the medium term financial plan for 2007/08 to 2009/10 by February 2007 is very tight. For it to be successful the challenge of any business cases to determine progress towards the delivery of service priorities will need to take place in October/November. This will allow decisions on allocations to be reflected in the 2007/08 budget and medium term financial plan.

11.4 To do this requires the following stages to be completed by early October:

- The agreement of the corporate vision
- The development of the supporting strategies for the delivery of priorities
- The creation of the baseline of current service/performance/cost levels
- The preparation of the business case to move from the current position to deliver the vision.

Alongside this directorates would need to focus on developing plans to balance their budgets over the medium term within the high level framework agreed.

11.5 In reality a pragmatic approach may need to be adopted for 2007/08. For those service areas where it is not possible to complete this work in time for consideration in the 2007/08 budget there needs to be sufficient flexibility to allow this work to continue through 2007 and be incorporated either during the year, if resources are set aside, or as part of the annual update for 2008/09. It may be necessary to consider the prioritisation of this work to reflect the priorities in the corporate vision.

11.6 For the organisation to plan and prioritise on the basis of a corporate strategic approach requires a model of medium term financial planning be introduced. If this is not the option outlined in Diagram 1 then something akin to it is essential. This is not an all or nothing choice. If any aspects of the process being proposed are felt not to be acceptable for 2007/08 then Cabinet are requested to outline their preferred way forward for the short term whilst construction of a medium term approach is begun. This will allow sufficient time for guidance to be prepared and directorates to undertake the necessary preparatory work before the end of September.

JIM GRAHAM Chief Executive Shire Hall Warwick 22 May 2006	DAVE CLARKE Strategic Director, Resources