Agenda No

AGENDA MANAGEMENT SHEET

Name of Committee	**Corporate Services And Community Safety Overview And Scrutiny Committee**
Date of Committee	**02 March 2010**
Report Title	**Medium Term Financial Plan 2010/11 to 2013/14**
Summary	The report seeks the Committee's comments on the draft 2010/11 to 2013/14 Medium Term Financial Plan.
For further information please contact:	Virginia Rennie Group Accountant Tel: 01926 412239 vrennie@warwickshire.gov.uk Rob Phillips Corporate Budget Accountant Tel: 01926 412860 robertphillips@warwickshire.gov.uk
Would the recommended decision be contrary to the Budget and Policy Framework?	No.
Background papers	2010/11 Budget Resolution and 2010/11 Corporate Business Plan.

CONSULTATION ALREADY UNDERTAKEN:- Details to be specified

Other Committees	☐	....
Local Member(s)	☐	
Other Elected Members	☒	Cllr Appleton, Cllr Gittus, Cllr Davis, Cllr Moss - for comment
Cabinet Member	☒	Cllr Heatley - for information
Chief Executive	☒	Jim Graham
Legal	☒	Sarah Duxbury - for comment
Finance	☒	Dave Clarke - reporting officer
Other Chief Officers	☒	The MTFP has been considered by SDLT and their comments incorporated
District Councils	☐	....
Health Authority	☐	....

Police	☐	....
Other Bodies/Individuals	☒	Paul Williams - for information

FINAL DECISION NO

SUGGESTED NEXT STEPS: Details to be specified

Further consideration by this Committee	☐	....
To Council	☒	*The Medium Term Financial Plan will be approved by Council at its meeting on 30 March 2010*
To Cabinet	☒	The Medium Term Financial Plan will be considered by Cabinet at its meeting on 11 March 2010
To an O & S Committee	☐	....
To an Area Committee	☐	....
Further Consultation	☐	....

Agenda No

Corporate Services and Community Safety Overview and Scrutiny Committee - 02 March 2010.

Medium Term Financial Plan 2010/11 to 2013/14

Report of the Strategic Director, Resources

Recommendation
The Committee are requested to comment on the draft Medium Term Financial Plan attached at **Appendix A**, and agree any issues they wish to refer to Cabinet as part of their approval of the Plan at their meeting on 11 March 2010.

1 Introduction and Background

1.1 At their meeting in July 2006 Council agreed the model of medium term financial planning to be adopted by the authority over the medium term. In the model, the Medium Term Financial Plan (MTFP) would be a partner document to the Corporate Business Plan. It would reflect, in financial terms, the national context, the corporate vision and the delivery strategies for the corporate and directorate priorities of the Council for the next three years.

1.2 To supplement this, as part of the 2010/11 budget resolution, members approved a medium term financial planning framework for the authority. The framework included a series of reviews and approved a number of indicative medium term spending and savings proposals. The MTFP also needs to incorporate these decisions.

1.3 The purpose of this report is to seek the Committee's comments on the MTFP prior to it being presented to Cabinet on 11 March 2010 and Council on 30 March 2010.

2 Timetable for the Approval of the Medium Term Financial Plan

2.1 The key document in the development of the MTFP is the budget resolution for the forthcoming year. Therefore, little progress could be made on the content before the 2010/11 Budget was agreed by Council on 9 February 2010.

2.2 As a result the timetable for the production of the MTFP is condensed into the seven weeks after the budget is agreed and before the full Council meeting in March. The timetable for the approval of the MTFP is outlined overleaf:

Date	Consideration by
09/02/10	**Council** approve the 2010/11 Budget and Medium Term Financial Planning Framework
02/03/10	Draft MTFP to **Corporate Services and Community Safety Overview and Scrutiny Committee** for consideration
11/03/10	**Cabinet** approve the MTFP for recommendation to Council
30/03/10	**Council** approves the 2010/11 to 2013/14 MTFP.

3 Medium Term Financial Plan

3.1 The purpose of a MTFP, and hence its contents depends on the audience for whom it is being prepared. To meet the needs of all users of the Plan it has therefore been decided that it should be comprised of two documents:

- A summary plan, consistent with the Corporate Business Plan, that would be in a format and language suitable to be used by our partners and stakeholders, and
- A detailed plan, including our key financial policies and strategies, which would be an operational document for those requiring a greater level of information and depth of understanding as to the medium term financial position of the authority.

3.2 Unfortunately due to the tight timescales involved in the production of the MTFP and the Corporate Business Plan not all of the details are available at the time of writing this report. Therefore it has not been possible to attach the summary plan to this report. It is envisaged that the summary plan will be circulated to the Committee prior to their meeting on 2 March 2010.

3.3 The full, detailed MTFP will be produced by the end of May, with consultation taking place through the Heads of Resources and Financial Services Managers across all directorates.

DAVID CLARKE
Strategic Director, Resources

Shire Hall
Warwick

15 February 2010

Draft Medium Term Financial Plan

Introduction

Together the Corporate Business Plan, annual budget and Medium Term Financial Plan provide a focus to the delivery of sustainable but improving services for the residents and council taxpayers of Warwickshire. The Vision for Warwickshire and the Corporate Business Plan identify where we are going and how we will know we have got there. The Medium Term Financial Plan puts the resources in place which will allow us to move towards the Vision, reflecting changes both in the way we work and the environment in which we operate.

Context

As a result of the recession, the pressures on public services are considerable and growing. Financial resources are contracting and the need to demonstrate value for money is at its utmost. The need to protect vulnerable people in our society is ever greater and the challenge is clear – how to achieve that with diminishing resources. There are a number of factors that heavily influence the future financial environment in which we will be operating.

1. **Financial constraints/uncertainty**
   As part of the 2007 Comprehensive Spending Review (CSR) financial settlements for local authorities for the period 2008/09 to 2010/11 were announced. The final year of this funding was confirmed in January 2010. It provided certainty for 2010/11 but is a tight settlement, given the increased demand for services, and includes a cash efficiency savings target of 3% a year. The next CSR has been delayed until after the 2010 general election, so only the first year of this Medium Term Financial Plan falls within the scope of the settlements already announced. This, coupled with the determination of central government to reduce the level of national debt whilst protecting priority services (e.g. schools and the NHS), casts significant uncertainty over the level of external financial support we can expect in 2011/12 and beyond. The one certainty is that the growth in public spending experienced over recent years will not continue and may well go into reverse. On top of this, indications are that increases in council tax levels will be restricted to a maximum of 3% for 2010/11 and it is expected that limits will be enforced at similar, or lower, levels over the period of this plan. The overall picture for the medium term is one of increasingly restricted financial resources.

2. **Economic downturn**
   In the wider economy, the country appears to be slowly moving out of recession. However, moving out of recession and the uncertainty around the outcome of the general election, make it difficult to predict movements in economic indicators. Inflation is expected to increase early in 2010/11 before falling back later on in the year. Longer term, the speed at which the economy moves out of recession will be crucial in determining the extent of any upward pressure on prices and interest rates. In particular, the demand for oil as the world recovers from recession is likely to impact on utility prices, emphasising the need to focus of managing demand for energy. Variability in prices and interest rates will place an additional pressure on future budgets making it difficult to predict and plan for future resource need.

   The movement out of recession will also see an increase in the demand for property. A slow recovery in property prices is expected over the medium term. However, it is unlikely that, at least in the short term, these increases will offset the significant fall in the funding we are currently able to generate from selling our surplus assets or the reduced developer contributions for infrastructure investment.

The economic downturn is also having an impact on the demand for our services. There has been an increase in the number of children and young people for whom safety concerns have been raised. Unemployment has increased the need for investment in reskilling the wider workforce and the pressure on personal incomes has reduced the ability of people to contribute to the cost of the services, whether through council tax or charges. These increased demands for services currently being experienced may diminish as the economy moves out of recession, but there will be a time-lag.

3. **Value for money**

Government targets for all public sector bodies are to deliver at least a 3% cash-releasing efficiency gains on an annual basis. As part of managing the overall public finances, this requirement to deliver efficiencies may well increase in future years. The tightening financial position reinforces our commitment to ensuring the limited funding available is targeted to achieving our long term vision and top priorities. This also means we have to take a careful look at everything we do.

Alongside this there are continually increasing public expectations about the quality and level of services we should be able to provide from our resources. Together these mean the pressure to deliver value for money has never been greater, providing support and assistance to people as they face financial instability and uncertainty.

4. **Partnership working**

The current national and local agenda is about new ways of working. This involves joining up service provision to enhance the service, and cost effectiveness, to the customer. The Coventry, Solihull and Warwickshire Total Place project, the Warwickshire Local Area Agreement (LAA), sub-regional working, the enhancement of two-tier working, and the consideration of wider public sector shared service provision will be the focus of our involvement in partnership working. The continued development of these partnerships will have long term implications for the way we plan and manage our finances.

Our Priorities

Our long-term vision for Warwickshire is “Working in Partnership to put Customers First; Improve Services and Lead Communities”.

Our top priorities in striving for our vision are:

- **Raising educational attainment and improving the lives of children, young people and families**
- **Maximising independence for older people and people with disabilities**
- **Developing sustainable places and communities**
- **Making Warwickshire a safer place to live**

In achieving these priorities we will enhance the quality of life of Warwickshire residents and council tax payers.

The agreement of four priority areas does not reflect the full breadth of activities that we deliver, including areas of stable high performance. In these areas our commitment to service improvement continues to be demonstrated through the LAA and Directorate Business Plans, which are supported by an integrated medium term financial planning strategy.

All the work we do is informed by a number of related themes that sit alongside the priorities and underpin both the allocation and use of resources. Prominent amongst these themes are:

- **Narrowing the gaps**
  Narrowing the Gaps is defined by the Warwickshire Public Service Board as *"Reducing differences across the County in terms of achievement, opportunity and quality of life"* and brings together many strands of our work on overcoming disadvantage. The ambition to narrow the gaps will be reflected in the way in which the mainstream budgets of all agencies are combined and deployed, in addition to the deployment of specific targeted investment.

- **Localisation**
  Localisation is about shaping services around customers and to meet local needs. Responding to this agenda will change how, at what level and where we deliver services. The increased community engagement and any resulting shifts in power to a local level will change where decisions are made and impact on organisational structures, skills and culture.

- **A "One Front Door" Approach**
  The one front door approach aims to offer a single point of access to public services. We will work with our partners on the rationalisation of outlets and properties, increasing the number of multi-use buildings across the county. These "community hubs" will offer co-located staff from a range of public and voluntary agencies, management and administration costs will be reduced and premises costs rationalised. E-service delivery will become increasingly important and is seen as potentially the most cost effective way to deliver services.

Resourcing Our Priorities

We recognise that the demand for more and better services will always outstrip the availability of additional resources to deliver them. The period 2010/11 through to 2013/14 will be especially challenging for us as, along with other public sector organisations, we expect to have diminishing resources. During this time we will remain committed to our priorities, but there will be decisions to be made on what we can and cannot afford. In order for resources to be allocated to the areas of most priority, reductions from areas of lower priority will have to be made.

In 2010/11 we plan to spend £825 million revenue and £141 million capital providing services and investing in our infrastructure. Much of this planned spending has been previously approved or is funded by government grants directed to specific services. However, as part of agreeing the 2010/11 budget, £110.3 million of new allocations will be invested in our priorities.

The type of investment will vary depending on the nature of the service. For example, our investment in maximising independence for older people and people with disabilities is mainly a revenue cost on the day-to-day provision of services, whereas developing sustainable places and communities is about investing in our infrastructure over the longer term. Of the £110.3 million to be invested, £19.3 million is new revenue allocations and £91.0 million new capital investment projects, of which £75.0 million had previously been given indicative approval for planning purposes.

Diagrams 1 and 2 show how the additional revenue allocations of £19.3 million and the £91.0 million of new capital investment approvals in our 2010/11 budget demonstrate that resources are allocated to our priorities.

Diagram 1: 2010/11 Revenue Allocations – by Priority

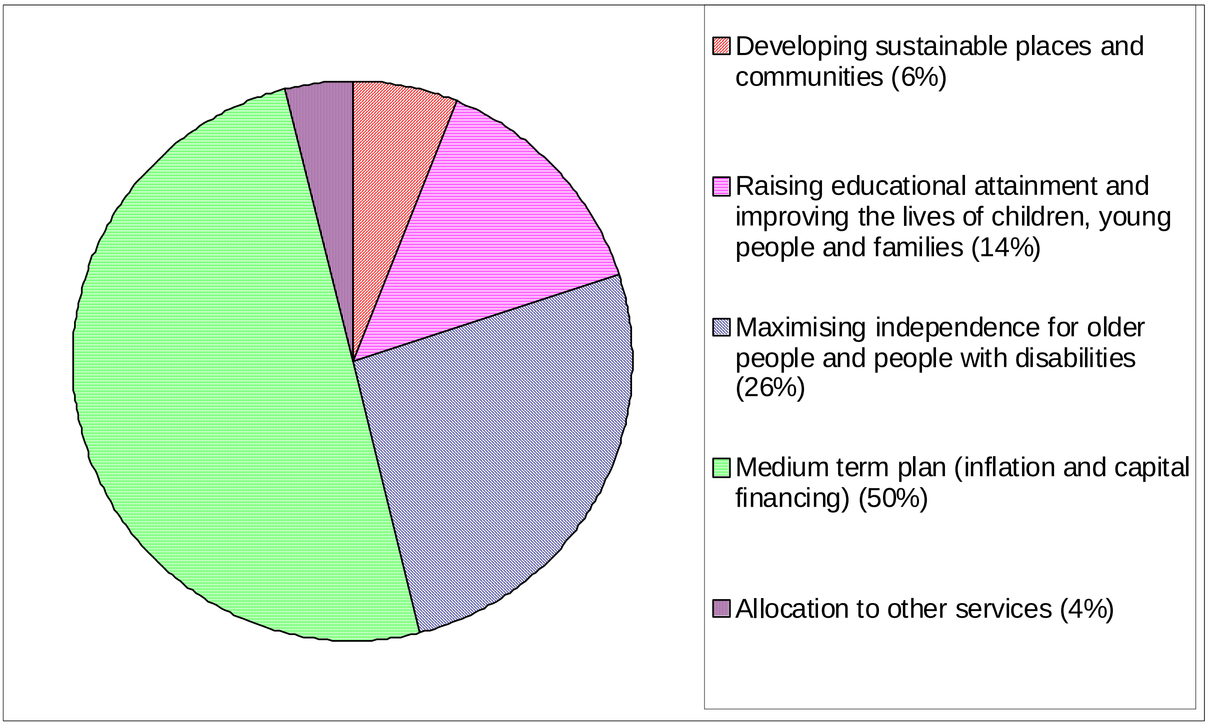
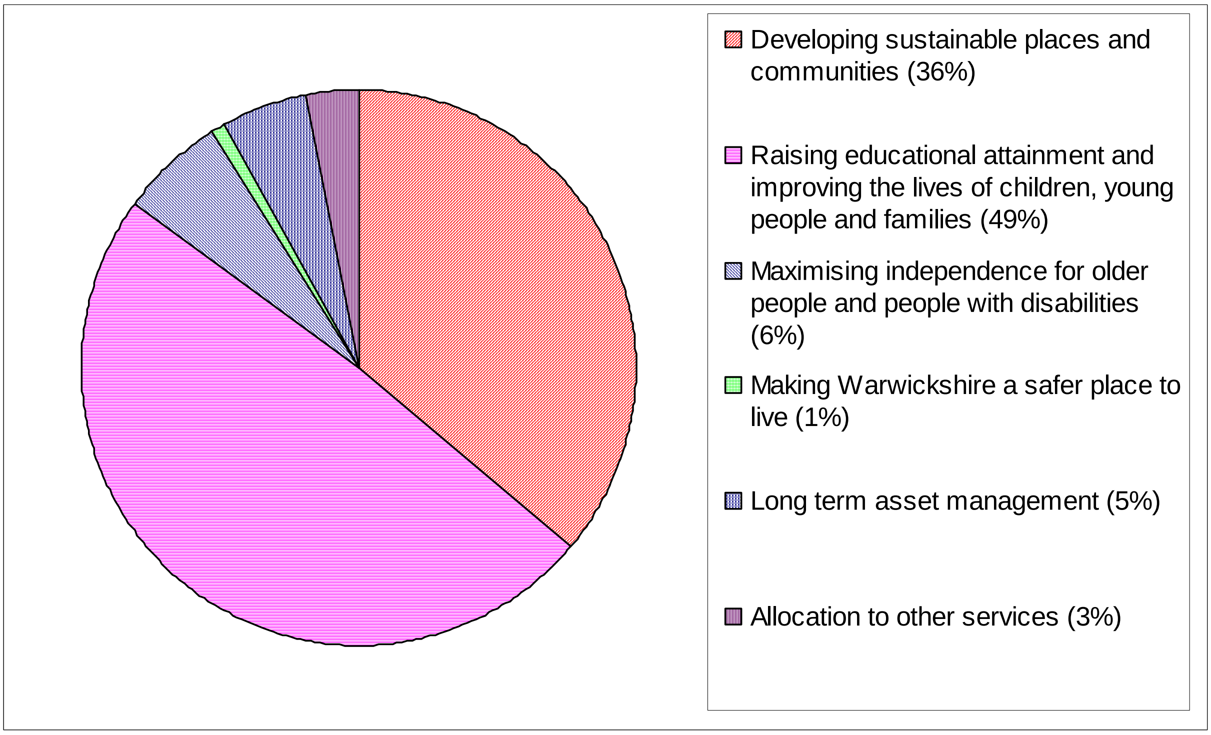


Diagram 2: 2010/11 New Capital Allocations – by Priority



We use resource planning over the medium term as the tool that will help us manage competing priorities. Whilst it covers a three-year period, our Medium Term Financial Plan will be refreshed annually to reflect changes in the Corporate Business Plan and our priorities.

Our key mechanisms for resource planning include:

- Invest-to-save programmes that will generate either long-term savings or the avoidance of future costs for the authority.
- Continuing to work closely with partners, in particular our district and borough councils and other neighbouring authorities, where we are committed to increasing effectiveness and efficiency by exploring shared services.
- A focus on value for money, our aim is to provide value for money (as measured through a cost performance comparison) that is upper quartile for all services.
- Workforce planning that seeks to ensure we have the right skills available to meet our service aspirations, have a workforce that is affordable within our anticipated financial framework and meets our ambitions in terms of equality and diversity.
- An approach to strategic asset management based on an analysis of need to deliver strategic priorities, service needs and intended outcomes.

Financial Strategy

We have achieved sustainable revenue and capital budgets and a prudent level of reserves. Our current Medium Term Financial Strategy is:

- Inflation and the corporate costs of capital will be funded from government grant and council tax income.

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

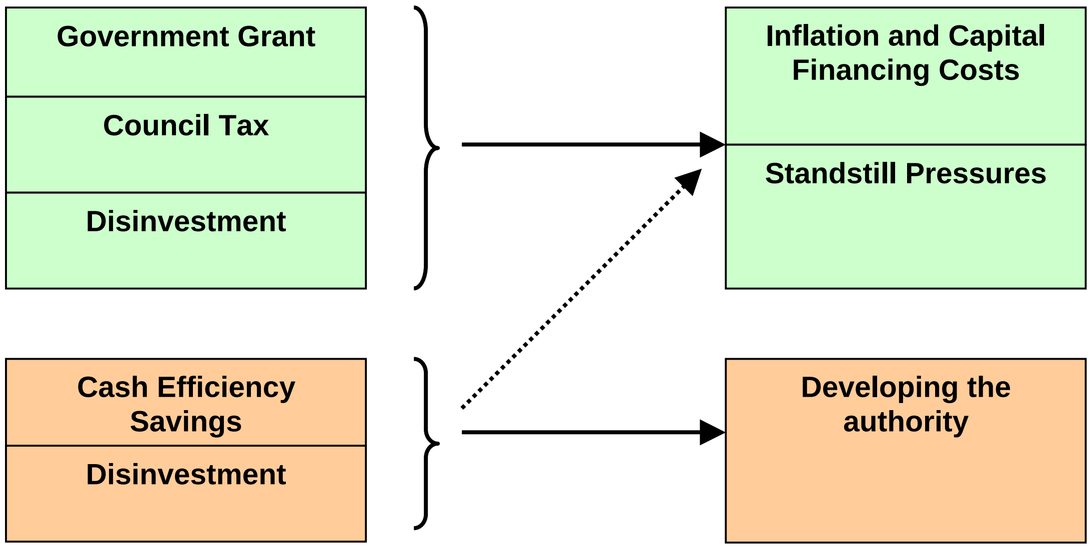
- Any other unavoidable pressures we wish to meet will be funded from the balance of council tax income and reducing investment in low priority services.

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

- New developments will be funded from a medium term programme of efficiency savings and any further reduced investment in low priority services.

The medium term financial strategy is shown more clearly in Diagram 3 below.

Diagram 3: Medium Term Financial Strategy



The overall revenue position for the authority over the medium term, after applying the Medium Term Financial Strategy is shown in Table 1. This does not include any resources or spending commitments that may arise as a result of disinvestment.

Table 1: Overall Predicted Council Revenue Position

		2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Resources	Formula grant[1]	92.092	90.250	88.445	86.676
	Council Tax *(2.5% year on year increase assumed after 2010/11)* [2]	230.544	238.081	245.863	253.900
	Surplus on council tax collection	0.432	-	-	-
	Total Council Resources	323.068	328.331	334.308	340.576
Spending	Net spend [3]	323.068	320.236	343.046	366.289
	Inflation and capital financing costs	-	10.866	10.289	10.268
	Identified spending pressures	-	3.192	1.458	1.458
	Indicative spending pressures	-	10.000	13.000	14.000
	Total Net Spending	323.068	344.294	367.793	392.015
	Cumulative deficit	**-**	**(15.963)**	**(33.485)**	**(51.439)**
Savings	Savings already identified *(see Table 5)*	-	7.674	7.884	8.065
	Deficit addressed in previous years to balance the budget	-	-	15.963	33.485
	Remaining deficit in year	**-**	**(8.289)**	**(9.638)**	**(9.889)**

Notes:
1. Formula grant figures assume a 2% cash decrease each year after 2010/11
2. Council Tax figures assume a 0.75% year-on-year increase in tax base in future years.
3. Net spend figures are the spend in the previous year adjusted for one-off or time-limited allocations

The financial strategy has been developed in order to manage both revenue and capital spending and to ensure that resources are directly linked to our priorities. However, we recognise that, over the medium term we will be operating in a different environment. As Table 1 shows, based on current forecasts there remains a significant deficit to be closed in each of the next three years. As a result the focus of the strategy on the use of efficiency savings to fund developments, rather than to standstill, is no longer realistic. We are committed to reviewing the medium term financial strategy in 2010/11once the national funding position becomes clearer. This will ensure the revised strategy remains relevant for the future.

Our financial strategy will continue to reflect:

Low council tax levels
We have made a commitment to keep increases in council tax at or below the government guidelines, something we believe is critically important in a time of economic hardship. To deliver increases in council tax at this level means that we have to exercise the strongest control over performance and expenditure. We have specific corporate processes designed to ensure that this control exists. Council tax increases of 2.5% for 2011/12, 2012/13 and 2013/14 have been assumed as a planning guideline for the next three years and have been built into the figures in Table 1. The resulting deficits indicate that keeping increases in council tax at or below this level is not sustainable without significant disinvestment in services.

Table 2 summarises the resources that could be made available by increasing or decreasing levels of Council Tax over the next three years. A 2.5% increase in council tax would generate an additional £7.536 million in 2011/12, a further £7.782 million in 2012/13 and a further £8.037 million in 2013/14.

Table 2: Additional resources from future increases in Council Tax

Council Tax Increase	2011/12 More/(Less) Funding Compared to 2.5% Council Tax Increase £m[1]	2012/13 More/(Less) Funding Compared to 2.5% Council Tax Increase £m[2]	2013/14 More/(Less) Funding Compared to 2.5% Council Tax Increase £m[3]
0.0%	(5.807)	(5.996)	(6.193)
0.5%	(4.645)	(4.797)	(4.954)
1.0%	(3.489)	(3.598)	(3.716)
1.5%	(2.323)	(2.398)	(2.477)
2.0%	(1.160)	(1.199)	(1.239)
2.5%	-	-	-
3.0%	1.162	1.199	1.238

Notes:
1. Assumes an increase in the tax base of 0.75% in 2011/12, 2012/13 and 2013/14
2. 2012/13 Additional resources are calculated assuming a 2.5% increase in council tax in 2011/12
3. 2013/14 Additional resources are calculated assuming a 2.5% increase in council tax in 2012/13

Early identification of future spending needs
Sustainable funding provides a firm base for delivering consistently high quality services. It is important, however, to ensure that we spend our money on the services that our community tells us they most need. It is vital we are able to disinvest from services that are not important to our communities and invest in and protect those services that are.

In addition to funding inflation and the costs of financing our capital programme, future indicative spending pressures were identified and funding committed as part of setting the 2010/11 budget. In addition there will inevitably be a number of unplanned spending pressures that will emerge over the next three years and funding to meet these will also need to be identified. Table 3 provides the detail of the known spending pressures and the provision for unidentified future spending pressures.

The provisions made for indicative future spending pressures include the cost of demographic growth and increasing care needs in adult social care. In 2010/11 an additional £4.171 million is being built into the budget to meet the costs. Current estimates are that a further £4 million to £5 million a year will be needed to keep pace with the expected demographic growth in future years. These costs, because of their sheer size, have the potential to undermine the sustainability of the financial plan at a time of diminished resources. We will therefore undertake an urgent review of the demographic pressures in adult social care to identify opportunities and options for managing the pressure for future years.

Table 3: Future Spending Pressures	2011/12 £m	2012/13 £m	2013/14
Adult Health and Community Services			
• Carers service	0.562	0.564	0.569
• Appointeeship services for vulnerable adults	0.065	0.078	0.094
Children, Young People and Families			
• Social care placements for looked after children	0.413	0.488	0.511
• Legal Case Work	0.115	0.118	0.124
• Transforming Education/ Transforming Communities project	1.000	-	-
Environment and Economy			
• Highways Maintenance drainage	0.250	-	-
• PFI procurement costs for Project Transform	0.195	-	-
• Preparation of statutory mineral and waste plan documents	0.075	-	-
Resources			
• Carbon reduction commitment	0.109	-	-
Other Services			
• Loss of Courts income	0.124	-	-
• Capital financing costs – care homes fire regulations	0.034	-	-
• Capital financing costs – highways maintenance and road safety	0.160	0.160	0.160
• Capital financing costs – Stratford parkway station	0.051	0.032	-
• Capital financing costs – Kenilworth rail station	0.039	0.018	-
Indicative unidentified future spending pressures	10.000	13.000	14.000
Total	**13.192**	**14.458**	**15.458**

We believe the early identification and continuous monitoring of future spending needs is critical to ensuring any spending required can be delivered in a planned way that minimises the impact on services and ensures our focus remains on delivering on our priorities. Such costs will continue to increase above the level of funding available. We therefore have in place a range of strategies and programmes to allow us to bridge the funding gap (see section on Savings and Efficiency Planning).

Funding for schools and pupil services

Funding for schools and pupil services is primarily through a specific government grant called Dedicated Schools Grant (DSG). The total grant funding we receive is directly related to the number of pupils. The DSG must be spent on schools and pupil related services. Any pressures to increase spending on these services above the level of the grant will be considered alongside all other spending priorities.

The forecast total DSG for 2010/11 is £298.3 million, an increase of £12.2 million (4%) from 2009/10. The final DSG will be confirmed, by the Government, in June.

From DSG we are required to meet a guaranteed minimum increase in funding for schools. Warwickshire will be implementing the Early Years Funding Formula from April 2010, as part of this implementation the Schools Forum agreed that the minimum increase in funding should be applied to all early years' providers. The total increase in cost for schools and private, voluntary and independent sector providers is anticipated to be £11.8 million. This includes an assumption that schools will deliver 1% efficiency savings each year. The remaining increase has been used to fund inflationary pressures in centrally managed pupil related services.

The Department for Children, Schools and Families are currently conducting a review of the national funding methodology for schools and schools budgets. This will be subject to consultation in spring 2010. The outcome of their review will affect the level of funding methodology Warwickshire receives for schools and pupil related services. This review may also effect the distribution of funding to individual schools in future years.

Area based grant

Area Based Grant (ABG) was introduced in 2008/09 by the Government to support local authorities and their partners in delivering their local, regional and national priorities. It increases local flexibility over the use of resources, and reduces reporting requirements. We were allocated £33.584 million in 2010/11. The use of the £33.584 million grant was approved as part of our budget setting for 2010/11 and is summarised in Table 8.

Allocations of ABG have only been made for 2010/11, the first year of this four year financial plan. Without a new Comprehensive Spending Review there is no information about the future of ABG beyond 2010/11. However, it is expected that ABG allocations will come under the same downward pressure as other spending areas. The current working assumption is that in future years funding for services currently financed by ABG will be constrained to the overall level of grant received in future years. This assumption will be reviewed once the future of ABG and any indicative funding levels are available.

Table 8: 2010/11 Area Based Grant Allocations

Direct Allocation/ Service Area	**Element of ABG Grant**	**£**
Direct Allocations		
Supporting People Administration	• Adult Health and Community Services	255,000
Preserved Rights	• Adult Health and Community Services	2,347,000
Child Death Review Processes	• Children, Young People and Families	49,000
Detrunking, Economic Assessment Duty and Rural Bus Subsidy	• Environment and Economy	2,285,000
Local Involvement Networks and Community Call for Action	• Customers, Workforce and Governance	224,000
	Sub-Total	**5,160,000**
Service Area		
Safe and Sustainable Travel	• Environment and Economy	1,572,000
Safer Communities	• Customers, Workforce and Governance	248,000
	• Warwickshire Police Authority	57,000
	• Warwick DC (on behalf of South Warwickshire CDRP)	131,000
	• Rugby BC	14,000
	• Nuneaton and Bedworth BC	58,000
	• North Warwickshire BC	38,000
	• Warwickshire Probation	20,000
School Improvement and Support	• Children, Young People and Families	3.060.000
School Transport	• Children, Young People and Families	481,000
Social and Community Care	• Adult Health and Community Services	4,319,000
	• Children, Young People and Families	443,000
	Themed Pot Total	**27,953,000**
Summary		
Directorate Allocations	• Adult Health and Community Services	17,697,000
	• Children, Young People and Families	6,670,000
	• Customers, Workforce and Governance	472,000
	• Environment and Economy	3,857,000
	Partner Allocations	4,417,000
	Total Allocations	**33,113,000**
	3% efficiency top slice to fund the 2010/11 budget	**471,000**

	Total	33,584,000

Prudent levels of reserves, contingencies and balances
We have built up our reserves and balances in line with the financial risk assessment undertaken annually by the Strategic Director, Resources. Our general balances are expected to be about 3% of annual net revenue spending over the medium term and are in line with the level specified by the Strategic Director, Resources in his risk assessment.

These balances allow us to deal with very unexpected financial shocks in a planned way, reducing the risk of service failure and reducing the cost of such shocks to the organisation. Balances will be maintained at least in line with the risk assessment throughout the medium term. We also have a process for managing service financial risks through the use of earmarked reserves and contingencies.

To pump prime investment in services that will deliver future savings we operate a Virtual Bank, whereby a service can “borrow” money to be repaid, with interest, from future savings.

Our forecast reserves and balances over the medium term are shown in Table 4.

Table 4: Forecast County Council Reserves and Balances as at 31 March

	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
General Reserves	10.850	10.850	10.850	10.850	10.850
Earmarked Reserves	12.237	9.000	8.000	7.000	7.000
Schools Reserves	11.300	10.000	9.000	8.500	8.500
Insurance Fund	9.025	9.000	9.000	9.000	9.000
Realigning Services	7.100	5.000	3.000	2.000	1.000
Virtual Bank	(1.378)	(1.854)	(1.437)	(1.162)	(0.898)
Capital Fund	0.031	-	-	-	-
Total	**49.165**	**41.996**	**38.413**	**36.188**	**35.452**

Sustainability and long term cost management
We recognise we have an important leadership role in ensuring both that our services are sustainable and encourage sustainable development across Warwickshire. A sustainable economy requires appropriate infrastructure, which must not come at a cost to the environment. This is fundamental to ensuring a high quality of life for all residents of Warwickshire. As an organisation we are ISO 14001 accredited and understand and manage our impact on the environment across all our services.

We have a strategic approach to sustainable asset management based on an analysis of the need to deliver strategic priorities, service needs and intended outcomes. We use business cases over the expected life of contracts to inform procurement decisions as standard and are continuing to develop the sophistication with which we approach whole-life costing issues.

Through our budget management processes we take a medium term view of spending commitments and to ensure a prudent approach is adopted when entering into initiatives which create commitments in future years.

Savings and Efficiency Planning

Table 1 highlighted the significant levels of savings needed over the medium term to deliver a balanced budget, if forecasts of spending pressures and grant allocations are broadly accurate. Including in 2010/11, over £61 million of savings will be required over the four year period of the plan. To date just over £33 million of these savings have been identified, leaving a further £27 million still to be found.

We have always operated a medium-term, aggressive approach to the delivery of savings. Plans are already in place to deliver savings of £9.713 million in 2010/11 and £7.674 million in 2011/12, £7.884 million in 2012/13 and £8.065 million in 2013/14. The targets allocated to Directorates are shown in Table 5. At all times our approach to efficiencies and savings will ensure that the interests of vulnerable people are protected.

Table 5: Approved savings targets

	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m
Adult, Health and Community Services	4.453	3.398	3.508	3.632
Children, Young People and Families	1.926	2.031	2.067	2.056
Customers, Workforce and Governance	0.654	0.375	0.372	0.368
Environment and Economy	1.853	1.399	1.463	1.535
Partnerships and Performance	0.070	0.040	0.040	0.039
Resources	0.757	0.431	0.434	0.435
Total	**9.713**	**7.674**	**7.884**	**8.065**

We have a medium term approach to not only setting the savings and efficiency targets but also in terms of planning their delivery. Our savings and efficiency planning framework focuses not only on the work of identifying where there is scope to improve value for money, through a gap analysis, but also those tools and techniques for improvement that will be at the heart of our efficiency programme, as shown in Diagram 4. We use these tools and techniques to provide an overarching structure to the projects put in place to deliver the savings requirements included in the Plan and provide a seamless approach to planning and change across the authority.

Diagram 4: Our Savings and Efficiency Planning Framework

We will continue to focus our efforts to ensure the provision of cost effective services and our aim remains to ensure value for money (through a cost to performance comparison) is upper quartile for all services.

However, the level of savings that can be delivered through existing mechanisms and processes will not be sufficient to bridge the budget gap. Some of this gap will be closed through an aggressive approach to the delivery of further efficiencies and savings. But, it is inevitable given the level of the gap that a significant proportion will only be delivered through disinvesting or withdrawing from lower priority service areas.

The strategies we have in place for bridging the funding gap include:

- Implementing our medium term efficiency and savings strategy and the agreed savings plans.

- Improving our strategic commissioning, with our public sector partners, to meet the expectations of local people. Successful implementation will enable us to get ahead of the game, anticipating future needs and expectations rather than just reacting to current demand. Within adult social care we already have joint commissioning groups with the PCT for each adult client group along with partnership boards to engage with service users, carers and other key partners. Our Children Trust Board operates an outcome-based commissioning approach providing evidence to support service re-design and decommissioning. These concepts are crucial in enabling a shift towards prevention and early intervention in a manner that maximises impact and value for money whilst managing risk.

- Moving to a smaller, leaner managerial core as the organisation changes to meet the financial challenges ahead. The implementation plan for this significant change programme should be available for consideration by members by the end of May.

- Reducing our accommodation, as staffing levels reduce, by at least a corresponding amount and realising savings through property disposals, alongside moving to more mobile and flexible ways of working providing further opportunities for accommodation rationalisation.

- Rationalising transport provision across the authority. There are three strands of work that we believe have the potential to deliver the savings – changes in our transport policies, more sophisticated mapping of routes to minimise the distances travelled and the procurement of transport. The cross-directorate working group commissioned to begin this work should report back on the potential savings and delivery timescales by the end of May.

- Investing in ICT to support service change and the delivery of efficiencies will be prioritised in the allocation of the Corporate ICT Development Fund. We see flexible and mobile working, communications through continued work on the web site, the Customer Service Centre and One Stop Shop arena and continuing to improve our general ICT infrastructure as particular areas of importance.

- Reviewing all sources of funding provided to voluntary and community sector organisations to ensure maximum benefit and value for the citizens of Warwickshire is obtained.

- Delivering a radical change programme for the authority that includes:
  - One front door and access
  - Support services and the business partner model

- Commissioning and/or outsourcing where it is in the interests of the authority
- Fire and Rescue Service change management
- Libraries transformation
- The skills agenda
- Benchmarking and learning from other councils
- Opportunities to generate additional income
- Delivering maximum value from the use of our assets

[THIS SECTION WILL BE EXPANDED FURTHER AS DETAILS OF THE TRANSFORMATION PROGRAMME BECOME CLEAR]

Savings identified from these strategies will contribute to bridging the funding gap. However, they will not generate sufficient resource to close the gap. Over the next few months further strategies and a whole organisation approach to service rationalisation and disinvestment will be developed.

Guideline Revenue Allocations

The benefits of medium term financial planning in a financially constrained environment, as a key tool in aligning policy to resource availability and ensuring value for money in the delivery of services, are not only relevant for the whole authority, but apply equally to individual services. Cascading the overall predicted revenue position down to directorate level improves the ability of services to plan and develop over the medium term.

The Medium Term Financial Strategy would give minimum guideline allocations for individual services as set out in Table 6. These figures include the efficiency savings shown in Table 5.

Table 6: Directorate Guideline Medium Term Allocations [1]

Service	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**	**2013/14 £m**
Adult, Health and Community Services	131.589	137.419	144.735	152.569
Children, Young People and Families	75.032	78.574	81.180	83.233
Customers, Workforce and Governance	14.548	14.595	14.608	14.625
Environment and Economy	49.312	53.104	56.687	61.619
Fire and Rescue	20.424	20.895	21.307	21.732
Partnerships and Performance	1.370	1.354	1.335	1.317
Resources	15.196	15.516	15.634	15.637
Other Services	13.220	15.223	16.887	17.887
Directorate Total	**320.691**	**336.620**	**352.235**	**368.392**
Use of Reserves and Balances	2.377	-	-	-
Authority Total	**323.068**	**336.620**	**352.235**	**368.392**

Notes:

1. The costs of services provided by one Directorate to another are shown in the guideline allocation of the Directorate undertaking the spending.
2. These figures exclude the allocation of Area Based Grant, except where the grant was allocated directly to County Council Services.

Capital Strategy and Capital Programme Allocations

We have over many years invested in assets that have a lasting value, for example land, roads, buildings and large items of equipment such as vehicles. Each year we need to spend more money to ensure our existing assets are still suitable for use in the provision of services and to invest in new assets to meet our changing needs and requirements.

The level of planned capital investment is partially determined by the level of resources available:

- All directorates are encouraged to look for external funding prior to bidding for corporate resources.

- We continuously monitor and review our property portfolio to ensure we make the best use of the capital value tied up in those assets, taking decisions on the disposal of assets where and when it is in our best interest to do so. Any decisions made are in accordance with our Corporate Property Strategy and Capital Receipts Strategy.

- We borrow money for investing based on a set of principles called prudential guidelines. These include an assessment of affordability, efficiency, sustainability and investment returns. Our prudential guidelines are continuously monitored and agreed annually as part of the Treasury Management Strategy. However, there is a tangible revenue cost to borrowing.

- Directorates can use their own resources for day-to-day spending to directly fund capital investment. We also encourage investment that will result in savings or generate additional income in the future.

- We operate within a set of corporate performance standards that seek to regulate quality, equality of opportunity, competition, sustainability, economic regeneration and a whole life-cycle costing approach to our capital investment decisions.

Table 7 sets out our approved capital programme for the next four years. As part of the budget process in February 2010, we would usually have given indicative approval to draft capital programmes for 2011/12 through to 2013/14. However, the level of available capital resource in future years is very uncertain. The future years' capital financing costs included in our revenue estimates assume £20 million per year borrowing from 2011/12 onwards. This is consistent with the level of borrowing for new projects currently undertaken. However, with the expected decreased availability of other sources of capital financing there is likely to be significantly higher demand for this resource.

In September 2008 Cabinet agreed to temporarily halt most asset disposal activities while the property market was so poor. In January 2010 Cabinet agreed to reverse this decision to allow our Estates teams to proceed with disposals under the usual requirements of achieving best value. Despite this change, we are still adopting a prudent approach towards receipts and Table 7 only shows anticipated values for those receipts currently thought most likely at this point.

Table 7: Approved Capital Programme

Service	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**	**2013/14 £m**
Capital Resources				
Borrowing	48.896	25.804	22.532	22.000
Capital Receipts	12.800	1.350	-	-
Grants and External Contributions	77.631	14.948	-	-
Revenue	1.450	-	-	-
Total Capital Resources	**140.777**	**42.102**	**22.532**	**22.000**
Capital Spending				
Adult, Health and Community Services	7.202	-	-	-
Children, Young People and Families	62.467	10.800	0.032	-
Customers, Workforce and Governance	0.862	-	-	-
Environment and Economy				
• Transport	44.786	9.458	2.000	2.000

• Waste Management	9.719	0.195	-	-
• Regeneration and Economic Development	1.281	-	-	-
• Other, including Countryside and Rural Strategy	4.485	-	-	-
Fire and Rescue	1.785	-	-	-
Resources				
• Office Accommodation and Property	6.722	1.632	0.500	-
• Other, including Finance and Information Technology	1.468	0.017	-	-
Unallocated Borrowing	-	20.000	20.000	20.000
Total Capital Spending	**140.777**	**42.102**	**22.532**	**22.000**

Prior to any further allocations being agreed we plan to undertake a review of the capital programme to determine the impact of the programme on our asset portfolio and to ensure that the limited capital resources available are allocated as effectively as possible. We will come forward with proposals for developing a sustainable capital programme for the future that balances:

- The need for new investment and the maintenance of existing assets across all services,
- The prioritisation of spending both within and between services, rather than each service being considered independently,
- The affordability of the overall programme given the availability of other sources of finance, and
- The delivery of the maximum value from the use or disposal of our existing assets.

Elements of this work have already begun as part of the review of capital planning and we would expect the proposal to be available for consideration and approval before the summer.

We will continue to develop closer integration of revenue and capital planning to ensure the long term revenue implications and affordability of new capital investment is clear.

Financial Risk Management

Budget management
Through our governance framework and internal control systems we ensure our business is conducted in accordance with law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

Effective budget management arrangements are the cornerstone of Directorates' work to secure value for money. Directorates, and also schools, are encouraged to take a medium term view of spending commitments and to ensure a prudent approach is adopted, both in entering into initiatives which create commitments in future years and developing clear strategies for the utilisation of service reserves. Directorates report their revenue and capital financial performance as well as progress in the delivery of their savings targets quarterly, identifying any variances of projected outturn against budget and action plans to counteract such variances.

We operate a structured approach to procurement and contract letting, set out in financial and contract standing orders. A procurement code of practice provides further guidance to managers to ensure value for money is considered in all purchasing activity.

Key Financial Risks
We are committed to considering risk as an integral part of corporate and service planning, service delivery and project and partnership governance. As part of this proactive approach we carry out strategic risk assessments annually to assess the potential risks to the delivery of our priorities. All employees share the need to understand and look for risks and opportunities in their work. The Corporate Risk Policy and Strategy expand further upon our approach to

risk management. During 2010/11 there will be senior management and member focus on our major risk areas, including finance.

Each year we conduct a review of our internal controls and publish the findings in an annual governance statement.

A number of uncertainties can be identified which may have an impact on the Council's financial strategy and for which no accurate estimates of future resource needs are yet known, including:

- **Waste disposal costs** – costs are set to rise significantly year on year and it is likely we will have to spend significant amounts of money in the future on new and innovative ways of reducing and disposing of the County's waste. We have developed in conjunction with Coventry and Solihull a PFI project called 'Project Transform' to manage this pressure.

- **Demographic growth** – The population of Warwickshire is growing rapidly with an increase of 115,200 people, or 22%, expected by 2031 over 2006 levels. Inevitably this means increasing demands for housing, planning, transport, schools and social care and hence increased costs. The projected rate of growth increases with age, with those over 85 expected to increase by 140% in the next 20 years. This has clear implications for adult social care and health. In 2010/11 an additional £4.171 million is being built into the budget to meet the costs of a demographic growth and increasing care needs in adult social care. Current estimates are that a further £4 million to £5 million a year will be needed to keep pace with the expected growth in future years. The urgent review of the demographic pressures in adult social care to identify opportunities and options for managing the pressure for future years has already been outlined above.

- **Personalising Service Delivery**
  The developing agenda in adult social care is a clear shift in direction through the Putting People First agenda with an increased focus on personalisation, self direction and levels of choice and control from customers. It will involve developing and commissioning services which meet a broad range of needs and aspirations, including:
  - A reduction in residential care through the introduction of extra care housing and increased support to help people live independently at home.
  - An increase in the provision of specialist residential care beds
  - A comprehensive specialist dementia home care service
  - Decreased on-going home care packages due to the introduction of prevention and early intervention, including reablement, and
  - An increase in the number of people accessing housing related support services, disabled facilities grants, aids and adaptations to support independent living.

- **Personal Care at Home Bill**
  [SECTION TO BE ADDED]

- **Impact of Economic Downturn**
  Despite the country now entering a period of recovery clearly this will take time to reach the most vulnerable groups who have been hit hardest by the economic downturn. Those on low income are going to find it increasingly hard to make ends meet, with the likely resultant increases in child poverty, fuel poverty, pensioner poverty and a general reduction in economic well-being. Unemployment is will still be a significant factor and those out of work will find it harder to find employment as

competition for jobs increases. The cost of responding to these demands is in addition to the direct effect of the downturn and subsequent recovery on our own financial position.

- **Impact of Climate Change** – in recent years, emergencies such as flooding have become more prevalent. Whilst such events attract short term funding support from the Government, we need to be able to respond with immediate aid and support. We will also continue to consider and invest in longer-term solutions with our strategic partners.

- **Energy prices and availability** – we are a significant user of energy to provide our services and are therefore vulnerable to both volatility in energy prices and the availability of supply. We are working with partners to improve our purchasing capability and will continue to work towards reducing our energy consumption wherever possible.

- **Carbon Reduction Commitment Scheme** – We are included in this Government carbon trading scheme to cut carbon emissions. An introductory phase of the CRC will begin in April 2010 and last three years. We have to purchase enough carbon credits each year to cover our likely emissions from all our buildings, including schools and our street lighting. The first purchase will be in April 2011, for carbon allowances to cover 2010 and 2011. The price of carbon will be fixed at £12/tonne for the introductory phase, but will then be auctioned from April 2013. The cost of the carbon credits will be recycled each year, less the cost of running the scheme and plus or minus a cost bonus or penalty according to our position in a league table of performance. The maximum bonus or penalty will be 10% in the first year and increasing by 10% in each subsequent year. The scheme covers around 5000 public and private sector companies and therefore at this early stage we cannot identify where we are likely to appear in the league table casting significant uncertainty over the cost of this scheme.

- **Transforming Education/ Transforming Communities -** we are committed to the delivery of the Transforming Education/Transforming Communities Programme as a key strand of our work on Narrowing the Gaps. The programme is the basis of our expression of interest on how we will deliver the Government's Building Schools for the Future programme within Warwickshire. The programme will deliver regeneration; through the creation of local jobs and investment as well as access to community facilities and the provision of integrated public services in particular localities, as well as the key corporate priority of raising levels of educational attainment through the improvement of educational facilities, engaging communities and raising aspirations to support future attainment. The first project within the overall programme is valued at £120 million. Within our revenue spending allocations we have provided, in line with government requirements, for the phased costs of procurement of £3.4 million over the next three years, to ensure we are ready to deliver the programme.

Treasury Management

We ensure our capital investment plans are affordable, prudent and sustainable. Each year we agree a set of prudential indicators and set out our policies for managing our investments and for giving priority to the security and liquidity of investments.

As a result of the current world banking crisis, including the collapse of some banks, the preservation of capital has become paramount and premium investment returns are of secondary importance. We will only lend to top rated institutions and make considerable use of the Government's debt management account during these uncertain times.

Value for Money

We have been successful in recent years in dealing effectively with increasing demands for services whilst at the same time driving up performance in our key services and hence improving value for money. Our capacity to reprioritise resources is constrained by the ring fencing of the budget for schools and pupil services that represents half our revenue spending. It is against this backdrop of increasing demands for services in the context of a constrained financial environment that we have worked creatively to secure value for money.

Whilst we strive to deliver high quality services, which are recognised by local residents as value for money, the government also currently requires us to make 3% cash savings annually. Since the Government introduced formal reporting of efficiency savings in 2005/06, we have delivered savings to a level that places us in the top third of shire counties.

What do we mean by value for money?
We have a statutory duty to deliver best value in the provision of our services. We aim to achieve value for money by efficiently delivering effective and economic services to our citizens. These are services that meet the needs of the population and our priorities and are delivered to the right place, for the right price, at the right time. Our aim is to provide value for money (as measured through a cost performance comparison) that is upper quartile for all services.

Objectives
We will remain a cost effective, high performing council that spends its taxpayers' money wisely by:

- Placing value for money at the heart of our financial planning processes.
- Maintaining a clear focus on our citizens' priorities
- Working "smarter" and making the best use of new technologies to improve services whilst reducing costs
- Actively managing procurement across the organisation
- Driving out efficiency savings and making the best use of our assets to further invest in our priorities
- Working through an efficient organisational structure
- Making appropriate use of management systems e.g. risk management, performance management
- Ensuring we recruit the right people and retain and develop their skills
- Working with partners to achieve economies and deliver more efficient and effective services
- Actively pursuing external funding to contribute to the delivery of our priorities

- Achieving public confidence in our prudent financial management, service delivery and corporate governance through positive external audit and inspection feedback, and

- Maintaining a level of council tax such that the public feel we make good use of the money we spend and it reflects the quality of services they receive.

Delivering Value for Money
We have a comprehensive range of approaches to promoting and delivering our value for money objectives which provide a degree of challenge and ensure that value for money is at the forefront of everything we do.

We assess the value for money of our services in three ways:
- The cost vs. performance analysis of services using spend per head and performance across all national performance indicators, relative to other shire counties
- A review of the Audit Commission Value for Money Profiles, and
- An analysis of spend per head compared to shire counties showing performance relative to the median and the upper and lower quartiles

This assessment reflects the absolute position at any point in time and the trends over recent years.

Responsibilities for Value for Money
The responsibility for delivering value for money lies with all members and staff and is not restricted to those with resource or financial management responsibilities. Responsibility for value for money is devolved to an appropriate level and the responsibilities of Members are set out in the terms of reference for both the offices they hold and the committees and panels of which they are members. The Strategic Director, Resources is responsible for reviewing the Value for Money strategy on an annual basis in consultation with Strategic Directors' Leadership Team prior to its approval by Cabinet.

With the increased focus on partnership working, it is important that services delivered through these mechanisms are subject to the same level of value for money scrutiny as other services. Our partnership agreements include the allocation of responsibility for the performance and success of the partnership, which includes achieving value for money. Such agreements also clarify all budgeting and financial monitoring arrangements.

Equality and Access
Promoting equality and respecting diversity is central to our vision. This commitment is reflected in our definition of value for money which recognises the diverse needs of the residents of Warwickshire. We are committed to understanding the needs and priorities of our entire community and using our value for money assessments to measure the impact of our services on all our residents and narrowing the gaps where any differences emerge.

Partnership Working

We see effective partnership working as the key to tackling many of the challenges facing the County. Whilst most parts of Warwickshire can properly be seen as being relatively prosperous, there are many residents living in both urban and rural areas who experience significant levels of deprivation. These complex issues cannot be addressed by any one agency working in isolation and demand joined up and focussed delivery through partnership. The introduction of the outcome-focussed Comprehensive Area Assessment in 2009/10 further strengthens the need to work in partnership to develop a One Warwickshire approach to the delivery of public services in the County.

We recognise the need for an improved speed of delivery of partnership aims and will seek to promote this at the highest level, taking the lead if necessary.

Coventry, Solihull and Warwickshire Total Place Pilot and Sub-Regional Working
[SECTION TO BE ADDED/UPDATED]
Services should be delivered in ways that meet the needs of our customers rather than being aligned to organisational boundaries or capacity. We have committed ourselves to increased sub-regional working. We are strongly engaged within a number of Coventry-Solihull-Warwickshire partnerships. These provide significant scope for joint strategic (sub-regional economic assessment) and operational (waste facilities, infrastructure funding, public service centre) working.

We are a partner in Project Transform, a joint collaboration between Coventry, Solihull and Warwickshire to develop effective and sustainable solutions to manage residual waste in the sub-region. Together we have recently submitted an expression of interest for the development of a new energy from waste plant to be funded through the private finance initiative.

Warwickshire Sustainable Community Strategy and Local Area Agreement
[SECTION TO BE UPDATED]
The Warwickshire LAA is a key operational expression of our commitment to partnership working and contribution towards the delivery of the longer term vision, as articulated in the Sustainable Community Strategy for Warwickshire.

In Warwickshire we aim to tackle those issues which have the greatest impact on the quality of life of local residents through our LAA. The continued development of the LAA will start off a longer-term process of continuous improvement that will bring greater benefits to Warwickshire people and communities year-on-year. The outcomes from our LAA focus on those that are best delivered through partnership approaches to deliver our aim of Narrowing the Gaps and the link to the medium term financial plan ensures there are sufficient resources in place to deliver the outcomes.

The LAA Partnership has a medium term financial strategy in place that aims to demonstrate how the partnership wants to plan the deployment of resources to ensure this first with and supports achieving the strategic goals of the Sustainable Communities Strategy and the specific LAA targets. All partners will identify the resources they use to support the achievement of the LAA outcomes and targets and how these resources are deployed. The partnership will then scrutinise the effectiveness of the deployment and make recommendations to individual partners. The partnership will use its own resources (currently LPSA reward grant) to commission work to deliver the partnership outcomes.

Enhanced Two-Tier Working
[SECTION TO BE UPDATED]
To build on the partnerships emerging through the development of our LAA we are committed to moving forward with enhanced two-tier working in Warwickshire. We are committed to pursuing:

- Integrated front door access arrangements for all our services.
- Shared back office service solution between public agencies and local councils.
- Joined up of services locally to ensure greater accountability at all levels and including integrated governance arrangements.
- Integrated service delivery, to the public, across organisational boundaries.
- Integrated plant, equipment and building solutions across the public sector bodies.

- An integrated workforce planning strategy.
- Cross-border solutions where this would increase service efficiencies and enhance effectiveness.

Significant Partnerships
As our involvement in partnership working continues to expand, we recognise that it is essential to identify those partnerships which are particularly significant, in order to ensure that they have appropriate arrangements for governance, operation and monitoring their value for money. We regard a partnership as significant if:

- It is a statutory requirement upon the Council
- It is fundamental to delivery of our services
- It is fundamental to achieving our corporate objectives
- We allocate significant resources to the partnership.

An initial assessment has identified 125 such partnerships.

Our strategy for managing significant partnerships encompasses the following aspects:

- Clear lists of objectives, outputs and outcomes expected from each partnership
- Regular review of financial performance and outputs, with established monitoring and control arrangements
- Consideration of risks and plans for their management
- Regular assessment of value for money offered by each partnership, benchmarking where possible to identify trends and plan improvements where necessary.