Agenda No 4

AGENDA MANAGEMENT SHEET

Name of Committee	**Resources, Performance and Development Overview and Scrutiny Committee**
Date of Committee	**10 March 2009**
Report Title	**Medium Term Financial Plan 2009/10 to 2011/12**
Summary	The report seeks the Committee's comments on the draft 2009/10 to 2011/12 Medium Term Financial Plan.
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?	No.
Background papers	2009/10 Budget Resolution and 2009/10 to 2011/12 Corporate Business Plan

CONSULTATION ALREADY UNDERTAKEN: Details to be specified

Other Committees	☐	
Local Member(s)	☐	
Other Elected Members	☒	Cllr Booth, Cllr Haynes, Cllr Atkinson – for clearance
Cabinet Member	☒	Cllr Cockburn – for information
Chief Executive	☒	Jim Graham – comments incorporated as part of SDLT considerations
Legal	☒	Jane Pollard – for clearance
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 24 March 2009.
To Cabinet	☒	The Medium Term Financial Plan will be considered by Cabinet at its meeting on 19 March 2009.
To an O & S Committee	☐	
To an Area Committee	☐	
Further Consultation	☐	

Executive Summary

The Medium Term Financial Plan (MTFP) is a partner document to the Corporate Business Plan. It reflects, 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.

This report seeks the Committee's comments on the MTFP prior to it being presented to Cabinet on 19 March and Council on 24th March for approval.

Agenda No 4

Resources, Performance and Development Overview and Scrutiny Committee - 10 March 2009

Medium Term Financial Plan 2009/10 to 2011/12

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 19 March 2009.

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 2009/10 budget resolution, members approved a more detailed medium term financial planning framework for the authority. The framework included a series of reviews and approved a number of indicative medium term spending allocations. The MTFP also needs to incorporate these decisions.

1.3 A third driver for the content of the MTFP is to ensure the Plan fully incorporates the requirements of the CPA Use of Resources assessment. To do this the following new sections have been included in the 2009/10 to 2011/12 MTFP:

- o Sustainability including long-term cost management
- o Strategic commissioning
- o Financial risk management, including treasury management

1.4 The purpose of this report is to seek the Committee's comments on the MTFP prior to it being presented to Cabinet on 19 March and Council on 24th March for approval.

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, other than agreeing the general focus and structure of the MTFP, as was undertaken by this Committee in November, little progress could be made on the content before the 2009/10 Budget was agreed by Council on 3 February 2009.

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

Date	Consideration by:
11/11/08	**R, P&D O&S Committee** considered the outline proposal for the 2009/10 MTFP
03/02/09	**Council** approve the 2009/10 Budget and Medium Term Financial Planning Framework
25/02/09	Draft MTFP to **SDLT** for comment
04/03/09	MTFP to **SDLT** for approval
06/03/09	MTFP to **Cabinet/SDLT** for consideration
10/03/09	MTFP to **R, P&D O&S Committee** for consideration
19/03/09	**Cabinet** approve the MTFP for recommendation to Council
24/03/09	**Council** approve the 2009/10 to 2011/12 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 the Plan it has therefore been decided that it should be comprised of two documents:

- o 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
- o 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 Attached for the Committee's consideration is the first of these documents. The Committee are asked to comment on the draft MTFP, 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 19 March 2009.

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.

DAVE CLARKE
Strategic Director, Resources

Medium Term Financial Plan

Introduction

Together the Corporate Business Plan, annual budget and Medium Term Financial Plan provide a focus to the delivery of outcomes within our vision for the citizens of Warwickshire. The Corporate Business Plan identifies where we are going and how we will get there. The Medium Term Financial Plan is published as a companion document and provides our medium term resource framework, reflecting changes both in the way we work and the environment in which we operate. Planning over the medium term helps to align policy to resource availability, achieve value for money in the delivery of services and ensures that the resources are in place to allow us to achieve our ambitions.

Contextual Background

In considering the medium term resources and their allocation to support delivery of the Corporate Business Plan it is useful to understand the contextual background. 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. Whilst providing increased certainty for the period up to March 2011, the announcements revealed a tight settlement across the public sector and included a cash efficiency savings target of 3% a year. Beyond March 2011, the third year of this Medium Term Financial Plan falls beyond the scope of the settlements already announced. This casts significant uncertainty over the level of external financial support we can expect in 2011/12. Council tax capping is expected to be enforced at similar levels to previous years and so the overall picture for the next three years at least remains one of significantly restricted financial resources. As is highlighted later in this document, this is at a time when demands on services are growing.

2. Economic downturn

In the wider financial climate, moving into a period of recession reinforces the need for careful budget and treasury management. Inflation, particularly in energy costs, has placed an additional pressure on the budget for 2009/10 and makes it difficult to predict and plan for future movements in prices.

The reduction in demand for property and subsequent reduction in property prices has led to a significant fall in the funding we can expect to generate from selling our surplus assets and has significantly reduced developer contributions to capital investment. To prevent delays in investments critical to our service delivery, for existing schemes the deficit in funding will be managed through an increase in borrowing, with planned schemes reviewed on a case by case basis to ensure the benefits they deliver will outweigh the cost of taking out additional borrowing.

The financial climate and 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 and identify where we can disinvest in lower priority services in order to release funding to maintain and develop services focussed on achieving our priorities.

3. Value for money

We have a long track record of delivering savings. Over the last decade services have been required to deliver year on year efficiency savings of about 2.5%. This has now increased to at least a 3% target of entirely cash-releasing efficiency gains as part of our overall savings plan for 2009/10, totalling £13 million. The pressure to deliver value for money has never been greater, providing support and assistance to the public as they face financial instability and uncertainty.

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.

4. Partnership working

The current national and local agenda is about new ways of working. This involves joining up service provision and support services to enhance the service, and cost effectiveness, to the customer. The Warwickshire Local Area Agreement (LAA), alongside sub-regional working, the enhancement of two-tier working, and the consideration of wider public sector shared service provision are key strands in our approach and will have long term implications for the way we plan and manage our finances.

5. 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".* This objective is embedded in the LAA and impacts on all activity across the County and with partners. Over the medium term, as services are refocused on narrowing the gaps it will inevitably impact on how resources are allocated.

Our Priorities

Our long-term vision for Warwickshire sets out a focus for our services and acts as a reference point in the allocation of resources. The Corporate Business Plan 2009-2012 takes forward this focus and identifies actions and targets for the next three years to our key priority outcomes.

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:

1. **Raising levels of Educational Attainment**

2. **Maximising Independence for Older People and Adults with Disabilities**

3. **Pursuing a Sustainable Environment and Economy**

4. **Protecting the Community and Making it a Safer Place to Live**

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.

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 2009/10 through to 2011/12 will be especially challenging for us as, along with other public and private sector organisations, we are not immune from the financial pressures of the current economic downturn. 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 be made.

In 2009/10 we plan to spend £909.2 million 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 2009/10 budget, £79.0 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 adults with disabilities is mainly a revenue cost on the day-to-day provision of services, whereas pursuing a sustainable environment is about investing in our infrastructure over the longer term. Of the £79.0 million to be invested, £35.7 million is revenue investment (of which £8.1 million is the increase in Dedicated Schools Grant (DSG) and £27.6 million net revenue allocations) and £43.3 million capital investment.

Diagrams 1 and 2 show how the revenue, including DSG, and new capital allocations in our 2009/10 budget demonstrate that resources are allocated to our priorities.

Diagram 1: 2009/10 Revenue Allocations – by Priority

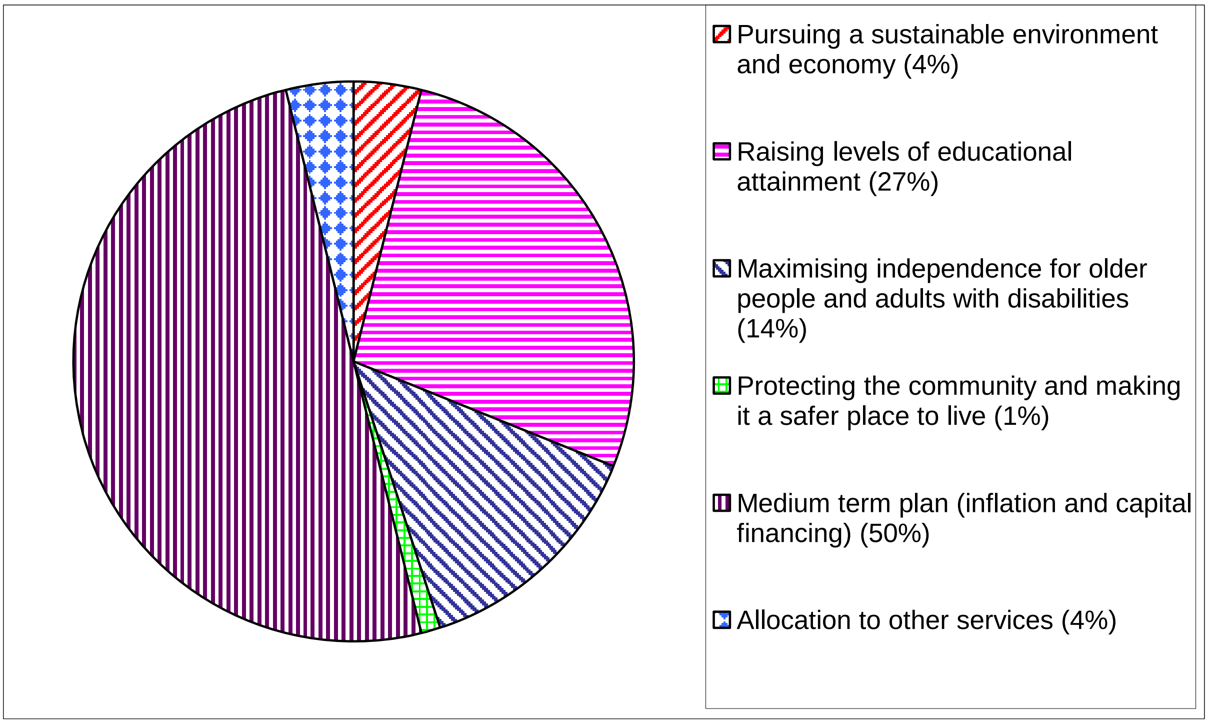
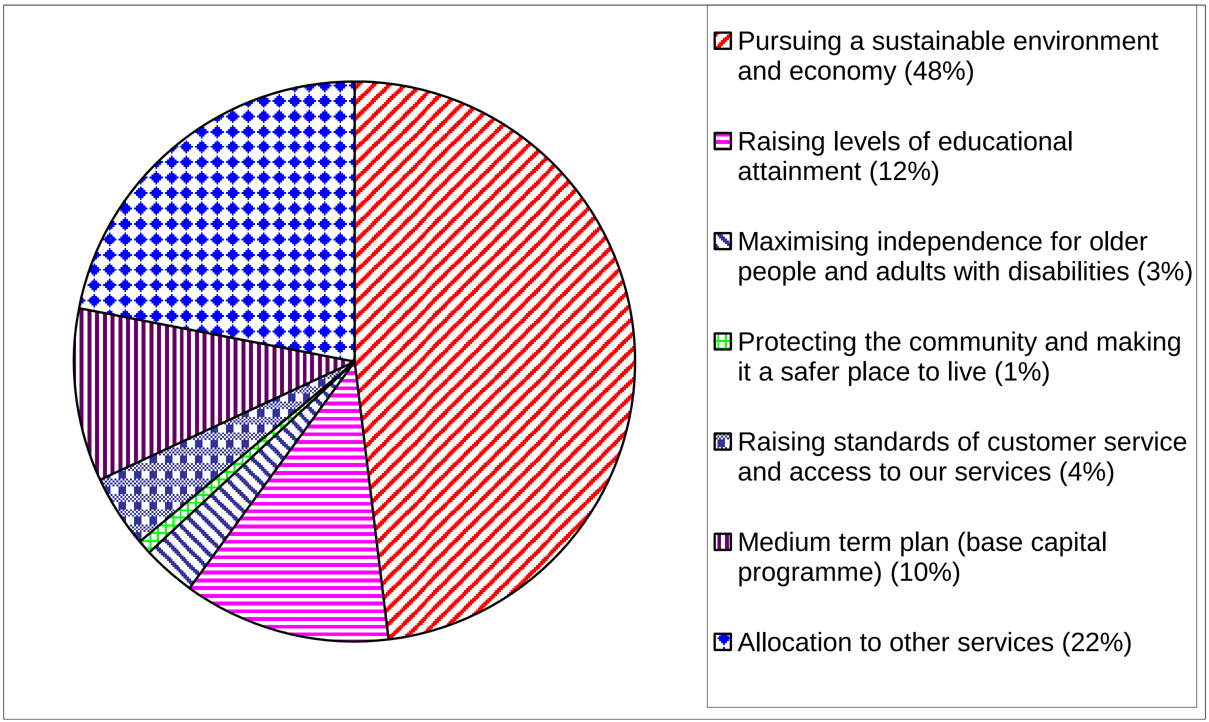


Diagram 2: 2009/10 New Capital Allocations – by Priority *



* The allocations shown here are those funded from borrowing. They do not include capital allocations funded by government grant or third parties.

We will 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, including a programme of reviews to improve the value for money provided by our services.
- An organisational development strategy that drives transformational activity and is designed to take us forward by providing the capability to deliver the aspirations of our vision.
- 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 approved 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.

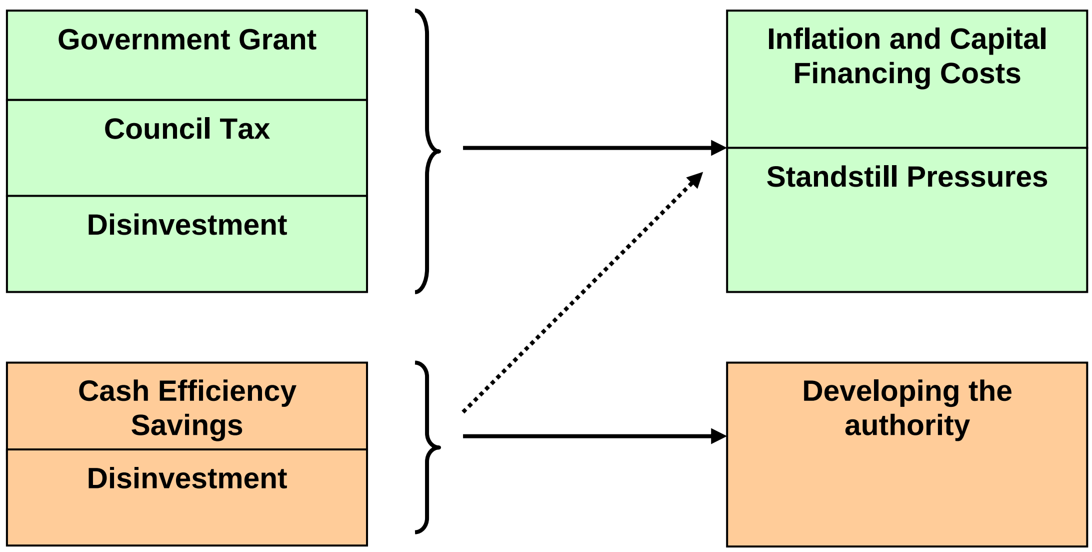
- Any other unavoidable pressures we wish to meet will be funded from the balance of council tax income and reducing investment in low priority services.

- 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, overleaf. This does not include any resources or spending commitments that may arise as a result of disinvestment.

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 and therefore the medium term financial strategy will be reviewed in 2009/10. The review will complement the introduction of the LAA medium term financial strategy, and the review of our capital strategy and capital planning processes. The work will be completed before the start of detailed work on the 2010/11 budget.

Table 1: Overall Predicted Council Revenue Position				
		2009/10 £m	**2010/11 £m**	**2011/12 £m**
Resources	Formula grant[1]	89.103	92.092	93.934
	Council Tax *(3.90% increase in 2009/10 and 0% in 2010/11 and 2011/12)* [2]	223.959	223.959	223.959
	Reserves and balances	(0.210)	-	-
	Total Council Resources	312.852	316.051	317.893
Spending	Net spend [3]	312.852	306.555	316.368
	Inflation and capital financing costs		13.085	10.098
	Total Net Spending	312.852	319.640	326.466
	Cumulative deficit	**0.000**	**(3.589)**	**(8.573)**
	Deficit addressed in previous year	**-**	**-**	**3.589**
	Deficit in year	**0.000**	**(3.589)**	**(4.984)**

Notes:
1. Formula grant figures assume a 2% increase in 2011/12
2. Council Tax figures assume a 0.0% year-on-year increase in tax base in 2010/11 and 2011/12
3. Net spend figures have been increased by the additional spending pressures shown in Table 3 and reduced by the efficiency savings shown in Table 5

The key elements of our financial strategy will continue to reflect:

Low council tax levels
We have made a commitment to keep council tax levels at or below the government guidelines, something we believe is critically important in a time of economic hardship. To maintain council tax at this level means that we must exercise the strongest control over performance and expenditure. We have specific corporate processes designed to ensure that this control exists, ranging from corporate planning processes to the corporate performance management framework. Council tax increases of 0% for 2010/11 and 2011/12 have been assumed as a planning guideline for the next two years and have been built into the figures in Table 1. The resulting deficits indicate that keeping council tax levels constant in this way is not sustainable without significant disinvestment in services.

In light of this, some increase in council tax is likely. Table 2 summarises the additional resources that could be made available by increasing levels of Council Tax in 2010/11 and 2011/12. A 5% increase in council tax (in line with the Government's statement on the maximum allowable increase) would generate an additional £11.198 million in 2010/11 and a further £11.198 million in 2011/12.

Table 2: Additional resources from future increases in Council Tax			
Council Tax Increase	**Band D Council Tax £**	**2010/11 Additional resources £m**	**2011/12 Additional resources £m[1]**
0%	1,128.18	-	-
1%	1,139.46	2.239	2.239
2%	1,150.74	4.478	4.478
3%	1,162.03	6.720	6.720
4%	1,173.31	8.959	8.959
5%	1,184.59	11.198	11.198

Notes:
1. 2011/12 Additional resources are calculated assuming a 0% increase in council tax in 2010/11

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 of £4.704 million for 2010/11 and £3.630 million for 2011/12 have been identified to date and funding committed as part of setting the 2009/10 budget. Table 3 provides the detail of these spending pressures.

Table 3: Future Spending Pressures	**2010/11 £m**	**2011/12 £m**
Adult Health and Community Services		
• The cost of rising client numbers and forecast demographic changes	2.592	1.650
• The increasing care needs of learning disability clients	1.725	2.054
Children, Young People and Families		
• Special Educational Needs Transport	0.347	(0.090)
Environment and Economy		
• Smallholdings Nitrate Vulnerable Zone	0.020	0.016
Performance and Development		
• Member Development	0.020	-
Total	**4.704**	**3.630**

In addition there will inevitably be a number of unplanned spending pressures that will emerge over the next two years and funding to meet these will also need to be identified. 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. However, any such costs will increase the level of funding required. We therefore have in place a range of strategies and programmes to allow us to bridge the funding gap.

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

- Implementing our medium term efficiency and savings strategy supported by our value for money review programme (see separate sections below).

- 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.

- Transferring services into the Customer Service Centre and One-Stop Shops.

- Moving our resources to complement the commitment in the Corporate Business Plan to introduce differential targets and personalised service delivery depending on individual needs.

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

- Modernising of our organisation to ensure it has the structures and processes to operate effectively. This will include:
    - Reviewing the layers of management
    - Considering areas that could move towards the greater commissioning of services
    - Reviewing the structures of the authority to ensure efficient decision-making and effective scrutiny

Savings identified from these strategies will contribute to bridging the funding gap and provide flexibility for investment in higher priority services.

Funding for schools and pupil services
Funding for schools and pupil services is primarily through a specific government grant called Dedicated Schools Grant (DSG) and is directly related to the number of pupils. We are committed to funding schools up to the level of the grant received in any year. 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 2009/10 is £286.0 million, an increase of £8.1 million (2.9%) from 2008/09. The 2010/11 DSG is forecast to be £295.6 million a further increase of £9.6 million (3.4%).

From DSG we are required to meet a guaranteed minimum increase in funding for schools. This has been set at 2.1% for 2009/10 and 2010/11, equating to additional costs of £7.4 million and £9.2 million respectively. This includes an assumption that schools will deliver 1% efficiency savings each year. The balance of funding is to meet the costs of centrally managed services that support pupils. Inflation and other cost pressures, including out of county placements and demand for early years free entitlement will mean significant savings across centrally managed services will be needed to balance the budget.

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 concluded as part of the 2009 Comprehensive Spending Review and could result in significant changes to Warwickshire's funding for schools and pupil services from 2011/12.

Area based grant
Area Based Grant (ABG) was introduced by 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 £22.935 million in 2008/09, rising to £23.863 million in 2009/10 and £33.407 million in 2010/11, when the funding of the Supporting People programme becomes part of the grant. The third year of the medium term financial plan falls outside the scope of the currently agreed allocation however, given the introduction of the Comprehensive Area Assessment and the focus on partnership working; it is likely that the grant will be maintained at least at the same level, if not increased further.

Prudent levels of reserves, contingencies and balances
We have built up our reserves and balances in line with the financial risk assessment undertaken by the Strategic Director, Resources. Our general balances are expected to be about 2% of annual net revenue spending over the medium term.

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.

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

	2009 £m	**2010 £m**	**2011 £m**	**2012 £m**
General Reserves	5.888	8.500	9.200	9.200
Earmarked Reserves	9.782	8.500	8.500	8.500
Schools Reserves	13.450	13.000	13.000	13.000
Insurance Fund	17.057	15.000	15.000	15.000
Virtual Bank	(3.315)	(1.193)	(0.792)	(0.461)
Capital Fund	0.508	0.508	0.646	0.646
Total	**43.370**	**44.315**	**45.554**	**45.885**

Our forecast general reserves of £8.500 million in 2009/10 are in line with £8.500 million specified by the Strategic Director, Resources in his risk assessment.

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 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, entering into initiatives which create commitments in future years.

Savings and Efficiency Planning

We have always operated a medium-term, aggressive approach to the delivery of savings. Directorates will be required to deliver savings of £13.238 million in 2009/10 and a minimum of £8.827 million in 2010/11 and £6.902 million in 2011/12. The targets allocated to Directorates are shown in Table 5 below and represent the balance between the drive for greater efficiency and effectiveness across the organisation with the direct contribution that each Directorate makes towards our corporate priorities. At all times our approach to efficiencies and savings will ensure that the interests of vulnerable people are protected.

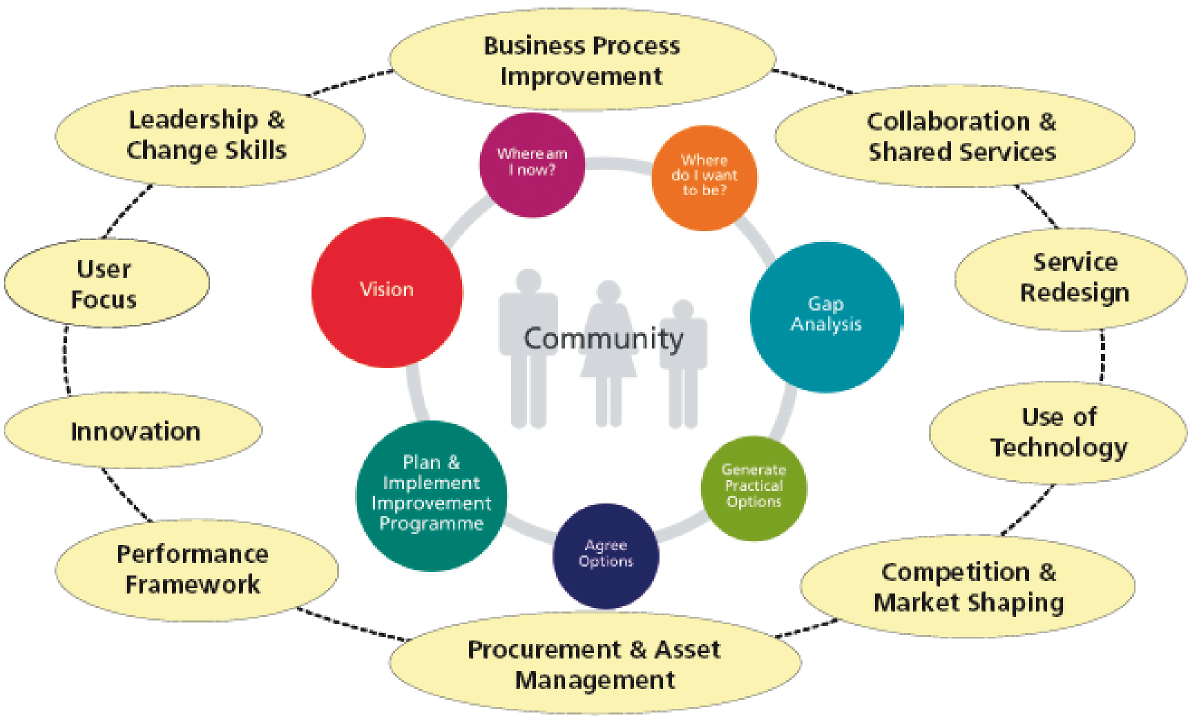
Table 5: Approved savings targets						
Service	**2009/10**		**2010/11**		**2011/12**	
	Percent	**£m**	**Percent**	**£m**	**Percent**	**£m**
Adult, Health & Community Services	7%	6.576	4%	4.004	3%	3.003
Children, Young People and Families	4%	2.346	3%	1.932	3%	1.932
Environment and Economy	7%	2.540	4%	1.536	3%	1.152
Performance and Development	7%	0.725	5%	0.533	3%	0.320
Resources	6%	1.051	5%	0.822	3%	0.495
Total		**13.238**		**8.827**		**6.902**

Notes:

1. Savings are expressed as a percentage of the 2008/09 planning base.

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



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	**2009/10 £m**	**2010/11 £m**	**2011/12 £m**
Adult, Health and Community Services	114.716	117.534	121.486
Children, Young People and Families	69.032	69.191	69.191
Community Protection	22.825	23.287	23.909
Environment and Economy	44.661	45.057	46.834
Performance and Development	12.170	12.016	12.067
Resources	15.629	15.273	15.375
Other Services	33.819	37.282	37.604
Authority Total	**312.852**	**319.640**	**326.466**

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.

Our Capital Strategy sets out a framework of how we aim to use our capital resources to invest in assets with a lasting value, ensuring all investment decisions maximise the benefits to the people of Warwickshire.

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 on 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 three years. The draft capital programmes for 2010/11 and 2011/12 above were approved by the Council in February 2009. The future years programme will be further enhanced by additional externally funded schemes for transport and other services, projects approved in line with our medium term objectives and the purchases of vehicles, plant and equipment funded from revenue budgets.

Prior to the allocations for 2010/11 being reaffirmed and any new starts for 2011/12 being agreed we plan to undertake a review of the base capital programme to determine the impact of the programme on our asset portfolio and a review of the capital strategy and the development of the capital programme to ensure there is appropriate scrutiny at all stages.

Table 7: Approved Capital Programme

Service	**2009/10 £m**	**2010/11 £m**	**2011/12 £m**
Capital Resources			
Borrowing	60.306	0.558	1.898
Capital Receipts	0.032	28.746	-
Grants and External Contributions	62.930	44.687	6.402
Revenue	1.500	0.958	-
Total Capital Resources	**124.768**	**74.949**	**8.300**
Capital Spending			
Adult, Health and Community Services	4.060	0.818	0.096
Children, Young People and Families	49.714	34.955	6.446
Community Protection	1.551	0.958	-
Environment and Economy			
• Transport	44.221	28.668	0.005
• Waste Management	5.410	1.936	-
• Regeneration and Economic Development	1.261	-	-
• Other, including Countryside and Rural Strategy	4.107	1.230	0.121
Performance and Development	1.062	-	-
Resources			
• Office Accommodation and Property	11.050	5.844	1.632
• Other, including Finance and Information Technology	2.332	0.540	-
Total Capital Spending	**124.768**	**74.949**	**8.300**

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 2009/10 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.

- **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. Our medium term financial plan includes increased costs of £2 to £3 million a year.

- **Personalising Service Delivery**
  The developing agenda to provide services that are designed around citizens and based on their specific needs and behaviours will have a financial impact as we move away from traditional methods of service provision. As an organisation, we are working to better understand the needs and preferences of our customers and are developing services which offer choice, independence and control.

- **Impact of Economic Downturn**
  It is clear that the most vulnerable groups are likely to be 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 rising rapidly 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 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.

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.

As a result of this analysis we operate a rolling programme of value for money reviews. These will generate cash savings to increase the resources available for direction to our priorities over the medium term. Our current review programme is:

Medium Term Review Programme	
Year	**Review**
2009/10	• Youth Services • Rural and countryside services and estates • Culture, heritage, tourism and the arts
2010/11	• Transport infrastructure • Customer service and access • Performance management

We will use our value for money assessments to update the review programme on an annual basis. During 2009/10 a review of our value for money processes will be undertaken to ensure the process is robust, transparent, that accountabilities are clear and that they have a genuine impact on the transformation of the organisation.

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 and the methodologies to be used in consultation with Strategic Directors' Leadership Team prior to their 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.

Warwickshire Local Area Agreement
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/LAA reward grant) to commission work to deliver the partnership outcomes.

Most of the specific funding for the LAA for 2009/10 will come from our Area Based Grant. We have the responsibility for the allocation of this grant and decisions will go hand in hand with developing and agreeing the LAA. In operational terms the Public Service Board and other partners have considerable influence over the allocation of Area Based Grant.

We approved allocations of £24.246 million Area Based Grant as part of our budget setting for 2009/10. These allocations are £0.383 million above the level of the grant. The additional £0.383 million is funded on a one-off basis in 2009/10 through contribution from partner organisations. Table 8 summarises our plans for using Area Based Grant in 2009/10. We will undertake a joint review, with our partners, of the value delivered before any decisions about allocations in future years are made.

Table 8: 2009/10 Area Based Grant Allocations

Service/LAA Block	Purpose of Allocation	Allocation £
Warwickshire County Council		
Adult Health and Community Services	❖ Supporting People Administration	297,000
	❖ Preserved Rights	2,454,000
Children, Young People and Families	❖ Child Death Review Processes	48,000
Environment and Economy	❖ Detrunking	1,102,000
Performance and Development	❖ Local Involvement Networks	213,000
	Sub-Total	**4,114,000**
LAA Themed Blocks		
Children and Young People Block	❖ School Improvement and Support	3,877,000
	❖ School Transport	377,000
	❖ Empowering Children, Young People and Families	6,581,000
		10,835,000
Economic Development and Enterprise	❖ Responding to the Economic Downturn	275,000
		275,000
Healthier Communities and Older People	❖ Supporting Independent Living	629,000
	❖ Social and Community Care	4,504,000
		5,133,000
Safer Communities	❖ Safe and Sustainable Travel	1,584,000
	❖ Safer Communities	766,000
		2,350,000
	❖	
Stronger Communities	❖ Safe and Sustainable Travel	1,039,000
	❖ Local Strategic Partnerships	500,000
		1,539,000
	Sub-Total	**20,132,000**
Funding		
Warwickshire County Council - Area Based Grant	❖ Area Based Grant	(23,863,000)
Partners Contributions		(383,000)
	Sub-Total	**(24,246,000)**
	Total	**0**

Sub-Regional Working
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.

Enhanced Two-Tier Working
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 66 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.