

**JOINT OVERVIEW AND SCRUTINY TRANSITION BOARD
30 MAY 2008**

THE MEDIUM TERM FINANCIAL STRATEGY (MTFS) – 2008 TO 2013

EXECUTIVE SUMMARY

Purpose

The Medium Term Financial Strategy Progress Report (MTFS) focuses on the broad strategic objectives and the significant developments which Wiltshire County Council (WCC) and then Wiltshire Council will deliver over the next five years.

It is the first attempt to reflect current estimates of incoming resources and compare these to current estimates of spending plans. The spending plans are based on existing activity levels adjusted for forecasted changes in demand. For the first time, estimates for 2009-10 onwards include the district functions in addition to Wiltshire County Council although the level of detail and consideration included for the different authorities varies considerably. The MTFS has been developed to provide a strategic context for the authority's financial matters, including revenue and capital budgets, spending plans, council tax decisions and investment plans, to ensure that spending decisions are consistent with the Council's overall priorities and objectives.

This year, it has been largely a desktop exercise building on the 2008-09 budget submissions from WCC services adding in broad estimates for the districts. It is designed to kick start the 2009-10 budget setting process by providing parameters of incoming resources to redesign spending plans within and identify efficiency and savings targets. A great deal of work is required to refine the assumptions and establish a much clearer five year model for the new authority with consistent levels of underlying data, detailed work and consistent approaches across the authorities. This is dependent on the outcomes of the 1C4W workstreams and full analysis will not be delivered until PIDS are developed for each workstream and these are built up into business options and ultimately budget proposals in the late summer.

Process

The draft MTFS is being considered by Cabinet in May 2008 and will form the basis for 2009-10 budget setting discussions by determining the budget proposal options to be developed by officers. Officers will then develop these budget proposals during the summer with officer based workshops (June to August). The consolidated budget proposals become the first cut of the 2009-10 budget and it is recommended that, as in previous years, this is considered

by challenge meetings on a service by service basis with Members and officers. This will be through a series of workshops covering each main service area (August to October). In previous years portfolio holders attended the appropriate service areas on behalf of the full Cabinet. Members are asked to consider representation and attendance at the 2009-10 budget setting meetings in the light of the unitary changes.

Following the initial detailed meetings Members will debate the consolidated budget against incoming resources and reprioritise funding or allocate headroom where appropriate (October to January). These iterations will then lead to a final budget and council tax figure being adopted by County Council in February 2009.

Context

The MTFS is based on incoming resources from the Comprehensive Spending Review and three year settlement with estimates for the last two year. It recognises increasing cost pressures arising from price increases and the increasing demand on services. As a broader view the strategy does not reflect precisely where we will be in five years, but describes a view of the direction in which we are moving and the actions which may be required to deliver our goals and priorities. It predicts our financial position and shapes our efficiency and cost reduction plans.

Spending plans are current estimates and as in previous years the actual spending plans developed for the detailed budget will vary considerably as the efficiency and savings targets are developed. How this will be achieved is described in "Next Steps" below.

It is common to adopt this approach to strategic planning by identifying patterns of income and expenditure to see how they need to be realigned and make planned changes over a period of years. The level of efficiency and savings targets shown for Wiltshire are also common and are small compared to some other authorities. This reflects the hard work already undertaken across the authorities to deliver low cost high quality services and to bring expenditure in 2007-08 and 2008-09 in line with limited available resources.

The approach is consistent to previous year's for both WCC and for most of the districts which adopted a cash freeze approach to setting the 2008-09 budget. WCC identified and delivered efficiency and cost reduction targets within the MTFS of £7.8 million last year, representing 2.9% of net budget . Salisbury District Council and West Wiltshire District Council both identified efficiencies and savings within their plans of around 5% of net budget and North Wiltshire District Council utilised one-off resources of general reserves and collection fund surpluses of £1.1 million in setting the 2008-09 budget, representing 7% of the net budget. Kennet District Council figures are to be confirmed.

Strategy

The MTFS has been developed as an iterative process running in parallel with development of the vision for the new authority and the Strategy must support achievement of the vision of the new organisation, which is to deliver:

- Excellent, low cost public services.
- High social capital.
- Local, transparent decision making and public trust.

The Strategy must also support the core values that have been identified:

- Customer focus.
- High performing, low cost services.
- Co-ordination and collaboration.
- Delegation and innovation.
- An organisation people want to work for.
- Open to influence.
- One Council and with one culture.

It has also been developed in conjunction with the ICT Strategy, People Strategy and cross cutting service plan for Property. All of these focus on the needs of the authority across the medium term. Through these strategies (including the MTFS) a series of core questions have been raised which will be addressed to develop integrated solutions that are affordable but ensure that the goals of the authority are achieved.

The intent has been to move away from the formality of the annual budget cycle to an iterative process whereby the 5 year Model is used to develop and plan future scenarios around organisational service development and changes to the cost and service structure. It will be a tool for Cabinet and Chief Officers to use on an ongoing basis.

It predicts our financial position and shapes our efficiency and cost reduction plans, contributing to strategic reconfiguration of the business. Links to performance and risk have been developed. Key services have looked at their cost drivers, delivery outcomes, performance indicators and risks over the next five years, how they are linked and the associated financial implications.

Service delivery and the delivery of the corporate goals and vision for the new authority over the period of this MTFS will depend on the resources available but given the constraints of resources, innovative new approaches to service delivery will need to be defined. Currently, estimated incoming resources are insufficient to meet the spending requirements associated with service delivery plans for 2009-10 and 2010-11. This is due to costs rising at a greater rate than increases in income, including Central Government grant (Formula Grant). Not only are unit costs rising but there is also increasing demand for services, both as a result of increasing demand for care services such as older people, mental health and learning or physical disabilities and also as a result of changing legislation and expectations such as the Landfill

Allowance Trading Scheme affecting waste and the new Education Act affecting passenger transport.

Assumptions

In establishing the efficiency targets the MTFS identifies the following areas of uncertainty where assumptions have been made:

- Formula Grant included as per three year settlement to 2010-11 and then 1.7% per annum thereafter.
- The council tax will increase by 3.8% and the tax base will increase by 0.9%. No collection fund movements are assumed.
- No significant change in specific grants and the Local Area Agreement process (2% for WCC grants unless known otherwise).
- That the move to unitary status will achieve the savings detailed in the unitary submission. These will arise across the new authority but for the MTFS the savings are shown as a single line.
- That the business case for prudential borrowing will be sound for the major projects included.
- That all significant financial risks have been identified.
- The impact on the MTFS of the Department of Community Services (DCS) commissioning strategies work on service costs and delivery is still uncertain.
- There are significant above standard inflation cost pressures in DCS and the Environmental Services Department which have been estimated.
- That the Wiltshire Pension Fund actuarial valuation and the move to 1C4W will not affect current contribution projections.
- The Pay Reform cost estimate does not reflect any provision for future back-pay claims by employees which has been judged low risk.
- This is the first year of incorporating the district councils into the MTFS. District cost pressures have been identified by district finance teams for 2009-10 and inflated at standard inflation thereafter. Budgets are consolidated at a very strategic level. Assumptions within these figures vary and there will be an impact from standardising approaches to costs, service delivery and fees and charges which is not currently reflected. This will be worked on continually ahead of the 2009-10 budget.
- Assumptions around the development of Community Area Boards and increased community empowerment are consistent to the original submission for 1C4W and it is assumed that the costs will remain within existing budgets and the reinvestment proposals within the submission.
- The reinvestment of other savings identified as part of the 1C4W submission have also been included and as more detailed plans are developed these may be subject to rescheduling.
- The PFI scheme being undertaken by West Wiltshire District Council (WWDC) is reflected on a consistent basis to WWDC financial plans for 2009-10 with no other adjustments being made. It is anticipated that

there will be revenue contribution of £60,000 in 2010 and January 2011 of £180,000 which will be reflected in future budget setting rounds as details are confirmed.

- There is currently no provision for any costs arising as a result of the changes being made to concessionary fares.
- No provision has been made for additional revenue or capital costs in relation to the Bournehill project. Costs associated with this will be reflected as part of the 2009-10 budget setting process.

Next Steps

The gap between spending plans and incoming resources is closed by a cost reduction and efficiency programme in future years resulting in headroom to meet currently unknown costs, improvements to services or reduced council tax increases.

The current capital programme is balanced with incoming resources matching the levels of expenditure and therefore the capital programme does not impact on the gap above. However, if new projects are undertaken or existing projects incur additional costs this will need to be funded from reducing other expenditure across the programme, utilising reserves or from borrowing. Where borrowing is an appropriate solution the cost of borrowing including interest costs will need to be met from the revenue budget. The efficiency target will increase accordingly and the costs of this capital would need to be prioritised against all demands for revenue expenditure.

The efficiency and cost reduction target will be met as part of the 2009-10 budget setting process. We are looking at the options and one option would be for services to be asked to develop budget proposals on a cash freeze basis, assuming that budgets for 2009-10 remain at the same levels as set for 2008-09. If all services achieved this around £18 million would be released against the efficiency and cost reduction targets and headroom would be generated to redeploy to priorities.

Whatever the absolute figures the methodology will involve all services looking at efficiency savings and ways of transforming services to reduce costs. This will include the major transformation projects of 1C4W and BMP but will need to be much wider than this to meet the target required. Systems thinking (Lean reviews), the Focus Project in Adult care work and commissioning strategies will all play an important part in:

1. Redesigning key services to improve performance and reducing cost by identifying and eliminating non-value added work in our processes.
2. Procurement;
 - a. Review of existing contracts to determine opportunities for cost reduction.
 - b. Continue with our aggressive negotiation of future contracts: (1) to include year-on-year cost reductions whilst maintaining levels performance (common practice in the private sector); (2) to join

- with partners in consortia to increase the volume of spending to deliver economies of scale).
- c. Reviewing currently out-sourced work to determine if it is more cost effective to conduct work in-house.

This work will link into the benefits realisation programme which is being developed as part of our vision to deliver higher quality services at reduced cost. Benefits can be considered as relating to improvements in performance to customers or citizens and reduced costs or increased efficiency. These benefits must be realised to meet the MTFS savings targets and deliver the authorities vision. Work will capture the savings from the various exercises including 1C4W, BMP, Focus Project in Adult care, to ensure transparency of reinvestments.

The successful delivery of these next steps is reliant on the development of a clear strategy for delivering the 2009-10 budget setting process within the context of the 1C4W transition programme. A budget for the new authority will be set mid February 2009 and discussions around the levels of income, including the rate of council tax and spending proposals will need to be finalised by then. To get to this, clarity will be required on how the new council will be structured for budget purposes in terms of accountable service areas. The timing and nature of Members involvement in the budget setting process will also be important. Members are therefore asked to consider this and to provide direction on the format of the budget setting process, including the approach that they wish officers to undertake in preparing budget options for discussions. If detailed budget reviews are desired, on a similar basis to prior years within the County Council, then budget proposals will need to be developed by mid August for challenge meetings of each service to take place in late August through to October. Service budget options will need to be produced from June to mid August and therefore direction on the budget areas to be developed, identification of responsible leads for these areas and an agreed approach to budget options (such as cash freeze or otherwise) will be needed in May or early June.

Leading into this work is the benefits realisation work on the 1C4W workstreams which is shaping these services. This considers the service delivery options for these workstreams and out of this will fall the income, cost and savings estimates for future years. Conclusions being drawn from this will be needed for the 2009-10 budget process and Members may need to be clear on the assumptions and options being agreed on these workstreams by June or mid August depending on the budget approach adopted. Similarly any reorganisation of services and movements in budgetary structures will need to be agreed to allow a baseline budget for 2009-10 to be developed in the summer to ensure that *all* services (those covered by the 1C4W workstreams and also those not) are working on a single approach to the budget and develop consistent budget options and outcomes for a consistent level of debate and analysis. Careful programme management of delivering the transition to 1C4W and forecasting and budgeting as one authority is required and Members are asked how they would like to manage the deliver of the next steps as well as being asked to outline the outcomes that they desire.

