

**Budget Panel : 20th July 2010**  
**APPENDIX A**

**Medium Term Financial Strategy (MTFS) and Service Prioritisation**

**Report of the Head of Strategic Finance**

**1.0 Introduction**

- 1.1** The 2010/2011 Revenue and Capital Budgets were approved with little effect upon service delivery and largely reflected that Central Government financial support continued to be generous. This situation could not continue when set against the continuing escalation in Government debt and the need to reduce current balance of payment issues.
- 1.2** The May 2010 General Election has resulted in a Coalition Government where the major priority is to reduce the national deficit as quickly as possible. On the 24<sup>th</sup> May the new Coalition announced £6.2 billion of savings to be realised in the current financial year. Of this total £1.165 billion to come from local government (by the simple expedient of reducing specific grant funding) and this reduction represents 7% of government support to local authorities ; and a £270m reduction in Regional Development Agency funding (20% of their funding) which could well filter down and effect support to local authorities.
- 1.3** On 22<sup>nd</sup> June the Government presented an Emergency Budget (EB) which covered a 5 year period. A synopsis of that Budget (as it might affects local authorities is detailed at **Appendix 1**).
- 1.4** The EB indicated a 25% real cut in public spending over a four year period with no reductions for Health and International Development and part reductions for Education and Defence. A real cut implies that inflation will be added to each years targeted control total. Watford Council's MTFS for the three year period 2011/2012 was predicated upon a 5% cash reduction in Government support (which equates to a 21% real cut if Consumer Price Inflation of 2% year on year were to be added). However the 25% public expenditure cut will not apply uniformly across all Government Departments and that the Department for Communities and Local Government are likely to experience a four year 33% real terms reduction.
- 1.5** Definitive figures will not be known until the Public Expenditure Review in October (although selective 'leaks' will probably be known before then) but, in any event, we need to start planning for efficiency savings now and a process for this is recommended later in this report.

**2.0 Specific Grant Funding in 2009/2010**

- 2.1** On 10<sup>th</sup> June the Government announced specific grant reductions to take effect in 2010/2011. For Watford the effect was:

Anti Social Behaviour	£17k
Prevent	£57k
Cohesion Fund	£18k

**2.2** Prevent: the pilot project has just ended and it had already been agreed not to continue in its current form so that a saving can be achieved from not continuing but commissioning some alternative services which are less expensive.

ASB: the reduced funding can be achieved by carrying out less diversionary activity for the rest of the year and less mobile CCTV being deployed. This is manageable in this financial year but, in future years, will have a significant impact on our ability to deal with ASB.

Community Cohesion: there are no plans to date to spend the money.

**2.3** In addition we have been notified that we will not receive the second instalment of Performance Reward Grant (£434k). One Watford has set in place a process on how it will manage the loss of the funding that would have been received in February 2011. Those projects that had been commissioned was on the expectation of this additional money. Options are to be considered by the One Watford Board on how projects can be delivered with this reduced level of funding.

### **3.0 Medium Term Financial Strategy (MTFS)**

**3.1** Watford Council has approved a MTFS covering the period up to the end of 2013/2014 and is constantly being reviewed in the light of changing circumstances. It has been reviewed recently at a macro level and latest figures are shown in **Appendix 2**.

#### **2010/2011**

**3.2** The major changes from the MTFS relate to a reduced forecast of income (£187k) from the former Woolworth's site due to a slight delay and a rent free period. The other major change is Investment Interest (£100k) which is due not so much to over optimistic interest rate forecasts (1.6% assumed in 2010/2011) but due to the fact that our Investment Portfolio has fallen due to the funding of capital projects.

**3.3** **Appendix 2** therefore indicates that there is a potential budget shortfall of £243k in the current year, is at a macro level and reflects through to the end of the financial year. It does not mean that this shortfall has already occurred and could be reduced by £130k if the provision for new initiatives was not allocated. The first budget monitoring report for 2010/2011 will relate to the first quarter (end of June) 2010 and this will provide a comprehensive first forecast of the outturn for 2010/2011.

**3.4** Leadership Team has already considered the essential need to keep within the 2010/2011 revenue budget and will recommend corrective action should the need arise.

#### **2011/2012 and future years**

**3.5** **Appendix 2** has similarly been updated to reflect latest projected spending profiles. The MTFS was predicated upon a 5% year on year cash reduction in Central Government financial support during 2011 to 2014. In the light of recent government announcements this assumption looks to be insufficient to meet expected local authority expenditure reductions. As a consequence, **Appendix 2** (second page) also indicates what further savings would be required if additional 2.5% and 5% cash reductions were imposed.

**3.6** The MTFS was also based upon no increase in Council Tax throughout the period 2011 to 2014. It now looks increasingly likely that there will be pressure for a council tax freeze for 2011/2012 so that this aspect of the MTFS looks to be the right assumption to take.

**3.7** Appendix 2 (page 3) highlights the likely extent of savings required in 2011/2012 and, without assuming additional Government reductions, indicates £1,068k should be taken off current budgets.

### **3.8 Conclusions from MTFS**

- Rigorous monitoring of 2010/2011 revenue estimates will be necessary to keep within budget.
- For 2011/2012 budget planning, we should initially be focussing upon identifying efficiencies from all sources of circa £1m at this time (6% of current net budget). This will need to be reviewed in the light of the Public Expenditure Review in October.
- For future years no forecasts are being finalised. Failure to meet any targets in 2011/2012 just delays the problem to future years and meanwhile reserves are being reduced.
- It is essential that the Council put in place a process to review all component parts of its budgets in order to have the necessary data to deal with whatever spending reductions are required.

### **4.0 Alternative Approaches to Identifying and Achieving Efficiencies**

**4.1** There are a number of alternative strategies to identify expenditure efficiencies and include:

- a salami slicing approach whereby every Head of Service is required to identify a fixed percentage reduction in the net expenditure under their control.
- an across the board reduction in staffing with differential percentage reductions between front line and support staff.
- a review of the Council's income charging policies
- reducing duplication across the public sector by adopting place based area budgets
- extending the concept of shared services with neighbouring councils
- delegate council functions to voluntary agencies/ more partnership working/ outsourcing to the private sector.
- a zero based approach to budgeting whereby the Council starts with a clean sheet of paper and builds up its budget from the bottom up.
- a comprehensive service prioritisation exercise whereby existing resource allocations are the base starting point and specific expenditure reductions/ increases are factored in according to the priority attaching to individual services.

**4.2** These different approaches are clearly not mutually exclusive or indeed the only options available. The first two approaches are pretty broad brush whereby all Heads of Service understand the position and would be personally judged on their ability to deliver. There would be an element of rough justice and a strategic star chamber could modify the worst service implications.

- 4.3** A review of the Council's Income charging policies is overdue and should be instituted but would need to recognise that the community will be suffering financial hardship and is unlikely to be able to fund dramatic increases in income.
- 4.4** Reducing duplication by introducing placed based budgets is heavily supported by the Local Government Association under the Total Place umbrella. It is however still in its 'conception' stage and will not deliver within Watford's immediate time scales. Extending the range of shared services is already council policy and opportunities will be taken on an incremental basis. The use of third party agencies should not be overlooked and again opportunities will be taken wherever possible.
- 4.5** A zero based approach is a time consuming and resource heavy exercise and , experience of other authorities in the past, has often resulted in an increase in the overall budget—which then needs to be moderated downwards. A service prioritisation exercise would appear to have many of the virtues of a zero based budget approach whilst at the same time keeping the overall expenditure targets in mind. The form of this exercise is discussed within the next section of the report.

## **5.0 Service Prioritisation**

- 5.1** Service Prioritisation has been used in other authorities in order to aid Members to make difficult decisions to cut expenditure as reserves ran out and will probably be increasingly used as a consequence of public expenditure reductions. It is extremely important to avoid a massive paper mountain which in many respects will ultimately be based upon political judgement.. Service prioritisation does not actually generate one penny of savings—it just provides a basis for making decisions on which areas to reduce support.
- 5.2** Work is currently underway to develop a 'Watford approach' to service prioritisation that aims to be challenging and deliver well informed options on service delivery but not an industry in itself. Initial discussion and thoughts on how this will work include:
- programme to begin early July 2010 with work being undertaken over the summer
  - reporting back on the findings in early September
  - work to be undertaken by heads of services/ management teams to populate a service analysis. This work will be reviewed by the Managing Director, Executive Directors and Head of Strategic Finance in the first instance.
  - the development of a service prioritisation template to include the questions:
    - what do we have to do?
      - Statutory services
      - Political priorities
      - Corporate plan priorities
      - Contractual commitments
    - what do residents / customers want us to do?
      - Feedback from surveys
      - Value to residents / customers

**5.3** To make this process effective and meaningful each service/ cost centre will be expected to support its conclusions with more data about the service such as:

- its purpose;
- client base/ numbers;
- performance (e.g. performance indicators);
- cost of service;
- income; activity cost;
- unit cost;
- benchmarking data against comparators and how this will vary with changes in expenditure;
- staffing analysis

**5.4** Once there is understanding of current levels of cost and performance, services will then be asked to consider the impact of a reduction in budget on these services and would include not delivering the service at all through to providing a good (as opposed to excellent) service.

**5.5** There should, in addition, be a parallel exercise which highlights those costs deemed to be ' support services' and which include both central support costs and directorate administration. It is essential that these administrative costs receive proper scrutiny if the over riding aim is to protect front line services

**5.6** Finally there will need to be a strategic overview undertaken to assess the impact of any reductions on the most disadvantaged communities and to take account of the budget proposals from other key partners (via One Watford) to understand the borough wide implications and consequences.

## **6.0 Service Planning**

**6.1** It is important that we continue to improve the link between service and financial planning and this service prioritisation exercise can be considered a major step in a fully integrated approach. The timetable for the production of the prioritisation exercise should run parallel with review of service plans and where the information required should serve both purposes.

## **7.0 Timetable**

**7.1** The aim is to conclude this process by early September and to be considered by Portfolio Holders, Budget Panel and Cabinet during the Autumn. As with last year, the period October to December allows further consideration and where the results of the Public Expenditure Review can be factored in.

## **8.0 Shared Services**

**8.1** The aim of every council will be to protect front line services whilst reducing back office costs. It would not be unreasonable therefore to expect the Shared Services Joint Committee to play its part in continuing to review the cost bases of the Shared Services cost centres. The period we are considering is April 2011 onwards which should have permitted all four shared services to have

bedded in. It has been recommended to Cabinet that it should request the Shared Services Joint Committee to consider scenario planning around a 5% / 7.5% / and 10% reduction in net expenditure in 2011/12 and succeeding years.

## **9.0 Capital Programme**

**9.1** This is not specifically covered within this report although it is anticipated timescales and processes will fit in with the timetable above and will follow the practice adopted last year and which permitted plenty of time for consideration of new projects.

## **10.0 Conclusion**

**10.1** The political and financial climate has changed dramatically with severe reductions in public expenditure being required. Detail will be confirmed in the four year public expenditure review to be announced in October.

**10.2** The MTFS has been reviewed and indicates potential pressures on the 2010/2011 revenue estimates. Any corrective action should be delayed until the first quarter budget monitor has been produced and which will provide a comprehensive picture.

**10.3** For future years, it now looks likely that the MTFS assumption for Central Government funding in future years (a 5% cash reduction—approx 7% in real terms—year on year reduction) looks to be insufficient. Scenario planning suggests we should be assuming additionally 7.5% and 10% year on year cash reductions to Central Government Financial Support.

**10.4** There are a number of alternative approaches to preparing the 2011/2014 revenue budgets but Leadership Team is recommending a review of income policies and a service prioritisation exercise are the preferred models and these initiatives will be developed during July/ August.