Appendix 1

Value For Money Conclusion – Self Assessment

1. Financial resilience

The organisation has proper arrangements for securing financial resilience

What do we mean by financial resilience?

The organisation has robust systems and processes to manage its financial risks and opportunities effectively, and to secure a stable financial position. The organisation's financial position should enable it to continue to operate for the foreseeable future.

The definition of 'foreseeable future' for the purposes of the financial resilience criterion is 12 months from the date of the auditor's report on the relevant set of financial statements. This is broadly consistent with the definition used in ISA (UK and Ireland) 570 (going concern). For police authorities due to demise in May 2012, the same period should be applied as the functions will continue to be provided by a direct successor body.

Why is this important?

The significant financial management challenge for councils, FRAs and police authorities over the coming years will be:

- managing the implications of the current economic climate;
- the significant reductions in the level of future central government funding; and
- possible freezing of council tax levels for 2011/12.

Increases in the demand for services linked to significant demographic changes, such as the ageing population and rising birth rate, are also contributing to financial pressures for public sector bodies. To meet this significant challenge, authorities must improve their efficiency and productivity, reduce their costs, and have sustainable financial plans to ensure they are financially resilient.

Characteristics of proper arrangements for securing financial resilience

1.1 Financial governance

The quality of financial governance and leadership within an organisation is critical in meeting the financial management challenges and for securing financial resilience. Good basic systems, processes and controls are important, but it is the overall financial culture that makes the difference.

The term 'leadership team' is used in this guidance. The definition is taken from the CIPFA Statement on the role of the Chief Financial Officer in Local Government (the CIPFA Statement) and refers to the board (the group of people charged with setting the strategic direction for the organisation and responsible for its achievement) and the management team (the group of executive staff comprising the senior management charged with the execution of strategy).

Typical characteristics of proper arrangements

The leadership team clearly understands the significant and rapidly changing financial management challenges and risks facing the organisation and is taking appropriate action to secure a stable financial position.

The Executive, Corporate Management Team and Senior Management Team all regularly receive updates on the Council's financial position, looking at the medium term (next five years), alongside budget monitoring looking at the current year's financial position. The medium term position has been monitored and reported upon for many years and is well embedded. The significance of the medium term financial position is clearly understood by the leadership team. The organisation has been actively working to eliminate the projected deficit since it was first identified some years ago. The overall financial position is also reported to all officers and members of the Council.

The chief financial officer is a key member of the leadership team (in accordance with the CIPFA Statement), being actively involved in all business decisions, and leading the promotion and delivery of good financial management. If the organisation's arrangements do not comply with the CIPFA Statement, this is disclosed in the Annual Governance Statement with an explanation of how the arrangements deliver the same impact.

The Head of Finance is part of the leadership team, being a member of the Senior Management Team. As such he actively participates within that decision making body over the running of the organisation. In addition, the Head of Finance regularly reports to, and meets, the Executive and the Corporate Management Team. The arrangements are felt to be robust, and have not necessitated anything to be reported within the Annual Governance Statement.

The leadership team fosters an environment where there is good understanding and routine challenge of financial assumptions and performance, and a culture of transparency about the financial position. The leadership team considers the level of financial skill required for different tiers of management and ensures financial literacy and skills are developed throughout the organisation.

The leadership team recognises the importance of financial challenge and transparency with regard to the Council's financial position and all decisions. The Finance and Audit Scrutiny Committee is encouraged and assisted by senior officers in actively challenging the financial assumptions of all recommendations to be considered by the Executive. Appropriate financial training is provided for officer and members to ensure that they are suitably qualified to undertake their role in managing the Councils finances. The Council's competency framework is used to assess an individual's appropriateness for the job.

The leadership team provides constructive scrutiny and challenge on financial matters to ensure arrangements remain robust and fit-for-purpose. Members scrutinise and challenge financial performance effectively, holding officers to account.

Mutual trust between officer and members enable there to be open and constructive challenge of all proposals and arrangements to ensure correct decision making. The two scrutiny committees provide active scrutiny and challenge, discussing issues with the relevant officer as appropriate. There is a close relationship between portfolio holders, the Corporate Management Team, with regular CMT/Executive briefings.

The organisation has an objective, knowledgeable and effective audit committee. It provides effective challenge across the organisation and assurance on the arrangements for risk management, maintaining effective internal control, and reporting on financial and other performance.

The role of audit committee is provided by the Finance and Audit Scrutiny Committee. By having a scrutiny role in addition to that of an audit committee, it is able to more proactively participate in the decision making process. The committee is made up of councillors from diverse backgrounds, several having financial/accounting/business backgrounds. Members take a keen interest in the reports from the Audit and Risk Manager and provide excellent support.

1.2 Financial planning

An annual budget is not enough to secure financial resilience. Organisations should set the budget in the context of a longer-term financial strategy and a medium-term financial plan (MTFP) covering for example, a three-to five-year horizon. The MTFP needs to be realistic. Assumptions around inflation, income levels, demographics and future demand for services need to be modelled and based on reasonable predictions.

The financial position of an organisation will depend on a number of factors including the level of borrowing, receivables outstanding, investment risks, council tax collection rates and levels of reserves.

Typical characteristics of proper arrangements

Medium-term financial planning and annual budgeting reflects the organisation's strategic objectives and priorities for the year, and over the longer term. The organisation has reviewed and updated its longer-term strategy and MTFP in light of the current economic climate. This review includes for example, the impact of changes in priorities, inflation, funding, reductions in other revenue and capital income (for example planning fees, car parking and investment income) and changing demand for some services.

The medium term financial plan is continually updated and reported frequently to members (Executive), and also to officers (Senior Management Team). It reflects all known and expected issues which will impact upon the Council's finances, from external and internal sources. This will include the impact of the economic climate, government funding, statutory requirements, contractually committed expenditure, as well as Council policy. It brings together the financial implications on the General Fund of capital, and the Housing Revenue Account.

The organisation understands its sources of income and the risks arising from these, and has reviewed its approach to fees and charges to ensure it achieves value for money.

Income is proactively monitored on an on-going basis, with additional scrutiny of the more volatile income sources (eg car park income, planning fees, recycling income). Fees and charges are reviewed on an annual basis by members, considering such things as the local market, charges of neighbouring service providers, the cost of service provision, scope for income generation and the

Council's priorities. Sensitivity analysis is undertaken where appropriate to model likely income levels. An Income Maximisation Group of officers has been established to oversee work on reviewing the fees and charges, and ensuring appropriate proposals to future changes.

Financial and corporate planning processes are integrated, link to risk management arrangements, and incorporate strategic planning for other resources including the capital programme and workforce planning. The organisation's treasury management arrangements ensure it has sufficient cash to meet its needs - achieving a balance between security, liquidity and yield.

Financial planning is integrally linked to the service planning process, with initiatives considered against the Council's priorities, linking revenue and capital expenditure against available resources. Staffing costs are calculated in detail, reflecting the needs of services and the workforce employed.

The Council's Treasury Management function is actively managed in accordance with the Council's agreed Treasury Management Policy Statement and Investment Strategy, ensuring appropriate priority is always given to security. Cashflow is managed on a daily basis, ensuring the Council can meet its commitments whilst optimising investment returns.

Financial modelling is used to help the organisation to assess likely impacts on financial plans and required savings for different scenarios, and help ensure short-term fixes are not achieved at the expense of long-term sustainability. The organisation models key expenditure drivers (for example population changes and demand for services), sources of income (for example income and government grant forecasts), revenue consequences of capital and resource requirements and balances. The organisation uses different planning assumptions (for example sensitivity analysis and scenario planning using realistic best, worse and most likely cases) and considers the impact on financial plans.

Whilst the medium term financial strategy is prepared on a prudent basis, different scenarios are prepared to consider the impact upon the Council's finances. This may be for such issues as inflation, grant settlement and council tax levels.

Sensitivity analysis is undertaken for appropriate business cases, eg Spencer Yard, Golf Course project. The full costs of all such analyses are brought together.

The organisation operates within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by members, and appropriate to the strategic, operational and financial risks it faces. If the organisation is not at its target level for balances, there is planned action in place to achieve this, taking account of any associated risks to the council's financial position and delivery of its priorities.

The Council has always actively sought to maintain an appropriate level of reserves and balances. This has become all the more important in the current financial regime facing the public sector. Hence in recent years the Council has increased its reserves to allow for the potential demand upon them in forthcoming years to ensure service provision pending the transformation of services in accordance with the Fit For the Future Change Programme. Where specific reserves have "target levels", plans are in place to ensure that these are replenished; this includes making appropriate Minimum Revenue Provision in respect of specific projects financed from reserves.

1.3 Financial control

Authorities need to manage within their budget. Authorities therefore need to challenge their budget monitoring and reporting arrangements to ensure they are fit-for-purpose, and that they can respond to the even greater need to demonstrate value for money and achieve efficiencies.

Typical characteristics of proper arrangements

Financial monitoring and forecasting is fit-for-purpose and accruals based, helping to ensure a clear link between the budget, in-year forecasts and actual year-end position. The organisation analyses and extrapolates relevant trends and considers their impact on the projected final outturn. Forecasts are subject to risk and sensitivity analysis and management takes timely action to address any budget pressures, for example by taking corrective action to manage unfavourable variances or by revisiting corporate priorities.

Financial monitoring is actively undertaken throughout the year, and reported to the Executive (quarterly) and Senior Management Team (monthly). As well as reviewing the overall financial position of the Council, it also concentrates on some of the high risk income generators, with the emphasis on projecting the outturn position. General Fund, HRA and capital are all considered. The monitoring is based on commitments, with the addition of further accruals where necessary. Variances are reported, with the expectation of corrective action being taken by managers where possible. None financial data/performance is also considered where it may impact upon some of the high risk income budgets. The monitoring is informed by, and informs, the medium term financial strategy.

The approach to financial monitoring is undergoing a review to enhance its accuracy and at the same time ensure it is carried out as efficiently as possible across the organisation.

The organisation has a good recent record of operating within its budget with no significant overspends.

The organisation has a record in recent years of underspending its budgets. This is obviously recognised to being preferable to overspending. Whilst there are many reasons for this, and many of the reasons are outside the Council's direct control, it is recognised that the monitoring needs to be tighter, with initiatives underway to facilitate this. £0.5m has been removed from budgets as part of this exercise.

The organisation's cashflow management arrangements ensure it has access to the required amount of cash at the right time, while achieving value for money. These include actively managing investments and cashflows, banking arrangements, money market and capital market transactions, and the effective management of risks associated with these activities.

Cashflow is actively managed on a daily basis, balancing the need for adequate liquidity against investment returns, whilst always needing to ensure the security of capital.

The organisation sets and monitors challenging targets for the collection of material categories of income and arrears based on age profile of debt. Where targets are not being met, the organisation takes appropriate corrective action during the year to achieve the targets.

In the past income targets have been set for such things as council tax, NNDR, rents. The emphasis is now on measuring the performance and understanding reasons for adverse variances. All income sources have budgets against which they are measured to ensure appropriate action is being to achieve that level of income.

The organisation monitors its key financial ratios, benchmarks them against similar bodies and takes action as appropriate.

Benchmarking is undertaken across the organisation where appropriate. This will include benchmarking fees and charges against other service providers to ensure comparability and the prices are competitive where necessary. Services will proactively participate in benchmarking clubs where it is believed this will be beneficial. All service areas are expected to be open to consider and learn from benchmarking.

2. Securing economy, efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness

What do we mean by securing economy, efficiency and effectiveness?

The organisation is prioritising its resources within tighter budgets, for example by achieving cost **reductions and by improving efficiency and productivity.**

Why is this important?

Significant reductions in the level of central government funding mean that services may no longer be affordable, or may have to be delivered in different ways. The coalition government has stated that reducing the budget deficit is its most urgent priority. The Spending Review framework 2010 also sets out clearly the expectation that resources will be prioritised within tighter budgets against tough criteria, to achieve more targeted services at lower cost.

All public bodies will now have to make difficult decisions about priorities, and find more efficient and innovative ways of delivering their responsibilities. Organisations which have proper arrangements for challenging how they secure economy, efficiency and effectiveness are more likely to be financially resilient and fit for the future.

Characteristics of proper arrangements for securing economy, efficiency and effectiveness

2.1 Prioritising resources

To make sustainable cost reductions, organisations will need to take a strategic approach to challenging all areas of spend, considering how spending matches the priorities of the organisation and the needs of the people it serves.

Typical characteristics of proper arrangements

The organisation has in place strong leadership and the capacity to deliver the scale of the spending reductions required of it. It is reviewing its strategic priorities and the cost-effectiveness of it activities. It is adopting a strategic approach to identifying cost reductions and challenging spending and investment decisions. It is taking a rational view of its priorities and of the short- medium- and longer-term opportunities for savings.

The Council is intent on making the necessary reductions in spending (and income generation) through the Fit For the Future Change Programme. This programme includes all service areas. As part of this, any aspects of service provision that do not add benefit to the customer will be reviewed with a view to their removal or reduction. As part of this, the Council is seeking to maintain its core services without any wholesale reduction of prioritisation of services.

This work is being undertaken at a number of levels. The Council has reviewed its priorities at a Strategic level in 2010 and in doing so has developed a new Corporate Business Plan known as Fit for the Future (FFF). FFF focuses the Council's activities to deliver three broad benefits:

- ***a balanced budget (particularly looking at savings and income)***
- ***Improvements for customers***
- ***Organisational, cultural and leadership development to deliver continuous improvement***

These three broad benefits are the focus of a range of operational and corporate interventions. Each of these interventions is designed to deliver against all three benefits by focusing resource on what matters most to the customer at the same time as reducing waste (work that does not add value to customer). These interventions are then used to inform decisions about spending, income and cost reductions.

Where appropriate, there is input from or consultation with front-line staff and local residents to identify local priorities for spending. There is a willingness to challenge the existing approach to managing the organisation and delivering its services, including consideration of whether services are best delivered in-house, outsourced or through shared service arrangements.

The FFF Change Programme involves all staff from the relevant service areas. This enables them to make positive contributions to the reviews, and to understand the current system, and how and why changes should be made. Service areas are expected to challenge, and be open to challenge, in the way services are provided. Alternative service frameworks should be considered, but will only be pursued if the business case shows there will be real benefits.

An understanding of the demands of customers is at the heart of our approach. In every intervention, time is spent understanding exactly what customer want from our services so that we can focus on what matters most to customers. This is done through "listening" to demand and through taking time to talk to customers. A wider set of data is also used – including consultation with residents (through a citizens' panel, residents survey and face to face surveys) - to help understand strategic priorities and the priorities of non-service users. This approach adds to the challenges made by staff and leaders.

The organisation bases decisions on cost reductions and prioritising resources on robust information on needs and on the costs it incurs in delivering its services and activities, including back-office functions, and the drivers that influence or change these costs. There is effective use of options appraisal and scenario analysis or similar techniques to evaluate proposals for, and the impact of, spending reductions, setting out risks, external factors and whole-life costs or benefits. The organisation is able to justify any areas of spending which are higher than at comparable bodies.

The Fit For the Future Programme is based on Systems Intervention methodology. Underpinning this methodology is a need to build and use a real understanding of matters to customers and the community as a whole. To do this, data is collected from a range of sources

a) "Listening" to real customer demand
b) Consulting with customers and community
c) Identifying meaningful measures of performance from the customers perspective
d) Using these measures of performance to try out and adapt new ways of working so that the service deliver what matters to customers
e) Understanding costs and value so that savings can be delivered without impact on what matters most to customers

This data is used to

a) Understand how well the system currently works
b) Identify opportunities for improvement
c) Design and run experiments to try out new approaches
d) Develop systems which deliver value to customers and minimise waste

This involves much evaluation of available data to consider where changes may be made, and by experimentation, whether those changes are successful.

The approach looks at end to end systems – including back office support functions – and ensures that all parts of the system are focused on delivering customer value

Business cases are prepared to review investment opportunities and changes to service provision. The main driver for these should be financial savings, service improvement or the resilience of the service.

There is a clear understanding of the resources at the disposal of relevant partnerships, and the organisation considers the impact of proposed cost reductions in one area on other internal services and departments, and on external bodies. The organisation is actively managing the potential impact of resource changes and reductions on its ability to continue to operate effectively, for example where there are losses of key staff.

Service Managers have been reviewing the impact of changed funding and budget decisions of partners, and how these may impact upon the Council's service provision. These have been reported to members at the regular Executive/CMT briefings, and within the Budget reports.

The Council has developed an approach to vacancy control, job matching and redeployment to ensure that where vacancies which need to be filled can be from within existing resources and to ensure that where surplus capacity is identified through interventions, staff can be job matched and redeployed at minimal cost.

The organisation has a good record of identifying and challenging areas of high spending, and of effective action to deliver cost reductions. There are proven arrangements in place to monitor the implementation and impact of action to reduce spending.

Recent initiatives include the Golf project, Spa Centre review where actions have been taken to reduce costs in these high spending services. Staffing reductions have been made in the numbers of Senior Managers, reductions in administration support, communications reduced from two to one member of staff, reduced posts within the document Management Centre. From 2011/12 the Council will cease to issue grey sacks as part of the waste collection service. Cost reductions are resulting from greater use of the web site, and increased use of direct debit to collect a greater range of payments. As part of the systems interventions, all the practices within the Council should be challenged so as to ensure they add benefit to the Council's customers.

2.2 Improving efficiency and productivity

To manage the impact of reducing government funding on local public services, organisations will need to make the best possible use of the resources available to them. They will need to increase productivity, achieving better output from more limited resources, to enable them to continue to satisfy local needs. This will involve challenging all aspects of their business and taking action to make sustainable efficiencies, which may involve changing the way they manage themselves.

Typical characteristics of proper arrangements

The organisation has access to good quality and timely comparative information on costs and performance, which is being used to evaluate options and plans for efficiency savings. The organisation has a record of producing and using robust information and data on unit, transaction and whole-life costs.

The Systems interventions are designed to be based on appropriate data, looking at all aspects of the services. Whilst the Council does consider unit costs and comparative costs fro time to time, previous experience has indicated that by looking at only part of a system, cost savings in one area can lead to significant and unforeseen costs elsewhere in the system. Our approach is therefore strongly focused on understanding and addressing whole-life cost and on trying out changes before making them the normal way of working so that unforeseen costs can be understood.

Business cases will use whole-life costs, bringing together income and expenditure, capital and revenue, with the use of sensitivity and risks being considered.

Costs and productivity of key services are consistent with or better than other organisations providing similar levels and standards of services, allowing for relevant local factors and priorities. The organisation makes use of comparative and benchmarking information to increase self-awareness and improve efficiency and productivity. It is working with partners, other service providers and external sources of support to improve its processes, costs and outcomes. There is evidence of improved productivity in recent years, for example through a gradual reduction in unit costs and increased service levels.

Benchmarking is undertaken across some services where appropriate, and it is believed to be possible to be of value and justify the investment required. The authority is of the belief that the important thing is what are our whole system costs (strategic and all the operational systems) – and how these are reducing and are we doing this in a way which is protecting or even improving services.

Alternative and innovative approaches to delivering services are being considered to achieve efficiencies while keeping services at a level that will satisfy local people. The organisation is considering the potential to manage the demand for services, and is seeking and evaluating new ways of delivering services and of improving efficiency, for example:

- use of business process re-engineering techniques, to improve processes and structures;
- use of shared services in back office operations; ***eg. County Legal service, Business Rates for Stratford on Avon DC.***
- increased use of collaborative procurement; ***eg temporary staff, stationery, washrooms and play equipment. WDC currently leading on cash collection for Worcestershire districts.***
- rationalisation of asset use; ***eg One Stop Shops with WCC, proposals for KPSC***
- working in partnership with bodies in other sectors, including the voluntary sector.

The examples given always fit our approach, but we are doing innovative things for local people and we are managing demands.

Through our systems thinking interventions we have introduced some significant innovations which have reduced costs and reduced failure demands. Examples include:

Intervention:	***Housing Repairs***
Progress:	***The core experiment (based around an appointment system) is now established as the new way of working. Work is currently being undertaken to build on this in two ways*** ***a) identify the new roles, capabilities and resources needed to support the new way of working...and to assess the extent to which capacity can be released*** ***b) improve the process for other aspects of the repairs function (such as inspections, emergency repairs, recalls etc)***
Benefits achieved to date:	• ***Minor financial savings on Housing Repairs around ICT software licences, reduced expenditure on abortive calls, cancellation of use of mailer etc have already been delivered*** • ***Staffing costs not yet released, but potential to release capacity being explored*** • ***Significant improvements for customers with introduction of universal appointment system leading to:*** o ***Reduced emergency repair response times from 24 to 4 hours*** o ***All customers reporting non emergency repairs are offered an "attend and repair" appointment within approximately 10-13 days. Previously it could have taken 40 plus days to complete.***

	- *Reduced amount of follow up (waste demand) calls by 50% - with a higher % of calls being new repairs orders.* - *Reduced the amount of invoice processing* - *Changed IT interface from Jobfax to MIS leading to a small recurring saving* - *Reduced amount of abortive calls per month* • *Cultural/Behavioural* - *More focus on purpose* - *More Emphasis on improving the system and flow and improving services from a customer perspective*

Intervention:	***Benefits***
Progress:	***Intervention complete. Continuous improvement***
Benefits achieved to date:	***Improvements for customers*** • ***reduced end to end time from 16 days average for new claims to 3 days average*** • ***easier to access service,*** • ***high levels of customer satisfaction (91%)*** ***Financial saving in DMC by reducing correspondence*** ***Behavioural change*** • ***team feel part of the solution and are beginning to see systems from a customer's point of view (as noted by Audit Commission).***

Intervention:	***Support Services Review***
Progress:	***Assess stage complete. High level vision and redesign complete. Initial proposals for change being developed. Areas to experiment on identified (though the experiments are not yet designed)***
Benefits achieved to date:	• ***None yet delivered (too early in the intervention). However the review has identified potentially £400k in savings though we have not rolled out any of the proposed changes or started experiments.*** • ***A number of key barriers to effective support services have been identified. It is hoped that, by experimenting with new ways of working, these can be addressed and improvements for customers delivered*** • ***Cultural/Behavioural Change – the approach to involving-a range of support teams in the design has been a behavioural change. The cross function project sponsor has been another cultural change***

The organisation has a robust approach to evaluating options for making efficiencies, including considering the short-, medium- and long-term impact, and is ensuring input from front-line staff. There are strong monitoring arrangements to ensure planned efficiencies are achieved, and to understand the impact on services and on performance.

Our approach places an emphasis on experimentation. Key to this is understanding how innovation is delivering what matters to customers and how it is impacting on system resources/costs. Financial and non-financial data are therefore part of every experiment. This

provides a robust approach for evaluating options before committing to making innovation "normal".

The organisation is setting itself challenging targets, and is working with others to achieve its priorities. Achievement of priorities is monitored and the risk and impact on the organisation's financial position of non-achievement is actively managed.

FFF and its associated Change Programme sets out our challenges and how we intend to address them. The Change programme and associated governance arrangement provide a robust mechanism for ensuring progress on benefits (including financial and non-financial) and risks is being carefully monitored and managed by the Senior Management Team and Members.