

BALANCING THE MEDIUM TERM FINANCIAL PLAN

**REPORT OF THE PERFORMANCE, RESOURCES AND ASSETS
SCRUTINY COMMITTEE**

APRIL 2007

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1. Executive Summary

The findings of the committee can be summarised as:

Any growth not anticipated or provided for in the spend projection of £131.9m for 2007-08 will have to be covered by equivalent reductions in net expenditure plus £0.3m. More significantly, substantial savings will have to be identified for 2008-09 and, during that year, measures will have to be implemented by the year end that will produce full year reductions in net spend of over £18m per annum with further savings needed in the two subsequent years for which forecasts have been prepared. This is a very challenging prospect and implies that what the Council is facing is not a choice of options but an imperative that virtually every feasible option to reduce net expenditure and to constrain growth will need to be applied over the next two years if a balanced budget is to be achieved in 2009-10. It will no longer be sustainable to address the challenge of balancing the budget on a year by year basis through the annual budget cycle; it will be necessary to look forward, at least to the next two subsequent years, and plan and approve a programme of action designed to address the challenge. That process needs to begin as soon as work on the 2007-08 budget is complete.

The Committee concluded that:

- following submission of information setting out the prospects for the budget for 2007/08 and subsequent years it was clear that substantial savings would have to be identified for 2008/09.
- the Council was facing not a choice of options but an imperative that virtually every feasible option to reduce net expenditure and to constrain growth would need to be applied over the next two years if a balanced budget was to be achieved in 2009/10.
- It would not be sustainable to address the challenge of balancing the budget on a year by year basis through the annual budget cycle.
- It would be necessary to look forward at least to the next two subsequent years, plan, and approve a programme of action designed to address the challenge and that process needed to begin as soon as the work on the 2007/08 budget had been completed.
- it would be extremely helpful to Councillors if the Executive produced an implementation plan using the headings identified at the scoping stage of the topic to enable the Committee to scrutinise the medium term financial plan.
- the following issues should all be pursued:
 - Re-modelling of support services to deliver services in the most cost effective way
 - Shared services – looking at partnership working with other local authorities/public bodies

- Better project management – robust process required – challenge how we do things corporately – ability to redirect funds and prioritise if necessary
- Trading – exploration of new rules for Councils – huge customer base in Luton who would prefer to pay to use the Council's services e.g. building works than private companies – would require a plan so as not to affect the Council's in-house requirement
- Waste – treatment / disposal – huge cost implications for the Council and no funding support as yet identified by the Government – lobby government for funding for waste related costs
- How to decide what are the lowest priority services – base on non-statutory services
- Crucial to take an informed view – consultation across the board and draw out consensus
- Revenue Support Grant damping
- Trust Status – could this be applied to any other services?
- Plan needs to use common language/headings

2. Introduction

The committee chose this subject as its major topic following the approval by the Council of the budget for 2005-06 when the provisional budgets for the subsequent four years showed substantial and increasingly large gaps needing to be bridged if a balanced budget was to be maintained. The topic was 'scoped' at the meeting on 7th April 2005 and the completed topic review form was submitted to and approved by the committee at the meeting on 2nd June 2005. At the same meeting a project plan for the topic was submitted and approved.

The method adopted by the committee involved identifying a number of authorities that had faced similar challenges to Luton in achieving a balanced financial outlook and inviting written submissions. Expert witnesses were also called both internal and external.

The committee decided that its objective should be to identify a range of approaches that could be suitable and to recommend them to the Executive rather than to apply those approaches and try to generate a balanced medium term financial plan itself.

The membership of the committee during the period over which this review has been conducted was as follows:

Role	Councillor	2005-06	2006-07
Chair	J. Titmuss	✓	✓
Vice Chair	P. Chapman	✓	✓
Member	M. Ashraf	✓	✓
Member	J. Bailey	✓	
Member	R. Harris	✓	✓
Member	C. Mead		✓
Member	M. Pantling	✓	
Member	H. Siederer	✓	✓
Member	H. Simmons		✓

3. The research and results

At the 15th September 2005 meeting the Head of Corporate Finance reported on the prospects for the Council's budget for 2006-07 and subsequent years and the committee discussed and considered the implications for the medium term financial plan.

At the 27th October 2005 meeting the results of enquiries with four other local authorities that had faced or were facing similar challenges in the medium term were reported. The committee considered responses in varying levels of detail from Brighton & Hove and Southend unitary authorities and from Kent and Surrey County Councils.

The approaches adopted by those Councils were as follows:

Brighton and Hove City Council

- Centralisation of support services – especially finance
- Preventative strategies – avoiding the need for residential placements (including investment in support for older people to remain in their own homes)
- Improve Council Tax collection performance
- Earmarked reserve to cushion budget pressures
- Lobbying strategy
- Investment through the Capital Programme focussed on delivering revenue savings
- Critical budgets closely monitored at Corporate Directors Management Team level

Kent County Council

- Predicting grant increases at a level less than their cost increases – of the order of £50m next year.
- Started early on the process of setting targets for savings.
- Slowing down capital spend to reduce revenue impacts.
- Income generation and invest to save ideas being progressed.

Southend Borough Council

- Substantial savings (in relation to their budget) will be needed – (£8m next year)
- This will require service cuts
- Distinguishing between mandatory and discretionary services is not necessarily helpful

Surrey County Council

- Predicting a shortfall of about £50m next year on a net budget excluding schools of about £500m
- Major review of spending being undertaken with the help of consultants on a payment by results arrangement – focus is on integrating management support functions
- Improvement programme focussed on procurement, property, ICT, workforce and customer relations

A range of issues were identified by the committee as follows:

- **Prioritisation** – what activities are least important to the Council?
- **Efficiencies** – what can prudently be predicted from efficiency programmes such as Gershon and the business partnership with ATOS?
- **Budget reductions** – vertical slices or 'salami' slices or both?

- **Centralisation of support services** – should it be contemplated for all or some of the devolved support services and is there a trade off between cost and quality or could it be a 'win/win'?
- **Invest to save** – is there scope for refocusing investment through the capital programme to reduce annual revenue expenditure?
- **Procurement** – (see also Gershon and the business partnership) – how much more scope is there to reduce costs of purchasing goods and services?
- **Partnerships** – (see also Gershon and the business partnership) – how much scope is there for Luton to partner with other authorities and/or public bodies in the provision of back office and/or front line services and thereby to make savings from the economies of scale?
- **Reducing extraneous activity** – is there scope to reduce or eliminate activity and costs that are not directly related to the Council's services and functions?
- **Charges** – is the Council's approach to charging for services consistent with maximising income?
- **Outsourcing** – are there activities that could be carried out more cost effectively by an external provider without detriment to service quality?

These issues were expanded upon with a view to exploring the options open to the Council as follows:

- **Prioritisation – what activities are the least important to the Council?**
It is not difficult for the Council to say which services and functions are important but it is difficult to say which are less important and specifically which are the least important and will therefore be the first to go if services have to be reduced. The public identification of lowest priorities will inevitably be unsettling for staff employed in the service most at risk and may be a cause for concern to customers. This will make it very difficult to recruit and retain staff. An alternative is to have a secret list; however this is neither democratic nor accountable. There is therefore a tendency to postpone until the last moment such prioritisation of services which makes it very difficult to plan ahead.
- **Efficiencies – what can prudently be predicted from efficiency programmes such as Gershon and the business partnership with Atos?**
The Gershon report to Government advocated a quest for efficiency savings from the economies of scale that could be produced by local authorities working together in partnership, particularly to deliver large scale transactional services at a few regional centres. The opportunities to achieve savings from e-procurement, the removal of duplication, the development of 'on-line' forms to reduce processing and the transformation of key business processes were also identified. The Council has to submit returns to Government showing how the targets of 2.5% savings of which at least half is 'cashable' are being achieved. The Council has entered into a business partnership arrangement with Atos Origin with a view to re-engineering some of its business processes in order to reduce the cost and improve the effectiveness of 'back office' functions. A considerable and costly programme of work is involved and overall net savings are not anticipated until 2007-08.

- **Budget reductions – vertical slices or ‘salami’ slices or both?**

When only small savings have to be made there is usually scope for spreading the pain by reducing all budgets by a small proportion (horizontal or ‘salami’ slicing) but when larger reductions are needed then it is more likely that a whole service or function will have to be removed (a vertical slice). The consequences of too much salami slicing are that, whilst a wide range of services is retained, many or all will be inadequately funded and consequently unsatisfactory. There is a fundamental choice to be made at some stage between providing a wide range of poor services or a narrower range of good services.

- **Centralisation of support services – should it be contemplated for all or some of the devolved support services and is there a trade off between cost and quality or could it be a ‘win/win’?**

Both Brighton & Hove and Surrey CC are actively contemplating some form of centralisation or integration of support services. Until March 1997 Luton Borough Council, which was then a district council, had a very centralised approach to the provision of support services. The principle adopted in moving to unitary status in April 1997 was ‘seamless transfer’ and, since the Bedfordshire County Council operated a devolved model of support services for Education and Social Services, this model was adopted when setting up the new arrangements for the Luton unitary authority. As a consequence devolved support functions had to be set up for other services. The arrangements were the subject of a best value review and those now in place are a complex hybrid with some functions fully centralised (e.g. legal services), some predominantly centralised but with departmental ‘expert’ officers (e.g. Information Management), some largely devolved but with some functions provided centrally (e.g. Human Resources) and some fully devolved (e.g. Finance). In addition, where services are devolved, there is a ‘head of profession’ relationship between the staff in departments and the Head of the central service (e.g. finance staff in service departments are accountable to the Head of Corporate Finance for their adherence to professional standards).

Whilst the area of the Borough did not change on reorganisation, it is probably not tenable to return to a fully centralised arrangement for all support services because of the scale of the Council’s functions and the size of the three service departments. Nevertheless there is a relationship between devolution and cost and a degree of centralisation to reduce support service costs could be considered.

- **Invest to save – is there scope for refocusing investment through the capital programme to reduce annual revenue expenditure?**

The Council operates an ‘invest to save’ reserve; however virtually all of the funding is earmarked to finance the up front costs of the business partnership. Some of the other authorities that provided information about their approach have said that they have reviewed their capital programmes and refocused them, as far as is possible, on invest to save projects. The Council’s capital programme is to some extent predetermined by Government funding programmes for statutory services (e.g. the Local Transport Plan); however there will be some scope to prioritise capital spending on projects that will at least reduce running costs (e.g. energy conservation) if not earn income for the Council (e.g. investment in development sites). The Council should also consider replenishing

the invest to save reserve at least from the 'pay back' from the savings delivered by the business partnership if not before.

- **Procurement – (see also Gershon and the business partnership) – how much more scope is there to reduce costs of purchasing goods and services?**

The Council has an excellent record and reputation for cost effective procurement but there may still be scope in some service areas (e.g. leased properties for housing the homeless, out of Borough placements for vulnerable children) to reduce costs by better procurement. Procurement is currently subject to review by the Council's business partner.

- **Partnerships – (see also Gershon and the business partnership) how much scope is there for Luton to partner with other authorities and/or public bodies in the provision of back office and/or front line services and thereby to make savings from the economies of scale?**

It takes at least two to make a partnership and, whilst a great deal of time, effort and commitment was invested in the e-government partnership with the other local authorities in Bedfordshire, it foundered ultimately because of a lack of a shared vision and common goals. Where large-scale transactional services are involved it may be that providers in the commercial sector are better placed to achieve the economies of scale by serving many local authority customers. Another approach that could be considered, although there are some legal constraints, is entering into business relationships with other local authorities. Where Luton is the best provider we could sell our services to other authorities and where another local authority is the better provider we could purchase the service from them.

- **Reducing extraneous activity – is there scope to reduce or eliminate activity and costs that are not directly related to the Council's services and functions?**

Businesses can be very focussed on their objective, which is to make a profit for the owner(s) and can dispense with any activity that does not make a contribution to their 'bottom line'. Local authorities are not in business to make a profit and have to deliver a wide range of services and participate in many activities. There is therefore a case for both Members and officers to review all the activities of the Council with a view to eliminating everything that does not make a positive contribution to fulfilling the Council's statutory role and responsibilities or to achieving the Council's goals and objectives.

- **Charges – is the Council's approach to charging for services consistent with maximising income?**

The Council makes charges for some services but not for others. Some charges are made even though it is uneconomic to do so and some charges recover the full cost of the service. There are different bases for charging depending on the legal framework for the service. However the Council does have some freedom in some areas. There is always the risk that increasing the level of a charge will actually result in less income if the cost becomes more than people are willing to pay. The Council's scale of charges is reviewed every year and have been

already for the forthcoming year; however there could be a case for a further review if the Council was to decide to apply a policy of maximising income.

- **Outsourcing – are there activities that could be carried out more cost effectively by an external provider without detriment to service quality?**

Many of the services used by the Council are provided by the private sector (e.g. waste disposal) and some of the services to the public are also provided by contractors (e.g. highway maintenance); however there are a lot of services and functions carried out here by Council employees which are carried out by other providers for some other local authorities. Outsourcing carries with it significant risks and if an external provider fails to deliver a satisfactory service the consequences can be seriously adverse for both the Council and its customers and clients. There are plenty of examples, some very close by, of large scale outsourcing contracts that have proved unsatisfactory and have been brought to an end before time. However there are also examples of contracts which have proved successful and which have delivered both better services and lower costs. Clearly there is a 'trade off' between risk and reward but the Council should consider whether there are 'in house' services or functions that could be provided to a higher standard at a lower cost by the private sector.

The committee then proceeded to take evidence on each of these subjects. The evidence taken by the committee is summarised below:

2nd March 2006 (see appendix A).

- Efficiencies – latest projection of savings £4.3m of which £3.6m cashable
- Procurement and Partnerships – presentation on e-procurement illustrating the process and procurement savings that could be achieved.
- Update on the Medium Term Financial Plan – as approved as part of the budget for 2006-07

6th April 2006 (see appendix B)

- Benchmarking and value for money – the committee received a presentation on how benchmarking can be used to make comparisons of both cost and quality so that relative value for money can be evaluated. Informal exchanges of 'good ideas' and the use of employee suggestions schemes were discussed.

1st June 2006

- Trading and charging for services – a guide for Councillors produced by the Improvement and Development Agency circulated; research results produced by the Local Government Association; written briefing provided by the Head of Corporate Finance; report of the Head of Legal Services reproduced. (see appendix C)
- Efficiencies and 'Gershon' – Mike Worrone from the Eastern Region Centre of Excellence briefed the committee about the 'Gershon' efficiency programme and the drive to set up shared services. He provided a booklet showcasing examples of good practice from around the country. (see appendix D)

14th September 2006

- Budget prospects for 2007-08 and subsequent years – detailed report from the Head of Corporate Finance setting out the basis of the forecasts and describing the nature and scale of the challenge they represent. The committee expressed concern that it had been confirmed at Ministerial level that ‘damping’ of the revenue support grant would continue as a feature of the system. The report also set out the impact on the revenue budget of the capital programme including the building schools for the future programme but excluding the Translink project on the basis that not only the capital funding but also the revenue impact would need to be fully covered by the Government if this project was to proceed. (see table below).

26th October 2006 (see appendix E)

- Time limited funding and exit strategies – the Partnership and Funding Service Manager from the Regeneration Service reported on the Council’s approach to projects and schemes with time limited funding. The committee concluded that new projects with a value of over £100k should be subject to a Member approval process that would include an examination of the exit strategy.
- Reducing extraneous activity – these could be seen as discretionary services which were still regarded as important to the Council. A better definition was based on the Council’s corporate goals for 2011 and questioning the value and relevance of activities to those goals.
- Centralisation (or decentralisation) to achieve economies – a review of the human resources and information management services now planned should establish whether and how any further efficiencies can be achieved.
- Prioritisation – ranking of services – this could be related to value for money reviews which could provide Members with a tool to prioritise services.
- Outsourcing/shared services – existing partnership and shared services arrangements were described and the Director of Corporate and Customer Services outlined a number of case studies for shared services across the public sector and particularly the initiative on revenues and benefits in the Eastern Region. Members commented that a change of approach was called for and instead of simply stopping doing something other options such as external service providers should be considered.
- Web based services – the Head of Customer Access and Business Transformation reported on the progress being made on enabling the Council’s customers to serve themselves through the website and on investigating the use of mobile ‘phone technology for self service.

At the meeting on 14th September 2006 the committee received and considered the report of the Head of Corporate Finance to the Executive setting out the prospects for the budget for 2007-08 and subsequent years. The medium term forecast contained in that report, based on prudent and realistic assumptions about the significant variables, was as follows:

Table 1 – Grant and Net Spend Excluding Schools	2007-8	2008-9	2009-10	2010-11	2011-12
	£m	£m	£m	£m	£m
Formula Grant at 2% increase	-75.4	-76.9	-78.4	-80.0	-81.6
Council Tax with 5% increase in yield from 2008-9	-56.2	-59.0	-61.9	-65.0	-68.3
Net income	-131.6	-135.9	-140.3	-145.0	-149.9
Net Spend based on 2006-07 budget approvals	131.9	139.5	146.2	154.4	160.7
Building Schools for the Future		1.8	2.0	2.2	3.2
Waste Disposal technology to meet LATS targets			8.6	8.8	9.0
Pension revaluation		1.6	1.7	1.7	1.8
Net deficit before new savings & growth	0.3	7.0	18.2	22.1	24.8
<i>Potential for further growth pressures</i>	<i>???</i>	<i>???</i>	<i>???</i>	<i>???</i>	<i>???</i>

4. Key findings

The findings of the committee can be summarised as:

Any growth not anticipated or provided for in the spend projection of £131.9m for 2007-08 will have to be covered by equivalent reductions in net expenditure plus £0.3m. More significantly, substantial savings will have to be identified for 2008-09 and, during that year, measures will have to be implemented by the year end that will produce full year reductions in net spend of over £18m per annum with further savings needed in the two subsequent years for which forecasts have been prepared. This is a very challenging prospect and implies that what the Council is facing is not a choice of options but an imperative that virtually every feasible option to reduce net expenditure and to constrain growth will need to be applied over the next two years if a balanced budget is to be achieved in 2009-10. It will no longer be sustainable to address the challenge of balancing the budget on a year by year basis through the annual budget cycle; it will be necessary to look forward, at least to the next two subsequent years, and plan and approve a programme of action designed to address the challenge. That process needs to begin as soon as work on the 2007-08 budget is complete.

The Council's medium term financial plan has been reviewed and revised as part of the process of setting the budget for 2007-08 and the results are summarised in the following table.

Very Optimistic Forecast:

Medium Term Estimates – very optimistic forecast	2007-8	2008-9	2009-10	2010-11	2011-12
Non-Schools Budget	£M	£M	£M	£M	£M
Base Budget	131.3	137.6	142.7	147.6	152.8
Impact of Growth	6.0	6.6	8.2	10.5	12.3
Impact of Savings	-5.6	-6.1	-6.2	-6.3	-6.3
BSF costs		0.7	1.3	1.7	1.7
LATS potential costs			1.8	2.4	3.1
Proposed Net Budget	131.7	138.8	147.8	155.9	163.6
Estimated Formula Grant	-75.4	-76.9	-78.4	-80.0	-81.6
Council Tax (5% yield)	-56.3	-59.2	-62.2	-65.3	-68.5
Net deficit – Further Efficiency Savings Required	0.0	2.7	7.2	10.6	13.5

Slightly Less Optimistic Forecast:

If it is assumed that pay increases are at 2.75% given current inflation levels, that the average inflation rate for future years will be 3%, and that the new pension scheme will result in increased costs, the total level of further efficiency savings required will increase significantly, as follows:

Medium Term Estimates – less optimistic forecast	2007-8	2008-9	2009-10	2010-11	2011-12
Non-Schools Budget	£M	£M	£M	£M	£M
Net deficit - Further efficiency savings required		5.5	9.9	13.5	16.3

Whilst the forecasts are less daunting than previously they still support the key findings of the review and underline how tough the challenge of achieving a balanced budget for 2009-10 is likely to be.

5. Conclusions and recommendations

The Committee concluded that:

- following submission of information setting out the prospects for the budget for 2007/08 and subsequent years it was clear that substantial savings would have to be identified for 2008/09.
- the Council was facing not a choice of options but an imperative that virtually every feasible option to reduce net expenditure and to constrain growth would need to be applied over the next two years if a balanced budget was to be achieved in 2009/10.
- It would not be sustainable to address the challenge of balancing the budget on a year by year basis through the annual budget cycle.
- It would be necessary to look forward at least to the next two subsequent years, plan, and approve a programme of action designed to address the challenge and that process needed to begin as soon as the work on the 2007/08 budget had been completed.
- it would be extremely helpful to Councillors if the Executive produced an implementation plan using the headings identified at the scoping stage of the topic to enable the Committee to scrutinise the medium term financial plan.
- the following issues should all be pursued:
 - Re-modelling of support services to deliver services in the most cost effective way
 - Shared services – looking at partnership working with other local authorities/public bodies
 - Better project management – robust process required – challenge how we do things corporately – ability to redirect funds and prioritise if necessary
 - Trading – exploration of new rules for Councils – huge customer base in Luton who would prefer to pay to use the Council's services e.g. building works than private companies – would require a plan so as not to affect the Council's in-house requirement
 - Waste – treatment / disposal – huge cost implications for the Council and no funding support as yet identified by the Government – lobby government for funding for waste related costs
 - How to decide what are the lowest priority services – base on non-statutory services
 - Crucial to take an informed view – consultation across the board and draw out consensus
 - Revenue Support Grant damping
 - Trust Status – could this be applied to any other services?
 - Plan needs to use common language/headings

The Committee made the following recommendations to the Executive:

(i) That the Executive be requested to consider the following measures in relation to balancing the medium term financial position:

- (a) Preventative measures – to minimise the demand for support services for vulnerable people
- (b) Invest to save – focus investment on projects that will reduce revenue expenditure and/or generate an income stream
- (c) Efficiencies – continue to apply the business partnership methodology to identify and deliver economies
- (d) Re-modelling of support services to deliver services in most cost effective way. Keep the balance under review.
- (e) Procurement – continue the development of e-procurement to drive down costs, participate in partnerships to procure on a bigger scale. Make or buy – decide based on value for money criteria.
- (f) Use benchmarking to evaluate relative value for money and to identify best practice which is transferable to Luton
- (g) Charging – maximise income, develop new areas using the new powers
- (h) Trading – explore the potential of the new freedoms
- (i) Shared services – look for areas where Luton could work in partnership with others (not private sector) and look for opportunities to take the lead – identify functions where Luton is efficient and effective and market our services to other authorities and public bodies. Consider the development of further trusts including in partnership with other bodies.
- (j) Projects with time limited funding – ensure that the exit strategies are affordable and that they are implemented – new projects with a value of over £100k should be subjected to a Member approval process including an examination of the exit strategy.
- (k) Better project management – robust process needs to be in place and applied corporately – need ability to redirect funds according to priority if necessary
- (l) Challenge services and functions – how and how much do they contribute to the Council achieving its corporate goals? - use this and value for money judgements to prioritise services
- (m) Use the latest technology to deliver the best services at the least cost – e.g. customer self service through the website.
- (n) As a last resort target the lowest priority service – (can it be externalised, can it be minimised, can it be discontinued?)
Undertake an open consultation about priorities

- (o) Lobby the Government – to unwind the damping of the revenue support grant.
- (p) Lobby the Government for funding support in relation to the additional cost of treatment and disposal of waste
- (q) Pursue all of these approaches – do not be selective.

(ii) That the Executive be requested to produce an implementation plan to enable the Committee to scrutinise the medium term financial plan under the following headings:

- Prioritisation
- Efficiencies
- Budget Reductions
- Invest to Save
- Procurement
- Partnerships
- Reducing extraneous activity
- Charges
- Outsourcing

and report back to the Committee on progress.

The Executive accepted all of the recommendations and allocated the task of preparing the implementation plan to the Head of Corporate Finance 'as soon as resources allow after the current budget round'. The Executive also determined that progress on implementing the plan would be reported back to the Performance, Resources and Assets Scrutiny Committee.

6. Monitoring arrangements

The implementation plan will be submitted to the committee as soon as it is ready and the committee can then determine, having regard to the timescales and milestones set out in the plan, the most suitable time intervals for monitoring progress and effectiveness. The ultimate test however will be the measures the Council will need to take to balance the budget in the medium term.

Extract from the minutes of the meeting on 2nd March 2006

6 BALANCING THE MEDIUM TERM FINANCIAL PLAN (REF: 8.2)

The Committee received a joint presentation from the Council's Corporate Procurement Manager and Project Officer with regard to e-Procurement. The presentation covered the following areas:

- Why?
- e-Procurement Process
- Benefits of e-Procurement
- Where are we?
- Moving Forward
- IDeA Marketplace

In response to an enquiry from Councillor Harris, the Corporate Procurement Manager confirmed that energy was included in e-Procurement.

Councillor Harris also enquired whether suppliers supported the scheme. The Project Officer responded that they did. However, there were some issues with Small and Medium Enterprises and the Council was currently looking at working with those businesses to assist them in becoming e-enabled.

Councillor Chapman enquired what the future targets would be. The Project Officer responded that a draft Procurement Strategy was currently being drawn up in order to identify these.

The Director of Scrutiny referred to the draft Project Plan he had prepared in relation to the topic of balancing the Medium Term Financial Plan and enquired if Members had any comments on it.

Councillor Harris referred to efficiencies and Gershon and commented that as well as establishing what Luton was doing, evidence should also be gathered from a Government representative.

The Director of Scrutiny referred to the extract of the Council's Medium Term Financial Plan approved by Council on 16th February 2006 which had been tabled for Members and reported that the Head of Corporate Finance had advised that due to a number of factors the overall position shown had improved considerably since the plan had been reported to Members in September 2005.

The Director of Resources reported that the 2005 Annual Efficiency Statements predicted £4.3m efficiency savings of which £3.6m were cashable. He added that the 2006 forward looking Statement was now being compiled.

Councillor Harris commented that he wished to see a breakdown of the figures showing exactly when genuine efficiency savings had been gained and how much it had been worth to the organisation.

The Director of Resources further reported that the Chief Executive was starting to develop plans for the Council as commissioner of services.

Resolved: (i) That the report be noted.

(ii) That the Director of Scrutiny be requested to make provision in the Project Plan relating to balancing the Medium Term Financial Plan for a Government representative to give evidence in respect of efficiencies and Gershon.

Extract from the minutes of the meeting on 6th April 2006

15 BALANCING THE MEDIUM TERM FINANCIAL PLAN – EVIDENCE: BENCHMARKING AND VALUE FOR MONEY, EFFICIENCIES AND 'GERSHON' (REF: 8.1)

The Committee received a presentation from the Performance Review Manager, Corporate and Customer Services with regard to Benchmarking. The presentation covered the following areas:

- What is benchmarking?
- Internal definitions
- Types of Benchmarking
- What it isn't
- Why use it?
- Benefits of benchmarking
- When to use?
- What to avoid
- Success factors
- Making the most of it
- What already exists?

The Committee received a presentation from the Policy and Performance Manager with regard to Benchmarking. The presentation covered the following areas:

- Benchmarking Group
- For CPA the comparison group has been all new Unitary Authorities
- Eleven authorities have accepted that offer
- This group is not intended to duplicate or replace existing benchmarking arrangements
- A strategic, high level model will compare authorities by ranking overall service and corporate management performance alongside a number of criteria that can impact on delivery
- These factors will be ranked individually to produce an average ranking for each group member, allowing a comparison at a corporate level.
- This benchmarking can contribute to VFM studies.
- Service comparison - Group members will identify up to 3 'high-cost' services to be included in the benchmarking

exercise. These would then be fed into a simple service model

- These factors would be ranked individually. Average rankings will be used to compare each service across the group.
- For services that were ranked as low, authorities could 'buddy up' with a high-scoring authority to investigate differences in approach.
- This 'process' benchmarking provides the opportunity to identify tangible improvements that would secure marked improvement in the delivery of services.
- A pilot exercise will be used to see if the model works in practice.
- This will focus on the Waste Collection service as defined on the CIPFA RA Forms.
- It will compare
 - Performance against statutory PIs (BVs 82a-d, BV 84 & BV 91)
 - Customer Satisfaction
 - Cost Information

Members debated the benefits and drawbacks of benchmarking.

Councillor Harris commented that benchmarking was a useful strategic approach and previous experience had shown a significant financial saving to a service following a successful benchmarking exercise.

Councillor Pantling agreed that benchmarking was practical but was concerned at the very formal approach to benchmarking stifling innovation as officers could not take a good idea and use it.

Officers advised of the internal suggestion scheme, which gave members of staff the opportunity to put forward their ideas. They commented that the formal structure of benchmarking was a useful tool for some services, being part of a benchmarking group gave the opportunity for less formal exchanges of ideas and issues that affect a service which was also a useful tool.

Resolved: That the report (Ref: 8.1) be noted.

Extract from the report of the Head of Legal Services on trading and charging to the meeting on 1st June 2006

TRADING

4. General

- 4.1 s95 of the Act provides that the Secretary of State “may by order authorise an authority “to do for a commercial purpose anything which it is authorised to do for the purpose of carrying on any of its ordinary functions” and that the power to trade will only be exercisable through a company within the meaning of Part 5 of the Local Government and Housing Act 1989 (“the 1989 Act”). An order authorising local authorities rated “excellent”, “good” or “fair” to trade - the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2004 (“the Order”) came into force on 29 July 2004.
- 4.2 The Order states that before exercising the power to trade the authority must prepare and approve a business case in support of it. Business case is defined as “a comprehensive statement as to –
- (a) the objectives of the business
 - (b) the investment and other resources required to achieve those objectives
 - (c) any risks the business might face and how significant these risks are and
 - (d) the expected financial results of the business, together with any other relevant outcomes that the business is expected to achieve.”
- 4.3 In addition, the authority must recover the cost of any accommodation, goods, services, staff or anything else that it supplies to the company to facilitate the exercise of the power to trade.
- 4.4 The Order contains transitional arrangements in the event of an authority ceasing to be within one of the top 3 CPA categories, which provide that the authority may complete anything it is in the process of doing in respect of the power to trade and allows it a period of 2 years from the loss of the categorisation at the end of which any arrangement or agreement made by the authority to facilitate the exercise of the power will cease.
- 4.5 On 28 July 2004 the ODPM issued “General Power for local authorities to trade in function – related activities through a company – Guidance on the power in the Local Government Act 2003”. This is statutory guidance to which local authorities are required to have regard. This Report is based on that Guidance

5. Steps to be considered by authorities preparing to trade

- 5.1 The Guidance sets out a number of steps which need to be considered by authorities preparing to trade, including:

- The preparation of a business case to assess the risk involved in the proposed business enterprise and decide whether to proceed. The Guidance emphasises that the fact that stakeholders are currently using a service does not mean that they will continue to do so if they are to be charged. Clearly, in addition to taking into account all the considerations which a private sector organisation would in deciding whether to invest in a venture the Council has an additional responsibility because it will be using public money to set up and then run the company. Local authorities need to be prudent about putting council taxpayers money at risk.
- The preparation of a business plan setting out the objectives of the business, how they are to be achieved and standards met.
- Deciding on an appropriate company structure through which to trade. An authority wishing to trade through a company as defined in the 1989 Act will have to decide whether to establish its own company or to agree with an existing company to trade through it (provided the requirements of the 1989 Act can be met). If the latter course of action is to be taken the authority first needs to be satisfied that its own commercial objectives would be satisfied through that company.

6. Trading through a Company

6.1 A company under the 1989 Act may be:

- a company limited by shares
- a company limited by guarantee and having a share capital
- a company limited by guarantee without a share capital
- an unlimited company

Paragraph 40 of the Guidance states “All of the options listed above have a different legal status which will impact on how they are run, managed and financed. Depending on the model chosen, the operation will need to be open to an appropriate level of scrutiny. The authority’s section 151 Officer, and probably the authority’s Monitoring Officer, will need to be involved to different extents at different stages of preparation”.

Whichever sort of company is established, there will be significant start – up costs involved in drawing up the necessary documentation and complying with the formalities required under company law.

- 6.2 The Company will be a separate legal entity from the authority, and its directors and officers will derive their authority from the company’s articles of association and company law. The objects of the company will be set out in its memorandum of association.
- 6.3 The authority will need to consider whom they should nominate to be on the board of the company, bearing in mind that a Member might, by virtue of his position in the company, have a personal and prejudicial interest in a matter to be decided by the authority. Members and Officers appointed as directors will

participate directly in the activities of the company and be answerable to the company. The authority will need to consider whether this may deflect from the delivery of the authority's core services.

- 6.4 Local authority directors and officers of the company will need to be aware of the possibility of conflicts of interest with their roles as Members and Officers of the authority. A Director's principal duty is to the company but local authority Members and Employees will remain bound by their relevant Codes of Conduct. Company Directors may incur personal liability e.g. for breach of duty, wrongful trading etc. and the Guidance suggests that authorities should issue guidance to their nominated directors on the responsibilities and liabilities of being a director.
- 6.5 Authorities will need to have regard to the accountability and governance framework for the company. The Guidance points out that the financial management issues involved in setting up and running an arms length company are extensive and are likely to go far beyond the authority's current financial management of existing service provision.
- 6.6 In addition the authority will need to consider:
- Whether to pay Directors fees/remuneration
 - Whether the authority is to be the sole shareholder or sell shares to others. If the latter, it will need to draw up a Shareholders Agreement covering the allocation, transfer and disposal of shares, the rights attached to different classes of shares and exit and termination provisions
 - Staffing, personnel and employment issues e.g. will local authority staff transfer or be seconded to the company, in which case TUPE may apply?

7. Local Authority Assistance To Companies

- 7.1 A trading company set up for commercial purposes will seek to make a profit. Any financial assistance from the authority should be for a limited period, and be provided under a formal agreement with the company. The agreement may provide for grants, loans or guarantees subject to the usual rules on Wednesbury reasonableness, vires and subject to compliance with competition law.
- 7.2 The Order states that the authority must recover the costs of any accommodation, goods, services, staff or anything else it supplies to the company. The authority must therefore establish a robust methodology for assessing the costs to it of providing assistance to the company (the Guidance suggests drawing on the principles in the CIPFA Best Value Accounting code of Practice).
- 7.3 EU procurement rules may apply where the authority provides to or purchases from the company services, supplies or staff.
- 7.4 If aid from the authority distorts competition this could contravene the EC prohibition on the granting of "state aid". The Guidance states that "As the rules governing state aid are not straightforward, it is essential to consider at the earliest possible stage whether a measure will present problems and to obtain specialist advice"

8. Income Received From The Company

The authority would expect to receive income from the Company either in the form of dividends or an increase in the value of its shares. This can be applied in any area of the authority's activities to support expenditure, subsidise services or reduce local taxation.

9. Local Authority Liability

The local authority will only be responsible for debts and losses of the company up to the limit of its shareholding or the amount of its guarantee, or under any contractual arrangement it has with the company. There may however be other consequences of a local authority company failing if the company is providing services which would otherwise be provided by the company.

10. CHARGING

- 10.1 Guidance has now been issued on the power for authorities to charge for discretionary services.

11. DIFFERENCES BETWEEN CHARGING AND TRADING

- 11.1 There are 4 main differences between charging and trading:

- Charging relates only to discretionary services (i.e. services which the authority has a power but not a duty to provide) whereas the power to trade relates to all services
- All best value authorities can charge but only those councils rated "excellent", "good" or "fair" can trade
- Charging is limited to the recovery of the cost of the service whereas trading can be for profit
- The power to trade can only be exercised through a company

Extract from the minutes of the meeting on 1st June 2006

26 BALANCING THE MEDIUM TERM FINANCIAL PLAN – EVIDENCE: TRADING AND CHARGING FOR SERVICES AND EFFICIENCIES AND 'GERSHON' (REF: 8.1)

The Director of Scrutiny introduced Mr Mike Worrton, Assistant Director, Improvement and Collaboration, East of England Regional Centre of Excellence.

Mr Worrton advised that:

- Regional Centres of Excellence (RCE) were directly funded by the Department of Communities and Local Government (DCLG – formerly the Office of the Deputy Prime Minister)
- There were 9 Regional Centres of Excellence
- His role was to act as a key change agent for local government
- Modest budget to assist best practice/good ideas
- The main driver was through shared service collaborative approach
- There were currently 19 major projects running
- He had recently been asked by central government to lead a local government forum entitled 'goods and services forum'
- Government have asked RCE's to coordinate, review and support Annual Efficiency returns (Gershon) in each region and they have just finished the latest round.

Mr Worrton commented that Luton Borough Council's efficiency statement, which was a forward-looking statement, had been a good submission and better than most of its peers. Not only was Luton doing well against the target but also doing more of the right things to meet the Gershon agenda.

Question	Response by Mr Mike Worrton
Luton Borough Council has employed ATOS to look at efficiency at the Council – they have come up with efficiency of staff, handheld computers - would you expect to see more ideas.	It depends on the rigour of the brief produced in the first instance. Luton Borough Council could look at what they do well and market that skill and sell on to other local authorities that are not good in that area. If you can free your mind from the traditional boundaries of local government it is often a better way to deal with services you are not so good at – this is encouraged under 'Gershon'.

Question	Response by Mr Mike Worrn
<p>Benchmark – it is difficult to find out what other local authorities are doing</p>	<p>It is difficult to get access to information and much is not worth the paper it's written on.</p> <p>Move forward and consider principle of shared services and look at zero based budget exercise.</p> <p>Don't get too hung up on benchmarking – try where you can. If you want to try a specific area contact the Centre of Excellence who would try and help.</p>
<p>Culture Change – savings are always looked at by cutting services</p>	<p>At the point now we know who is doing what – good/bad etc.</p> <p>Chief Executives say 'what's in it for us' if local authority is performing poorly the Centre for Excellence can advise 'you do a, b and c' and we can evidence that achievement.</p> <p>Looking at significant benefit if local authority already in the upper quartile.</p> <p>The Centre of Excellence wants local authorities already doing well to stay in.</p> <p>A mechanism needs to be found and advised to the Treasury to incentivise local authorities.</p> <p>One suggestion for poor performing local authorities not wanting change is that they be given an opportunity to join a partnership which could save £x, if the local authority decides not to take that step, their revenue support grant could be cut by that amount, and the Treasury would tell that local authority to advise the public why they had lost that amount of money.</p>

Question	Response by Mr Mike Worrton
Best Practice	<p>Problem is that local authorities try to re-invent the wheel, which does not work.</p> <p>One idea is to create a resource pool (legal services) for specialist legal experts for county and unitary authorities and on a fee-paying basis for district councils.</p> <p>Planning – the government is looking to change the way planning is delivered and is considering taking away conservatories/extensions from local government and giving authority to an alternative group (licensed agents) to free up resources within local government to concentrate on main planning applications.</p> <p>The Centre of Excellence was trying to encourage local authorities to celebrate success and be open and share it and equally learn from mistakes.</p> <p>There is a growing recognition that local authorities need to share best practice.</p>
Luton Borough Council has £1 billion of assets and can't raise money to do anything – the biggest block is the culture.	By asking local authority Chief Executives if they have any skilled operators/entrepreneurs to create a strategic operators pool to assist other local authorities. If the authority could release that person they would come back more experienced and provide money for the local authority.
Zero based budget – what is the downside?	If done constructively very few downsides – It would have to be a cross party decision that is done in the interest of the local authority and with no blame culture attached and with the courage to start again if necessary.

Question	Response by Mr Mike Worrton
Local authorities have new legal powers to set up companies to trade/charge – have any other local authorities made use of the new legal powers?	Any local authority even looking at this area is ahead of the game. As a member of the shared services forum I will enquire.

Mr Worrton circulated a document produced by the Centres of Excellence entitled 'Transforming Council Services through Efficiency – showcasing good practice from around the country'.

Mr Worrton advised of a review of local government owned assets and the way assets are owned and managed and why local authorities own assets anyway? The brief may be extended to incorporate IT hardware, plant and equipment and people. He further advised that a forum would be convened with representatives from key local government, central government, private sector and would involve a round table discussion on how local government could run its assets better. Mr Worrton extended an invitation to Luton Borough Council to attend the aforementioned Forum.

Mr Worrton advised that a powerful driver for government currently was to engage real creative work and deliver high quality consistent services and he advised on funding sources available.

The Director of Resources advised:

- that Luton Borough Council was active in all funding sources mentioned by Mr Worrton but had had a bitter experience when receiving an at first favourable and then negative response from the Centre of Excellence to it's bid for support for its Business Partnership programme.
- that regarding benchmarking and best practice these were areas of ongoing learning and were being constantly and actively looked into.
- That Officers were working to introduce more objective evidence based processes for budgeting, which would highlight priority areas for streamlining and/or investment.
- Benchmarking on both costs and performance would be against our nearest neighbour family but also draw on CIPFA and informal "clubs" we have joined
- This would be collated into a matrix to enable Members and Officers to draw on objective evidence in financial and service planning

- We already have our toe in the water on shared working for example in procurement and areas of Adult and Children's Social Services but this was still an area of opportunity for the future which was actively being developed
- waiting for benchmarking data and recommendations on our Revenues & Benefits Service from Regional Centre of Excellence

Resolved: (i) That the report (Ref: 8.1) be noted.

(ii) That Mr Mike Worrone be thanked for his attendance, his very informative presentation and his responses to questions raised.

(iii) That the programme for the remainder of the topic be noted.

Extract from the minutes of the meeting on 26th October 2006

**44 BALANCING THE MEDIUM TERM FINANCIAL POSITION - EVIDENCE
(REF: 8.1)**

The Director of Scrutiny introduced the report on Balancing the Medium Term Financial Position – Evidence.

The Partnership and Funding Service Manager reported on time limited funding and exit strategies.

She reported that exit strategies for all projects should be agreed at the beginning of a project, and should include factors such as maintenance contracts after project completion, and a Forward Strategy should be included when activity was expected to be ongoing after completion of a project.

In response to an enquiry as to why exit strategies could be so problematic, the Partnership and Funding Service Manager advised that many factors came into play, including:

- The departure of Project Managers
- Overly-optimistic forecasts submitted at the time project approval was sought
- Exit Strategies were on occasion prepared which were unrealistic or had not taken all possible factors into account – strategies needed to be realistic, even if “uncomfortable”.
- Ownership of exit strategies was essential

A Member enquired of the Head of Corporate Finance what steps were taken to ensure exit strategies did not place additional financial burdens on an already strained budget. The Head of Corporate Finance advised that he requested on an annual basis, at each Star Chamber, that each service provide information regarding all funding grants received, the duration of the funding available and appropriate exit strategies. He further advised that with regard to some Educational Grants, this was an unknown entity as no indications were available from the Government.

The Director of Scrutiny drew attention to various external funds or grants, and the possible liability the Council could face in respect of residual ongoing revenue costs which could remain once the funding had been exhausted.

Members agreed that, for monitoring purposes, the Head of Corporate Finance be requested to refer new projects with a predicted value of over £100,000 to a member approval process.

With regard to those services provided by the Council that the Council was not under a statutory obligation to provide), the Head of Corporate Finance responded that although these may be seen as an extraneous activity, it was not a clear-cut decision e.g. Leisure and Community Development were largely discretionary activities, but were key elements to the achievement of Luton's 2011 strategy.

A further example of discretionary activity was the adaptation of private houses. Luton had the 3rd highest requirement for such funding but the funding available left a vast shortfall of unsatisfied need.

Members were also advised that a review of services could be undertaken to ensure that services Members wished to be undertaken were prioritised accordingly.

The Head of Corporate Finance stated that Value For Money reviews of services was a good place to start, with Members indicating priorities during the course of the budget process.

The Director of Corporate & Customer Services stressed that there had to be a focus on priorities and that step change was key for the future. He highlighted the £4.7 million efficiencies saved via the budgeting process and the progress made with regard to the requirements of the Gershon Review and the Annual Efficiency Statement.

The Director of Corporate & Customer Services advised that other initiatives, such as setting up Trusts e.g. Active Luton, the Museum Trust and Business Partnerships were contributing to efficiency savings and generating additional revenues.

The Director of Corporate & Customer Services advised Members that a best value review of the Human Resources, IM and Finance services had been undertaken in 2002 and that the resultant structure at that time had provided significant savings. A further Council-wide review of the Human Resources and IM services was now planned.

The Director of Corporate & Customer Services advised that centralisation of services is not a dogmatic goal or appropriate for every service, and was one of a range of possible outcomes in seek further efficiency.

He further highlighted the advantages and disadvantages with regard to Shared Service Agreements, Private Sector Partnerships, Joint Venture Partnerships.

e.g. Carlisle Managed Solutions – agency operating Council wide
Every Child Matters – shared information across agencies
Norfolk Property Services – closely links with CAM

The Director of Corporate & Customer Services outlined a number of case studies for shared services across the public sector and also mentioned the Centre of Excellence-East initiative on Revenues and Benefits and the ongoing Government roll-out of regional consumer advice (trading standards) centres.

The Head of Corporate Finance advised that a great deal of what happened within Local Government was decided by Central Government. A Comprehensive Spending Review would be undertaken in 2007 and Central Government would calculate funding to be allocated based on savings achieved via shared services. He further advised that there would be huge amounts of work to be undertaken in setting up shared services, and this work could not be completed for 2007/08.

The Director of Corporate & Customer Services commented that a more strategic and evidential approach was required to budgeting using all data available. Benchmarking comparisons were now being made with others providing services in our benchmarking “family” to ensure budget expenditure for areas was set at an appropriate level.

Members commented that a different approach was required, instead of a “stop doing” mentality, external service providers/other options could be considered.

The Head of Corporate Finance advised that the budget for 2007/08 was challenging but achievable, but that the budget for 2009/2010 would be much tougher as it took into account implications arising from such areas as Building Schools For The Future and Waste Management targets.

The Head of Customer Access and Business Transformation presented on the Council’s aims with regard to web based services. He reported that the aim was to increase significantly the ability for transactions for Council services to be web based, (already available were electronic forms for abandoned vehicles/ fly tipping/graffiti). This would lead to a reduction in face-to-face transactions with the public. He also advised that 84% of the public had mobile phones, which again presented significant development opportunities.

Resolved: (i) That a process be developed whereby bids for grants of more than £100,000 should require a member approval, which should include a review of the exit strategies.