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Leicestershire County Council

May 2015

Medium Term Financial Strategy report

Contents

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to directors or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any director or officer in their individual capacity or to any third party.

Introduction

Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with recent guidance issued by the Audit Commission, in 2014/15 our conclusion will be based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for prioritising resources.

The focus of these criteria for 2014/15 will be on whether:

- The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We will not be required to reach a scored judgement in relation to these criteria and the Audit Commission will not be developing 'key lines of enquiry' for each criteria. Instead, we will be carrying out sufficient work to allow us to reach a conclusion on your arrangements. As part of our work in this area we have undertaken a review of your Medium Term Financial Strategy.

Background

On 20 October 2010 the coalition government published the Spending Review 2010, which set out government department budgets for the period 2011/12 to 2014/15. The impact of the reductions in central government funding on individual local authorities in the two final years of this period was finalised in December 2012.

The Chancellor's Autumn Statement was given on 5 December 2014 and it described the plans as being in the year 5 of a 10 year fiscal consolidation. It included the following key headlines:

- Economic growth forecasts of 3% for 2014/15 and 2.4% for 2015/16;
- The deficit was due to be eliminated after 2017/18;
- A small cash surplus predicted in 2018/19; and
- Business rates again capped at 2% rather than linked to RPI inflation.

The provisional Local Government Finance Settlement was released later in December 2014. The key points raised were that:

- The 'spending power' of the Council is to rise by 1.6% in 2015/16 (primarily due to the Better Care Fund);
- Revenue Support Grant will fall by 23.8% to £55.8m in 2015/16; and
- The New Homes Bonus would be £3.4m.

Medium Term Financial Strategy

In our audit plan presented to you in January 2015, we highlighted a specific audit risk in relation to your savings requirement over the next few years. You will be required to make around £87m of savings and service reductions over 4 years (2015/16 – 2018/19).

The Council took prompt action in 2010 to cut costs in advance of the Comprehensive Spending Review. You have been planning ahead for the impact of the economic environment for a number of years, and are on track to deliver the £18m of savings planned to be achieved during 2014/15.

We agreed in the audit plan that we would review your MTFS, including how you manage the plan and comparing it with other similar plans. The areas of focus for this work are:

- Programme management;
- Progress to date;
- Assumptions;
- Sensitivity analysis;
- Reserves; and
- Economy, efficiency and effectiveness.

Section I: Progress to date

Progress to date

The Authority has made significant strides over the past five years to identify savings and deliver more efficient services. There has been a well-established Change Management Programme and Organisational Efficiency Programme which has helped deliver a balanced budget and achieve demonstrable value for money over a number of years.

You have continued to focus on maximising efficiency savings. Previous examples have included reductions in management and associated costs through reducing the layers of management, exploiting new technology and a further review of employee terms and conditions. You are also planning further efficiencies over the MTFS period, including reductions in senior management and administration costs (£5 million), better commissioning and procurement (£12 million) and service re-design (£14 million).

The scale of the challenge over the next few years is likely to be significant and much of the good practice you have demonstrated will need to continue and be intensified if your planned savings and service reductions are to be delivered. This is particularly true for the delivery of your challenging savings target in 2015/16. The delivery of more challenging transformational savings than has been the case to date is also required. There will also be a greater level of service reductions than have been experienced to date – the MTFS forecasts that up to £35m (40%) of the £87m savings requirement over the next four years will be delivered through service reductions. You estimate that your proposals would lead to a reduction of up to 700 posts over the four-year period; you need to ensure that corporate memory is not lost as a result.

During 2014/15 you have continued to deliver savings and you reported to members in March this year a forecast net under-spend against the updated budget of around £13.6 million before carry forwards. This was for a variety of reasons including contingency budgets which have not been required and the achievement of efficiencies ahead of plan. This gives you further flexibility to invest to save, for example through the £25m street lighting project. There is continued evidence of proactivity and looking forward, with in-year projects identified and progressed, enabling required future savings to be realised.

The overall underspend for 2014/15 masks some overspending within the Council. The Adults and Communities Department in particular continues to experience increased demographic and demand pressures which resulted in a forecast overspend of around £1.5m.

Link to your MTFS

Progress to date continues to put you in a good position to address future challenges. For example, the earmarked reserves you have established for ‘invest to save’ projects and other future commitments mean that you can continue planning for the reduction in your grant from central government over the next few years.

However, the challenge remains significant and is growing. This should not (and in our view is not) being underestimated. Your MTFS for 2015/16 and beyond was approved at the February Council meeting. This highlights that in 2015/16, for example, you will be required to deliver savings of around £31.9 million, or around 9% of your net budget. This is a significant increase from the £18m savings you have delivered in 2014/15, and represents by far the most challenging requirement you have faced over the past five years.

Section II: Programme management

Programme Management

You have effectively managed savings programmes over a number of years and have a proven track record.

Governance structures in each department have overseen delivery of past plans, and our recent work suggests these remain fit-for-purpose. There continues to be:

- strong leadership from your Directors who have taken responsibility for delivering the required savings and service reductions;
- agreed priorities which have influenced spending decisions;
- a well-established reporting framework with clear accountability to ensure that projects down to a granular level are delivered; and
- business partners in each Directorate to support the delivery of savings projects and improve information to support decision making.

Involvement of Members

Members are involved through each of the lead members and the review of corporate performance against capital and revenue budgets at relevant committees. Members also have a significant involvement in the development of the Medium Term Financial Strategy through a number of means:

- meetings with members and briefings for individual political parties;
- detailed scrutiny of the plans for Adult & Communities and Children & Family Services at separate scrutiny meetings. This also includes scrutiny of Environment & Transport and Public Health;
- detailed scrutiny of Chief Executive and Corporate Resources plans by the Scrutiny Commission;
- scrutiny at a summary level by the Scrutiny Commission;
- discussion of the proposals at Cabinet meetings; and
- approval of the final MTFS at the Council meeting in February 2015.

Members have also been involved in the development of the financial strategy which underpins the MTFS as part of the Transformation programme.

Transformation

Over the past 18 months the Council has developed and implemented arrangements, supported by appropriate resource, to oversee a transformation programme. This reflects the challenges facing the Council and the need for future savings to be transformational, rather than through traditional means which have served the Council well over the past few years.

During 2013 an all-party 'Transformation Board' for members was established to engage with officers on the medium term transformation of the way the Council operates. The governance arrangements around the transformation programme have developed well over the past 12 months; this now comprises:

- The Transformation Board – meets on at least a quarterly basis. It was established as a cross-party group that is member led.

- The Transformation Delivery Board – meets on at least a monthly basis to oversee the process and manage risk.

- The Transformation Team – responsible for the day to day running of the Transformation Programme, led by business partners working with individual Directors.

The transformation programme is being supported by significant resources, and this investment is critical if the required transformation is to be delivered. The transformational schemes with the largest savings attached to them over the life of the MTFS, are as follows:

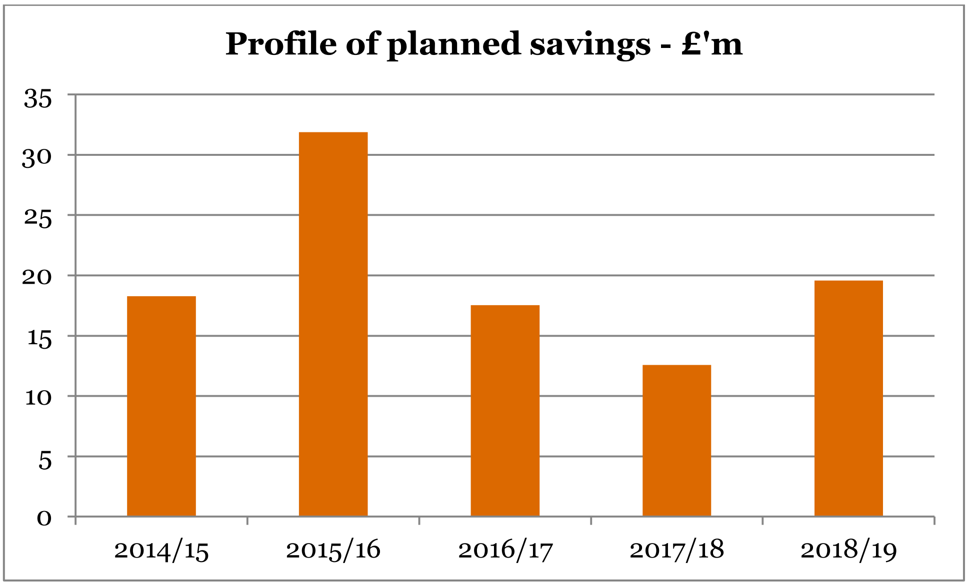
- Remodelling Early Help services - £3.090 million;
- Early intervention and prevention - £2.5 million;
- Preventative expenditure to be identified and absorbed into the ring fenced budget - £5 million;
- Revised approach to Highways Activities and Maintenance - £6.670 million;
- Recycling and Household Waste Site provision - £2.795 million; and
- Various reviews of Corporate Services - £7.165 million.

These are significant transformational schemes which will require ongoing support, robust challenge and effective project management if they are to be delivered. The infrastructure the Council has put in place has the potential to facilitate delivery of these schemes.

In overall terms, we think that your programme management arrangements are good. The changes to your arrangements, in particular the increased resource you have allocated to delivering the transformation agenda, is important and necessary given the scale of the challenge which remains significant.

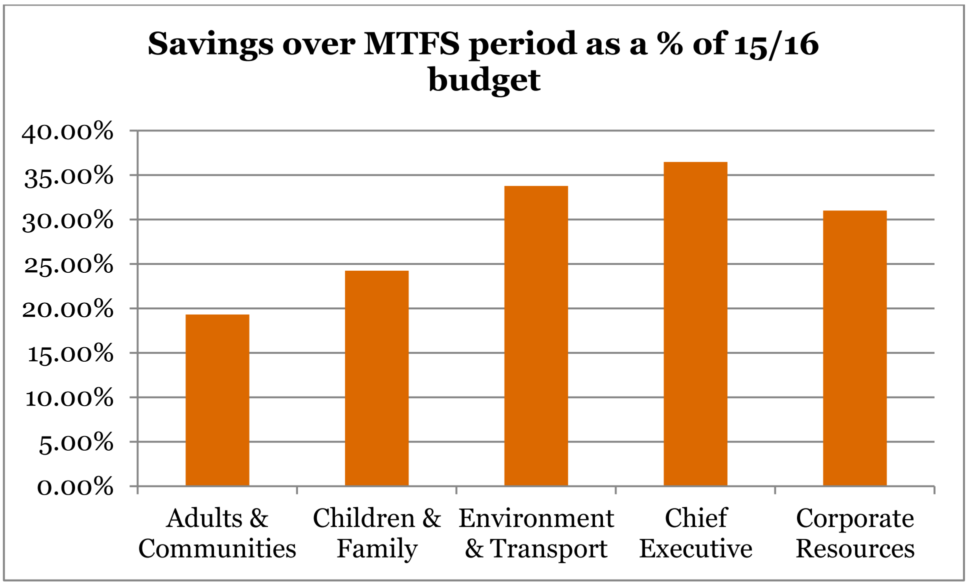
Profile of Planned Savings

The challenge in 2015/16 is greater than in 2014/15, and indeed than in later periods of the MTFS. It is a critical year in the delivery of savings and transformational change. The majority of the savings for 2016/17 and later years are in the early stages of development and require either significant transformation or tough reductions in service levels to be implemented:



There are difficult actions which need to be taken if the planned savings are to be realised over the medium term. The lower savings figure for 2014/15 provided you some space to plan for and deliver future required savings. In particular, 2015/16 will be very demanding; you have included an £8 million contingency in your budget for each year of the plan to help manage financial risk and a central contingency for inflationary pressures, which is £10 million in 2015/16. The figure for 2018/19 includes the £4.7m budget shortfall; this is a reduction from the £12.5 million budget shortfall in the final year of your 2014 MTFS.

The savings also impact some areas of the Council more than others. The following graph illustrates the total savings required in each department, over the lifetime of this MTFS, as a percentage of their 2015/16 net budget:



The relatively lower requirement for Adults and Communities reflects a number of factors - the significant uncertainty regarding funding for care, pressure from changing demographics and the results of the consultation process which prioritised many services for older people. The savings for Adults and Communities also includes £10 million of addition income for the impact of the Better Care Fund. If this was removed the percentage savings would be lower at 11.7%.

Delivery of 2015/16 Savings

The MTFS includes a number of significant service reduction and efficiency schemes which will be particularly influential in meeting your targets. The largest of these schemes in 2015/16 are as follows:

Department	Scheme	2015/16 £'m	Comments
Children and Family Services	T3 - Remodelling Social Care	1.200	The project aims to deliver system change across three key service areas: • the structure of locality social care services; • provision of placements for children with complex needs and behaviours; and • commissioning and use of Independent fostering agencies. Changes in phase 1 of the remodelling project to alter the service have been completed and deliver the savings for 2015/16.
	T8 - Remodelling Early Help	1.890	A restructuring has already secured delivery of the savings for 2015/16. Phase 2 of transformation will be undertaken during 2015/16 in order to deliver further savings in 2016/17

Department	Scheme	2015/16 £'m	Comments
			through the development of co-commissioning and service integration.
	D9 – Release Early Help budget	2.100	It was anticipated that the expansion of the early education offer to the 40% most deprived 2 year olds would be unfunded, this was subsequently funded by the Department for Education. This has released a recurrent saving of £2.1m.
	Cumulative savings of £13.380m per annum need to be made by 2018/19. The largest element is the assumed £3.090 million by 2017/18 from the remodelling of early help services.		
Adults and Communities	I22 - Better Care Fund	10.000	The Better Care Fund (BCF) is a pooling of health and social care resources to support the provision of integrated services. The Leicestershire Better Care Fund Plan has been approved by the Health and Wellbeing Board. The BCF Plan outlines the ambition for improvement in Leicestershire against a set of performance metrics which include a reduction in emergency admissions to hospital. This metric is linked to 'Pay for Performance' whereby £3m of the fund is only payable to the County Council if there is a 3.5% (1,911) reduction in total, non-elective, general and acute admission. To militate against this risk to the Council, funds have been earmarked from the health integration fund to cover any loss of income resulting from underperformance.
	Cumulative savings of £25.615m per annum need to be made by 2018/19. The largest element is the assumed £10 million income from the Better Care Fund from 2015/16 onwards.		
Public Health	T9/10/18 - Expenditure managed by Public Health absorbed into the ring fenced budget	1.750	Some expenditure within the Public Health remit has been allocated within ring fenced budgets, producing a saving. This includes spending on statutory services such as health checks, non-mandatory services such as physical activity and smoking cessation and other areas of health improvement.
	Cumulative savings of £5m per annum need to be made by 2018/19. The largest scheme is the one noted above.		
Environment and Transport	T6 -Recycling credits	1.440	The use by district councils of County Council facilities for green waste, resulting in transformational savings.
	Cumulative savings of £23.475m need to be made by 2018/19. The largest scheme is a revised approach to Highways Maintenance and Activities which will save £6.270m by 2018/19 through service reductions and efficiency savings.		
Chief Executive	No individual schemes above £1m due to be realised in 2015/16. Cumulative savings of £3.6m need to be made by 2018/19. The largest scheme is a reduction of funding and support to businesses which will save £555,000 in 2015/16.		
Corporate Resources	No individual schemes above £1m due to be realised in 2015/16. Cumulative savings of £7.165m need to be made by 2018/19. The largest schemes are: • Operational property review – £1.770m; • Operational ICT review - £2.140m; and • Improved performance and growth of trading services - £1.150m. • Further review of strategic support to Departments £1.695m		

The majority of the largest schemes have been already agreed or are subject to consultation for implementation in 2015/16. The delivery needs to be effectively monitored and slippage identified at an early stage for mitigating actions to be achieved. Your arrangements should enable this.

Section III: Assumptions

Key Assumptions

The MTFS is underpinned by a number of key assumptions. These include:

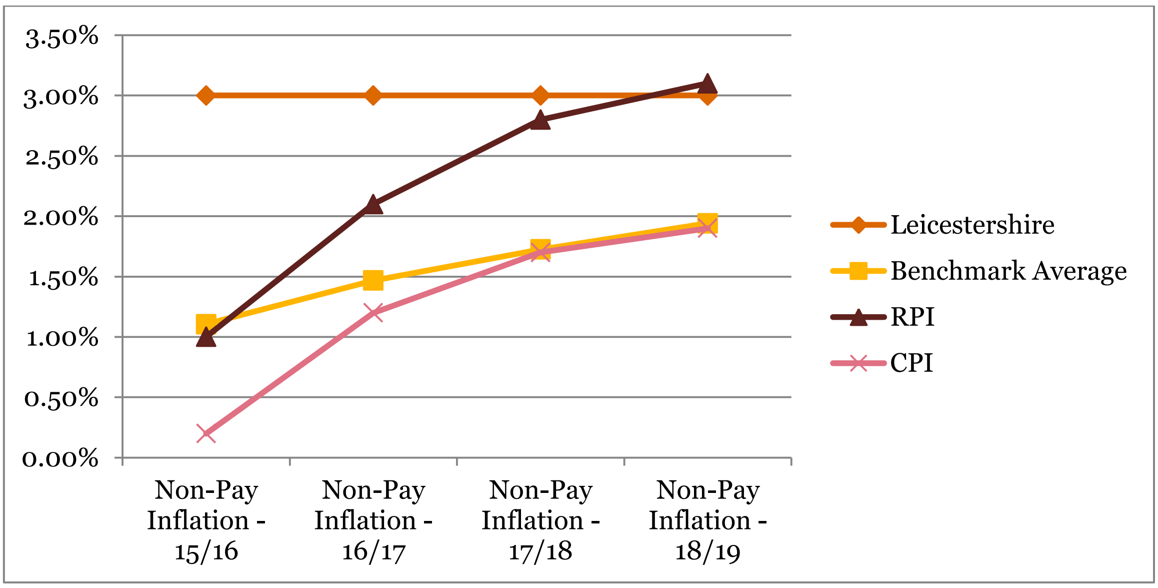
- Inflation – for both pay and non-pay expenditure;
- Growth – your estimate of future cost and budget pressures from changes in demand and volume;
- Efficiency savings – the level and timing of the savings you need;
- Council tax; and
- Use of reserves.

Each of these assumptions has varying degrees of inherent uncertainty. Assumptions applied to forecasts can often have a significant impact on balancing budgets. You have a history of delivering good financial management although the economic climate for Local Authorities continues to be challenging. With so many assumptions being applied there is an ongoing risk that one of the influencing factors may vary significantly from the assumptions you have applied.

We have reviewed the assumptions in your MTFS and compared them to all of our other Upper Tier External Audit clients. We have also taken into account our wider understanding of the sector. A summary of our findings is included below.

Inflation – non-pay costs

You have applied higher non-pay inflation assumptions for the whole MTFS period than our benchmark group, showing prudence in your estimation of the potential costs for non-pay items. You have assumed 3% inflation across the MTFS period. This is above current Treasury projections for CPI, the government's preferred measure of inflation, and generally below RPI in later years. You are also anticipating higher inflationary costs than the average of our benchmark group:

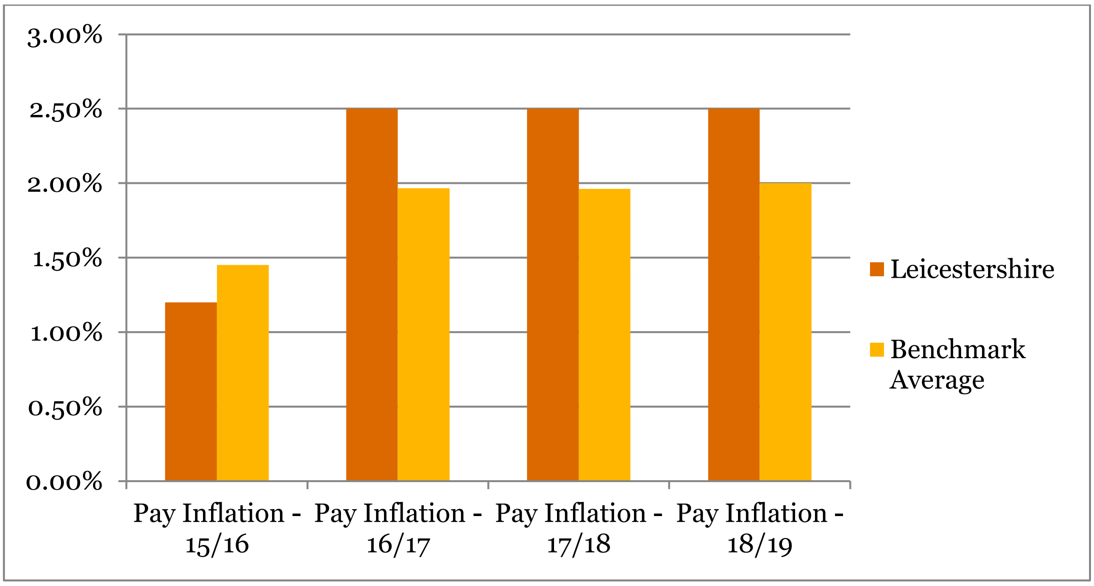


A 1% increase in inflation above your assumptions would result in an overspend of approximately £3m in 2014/15. You have also included some specific inflationary items to address cost pressures significantly above your general inflation assumptions.

Inflation – pay costs

The majority of the Local Authorities in our benchmark group have assumed pay inflation in 2014/15 and 2015/16 in line with the agreed local government pay settlement. The assumption of pay varies across our benchmark group in later years of the plan. The range of pay costs modelled by other Authorities is consistent at 2% over the last 3 years.

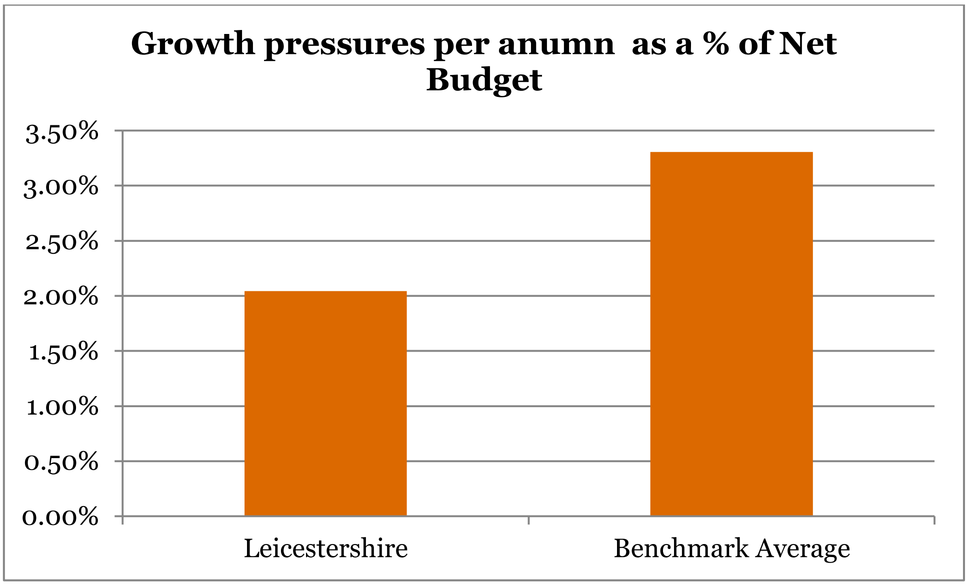
You have modelled a 2.5% increase for the later 3 years. You are at the higher end of the range. Your rationale is that after below inflation pay increases for a number of years there will be significant cost pressures for pay and on-costs, including employer pension contributions. We believe this continues to be a reasonable assumption for planning purposes:



With pay costs representing over 40% of Leicestershire County Council net expenditure, a 1% increase in this assumption would represent additional cost to the Authority of approximately £1.6m in 2015/16.

Growth pressures

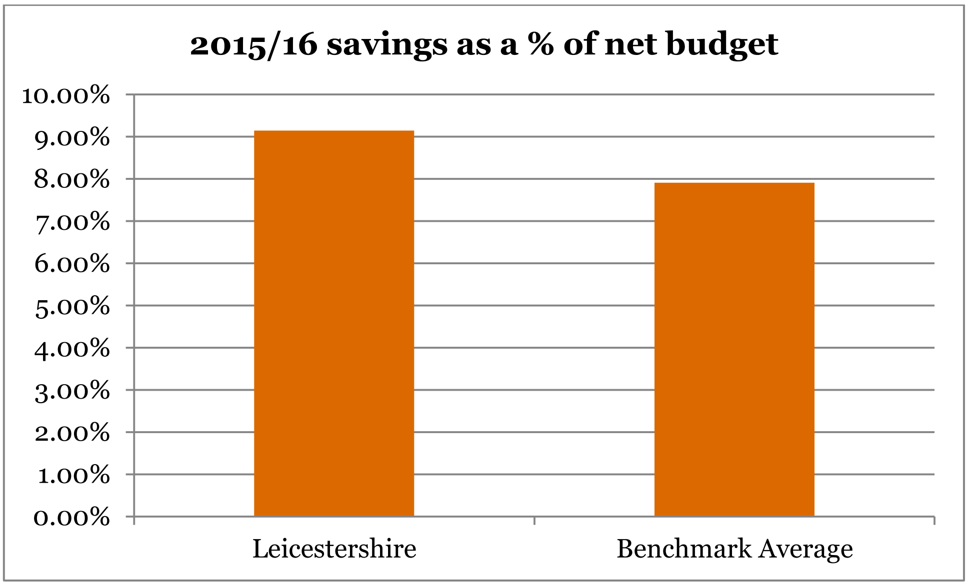
The growth and demand pressures you have modelled in your MTFS, when reviewed as a percentage of your net budget, are slightly lower than our benchmark group. The growth you have identified in the current MTFS is nearer to 2%:



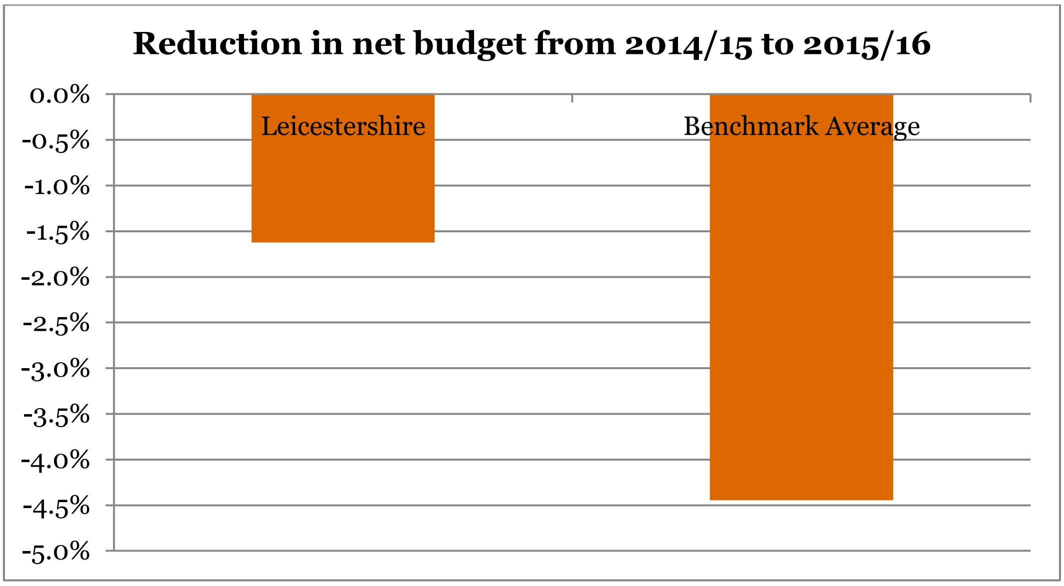
Of the £28.5m growth modelled over the life of the MTFS, by far the largest proportion relates to Adult Social Care (£22.4m). This is largely the result of increasing numbers of people with learning disabilities and an ageing population with increasing care needs. This continues a trend of the past 2 years where demographic and demand pressures have contributed to an overspend in the Adult and Social Care budget in both 2013/14 and 2014/15.

Total Savings

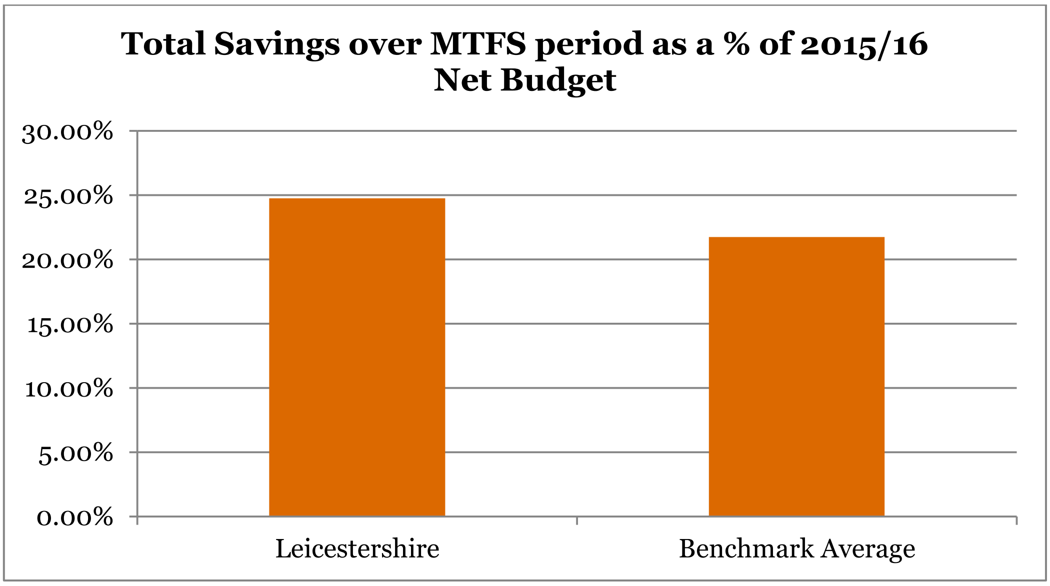
The levels of savings you are planning to make in 2015/16 to deliver a balanced budget are slightly above our benchmark group. This partly reflects the use of general and earmarked reserves in a number of Councils in our benchmark to deliver a balanced budget:



Your net budget is reducing next year by a lower level compared with our benchmark group:



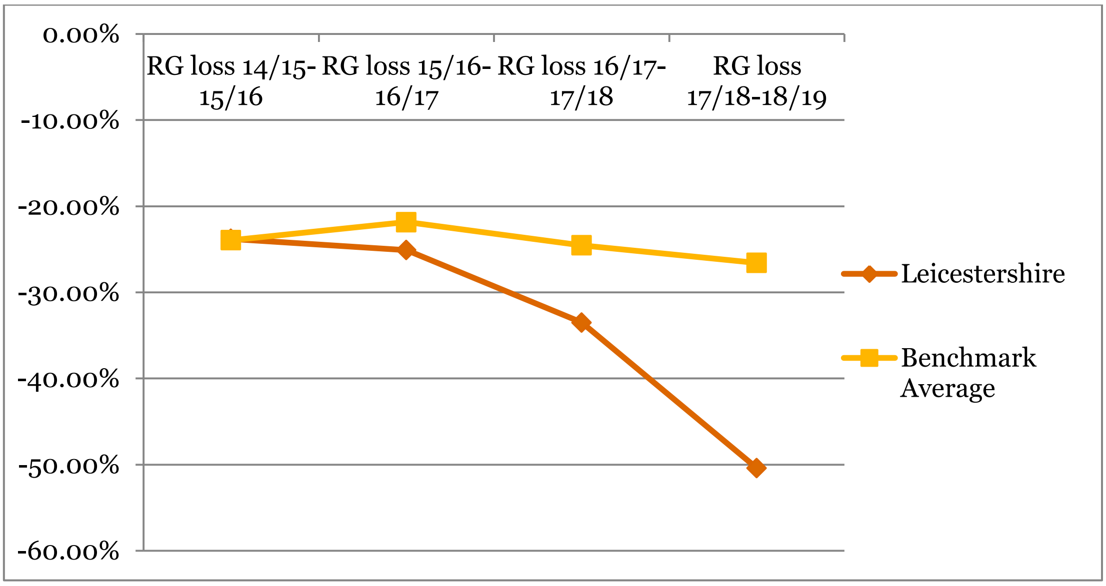
The levels of savings you are making over the period from 2015/16 to 2018/19 as a whole are slightly higher than for our benchmark group. This primarily reflects the fact you have modelled a full MTFS covering the whole 4 years, and have assumed a continued significant reduction in the level of funding available, when compared with others:



In overall terms, however, relative to your peers you are making similar savings or reductions over the course of your MTFS. The scale of savings being forecast for future periods has become more consistent in the sector over time, as the expectation of ongoing reductions in revenue funding has become more established. However, the level of savings you are planning to make in 2015/16 are clearly challenging.

Funding

The provisional level of revenue support grant (RSG) is known for 2014/15 and 2015/16, but has not yet been disclosed for later years. You have assumed a similar continued reduction in revenue funding for later periods of the plan when compared with our benchmark group. The variation from our benchmark group is also explained by the significant reduction in your revenue support grant towards a zero level; as the grant reduces each year, the percentage reductions become greater. You anticipate that in 2018/19, your grant will only be worth £13.8 million:

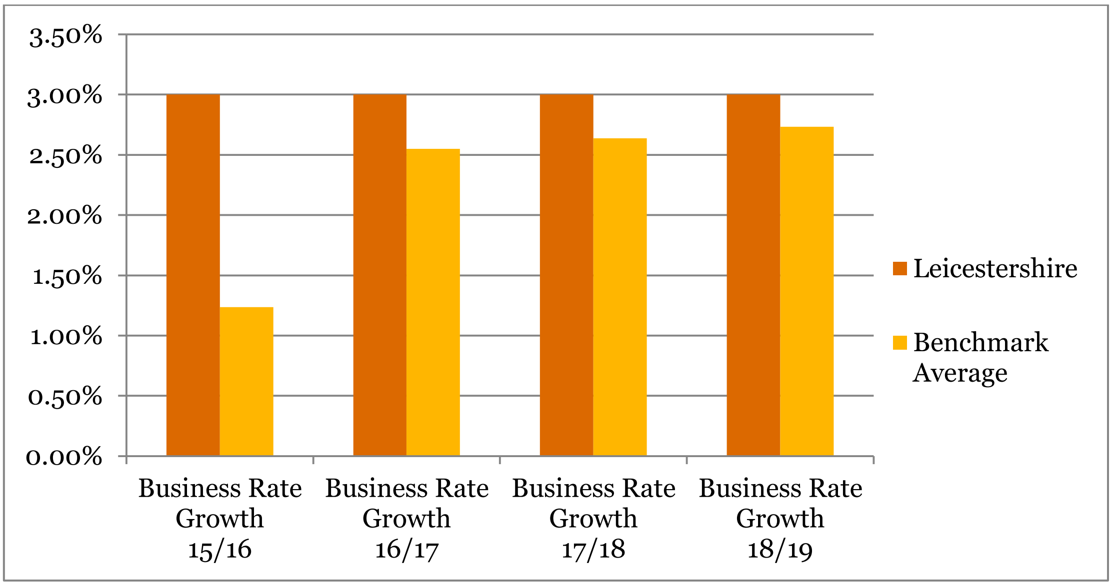


On a cash basis your forecast represents a significant reduction on a cash basis (figures are in £millions):

2014/15	2015/16	2016/17	2017/18	2018/19
70.762	55.754	41.754	27.754	13.754

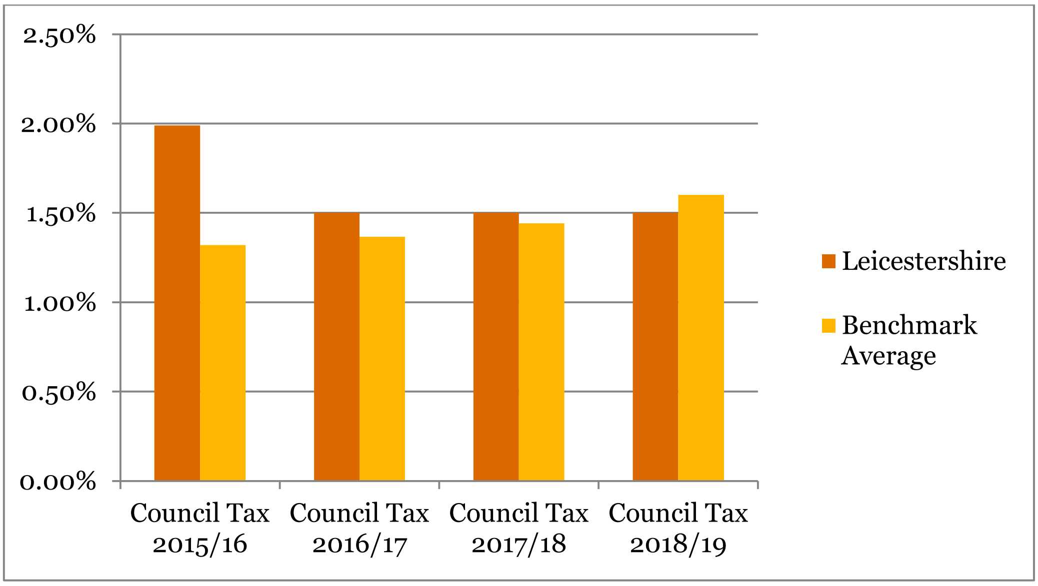
Business Rates

You have also made assumptions about the level of business rates which will be received following the localisation of this income stream. This is significant because the government has introduced the ability for Councils to retain a certain proportion of increases in business rates each year. You have made a more ambitious assumption on the level of business rate growth when compared to our benchmark group, although it is in a reasonable range and is consistent with your inflation assumptions. You have therefore not assumed real terms growth in business rates:



Council Tax

You have decided on a 1.99% increase in Council tax for 2015/16, with an increase of 1.5% also modelled in subsequent years for planning purposes. The majority of Councils are planning a Council Tax increases in each year of their MTFS, and the average increase is around 1.5%. Only a minority of Councils in our benchmark group are freezing council tax:



Use of Reserves

See section IV of this report for more details.

Sensitivity Analysis

Sensitivity analysis of your inflation assumptions was performed to give an idea of what total expenditure would look with a 1%, 2%, 3% and 4% increase and decrease in inflation. In broad terms, a 1% increase in inflation above your assumptions would result in a cost pressure of approximately £3.5m in 2015/16.

Summary of Assumptions

You have generally made prudent assumptions in your MTFS when compared with other similar authorities. This means that you are in a comparatively more favourable position to respond to the challenges which the MTFS presents.

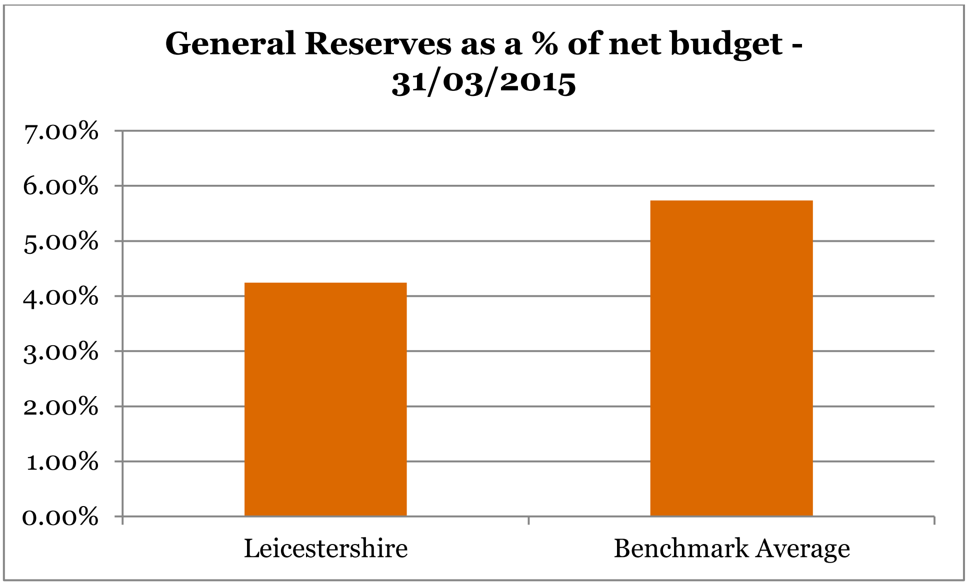
You need to ensure that you continue to monitor your progress against the plan, paying particular attention to changes in the original assumptions you have made.

Section IV: Reserves

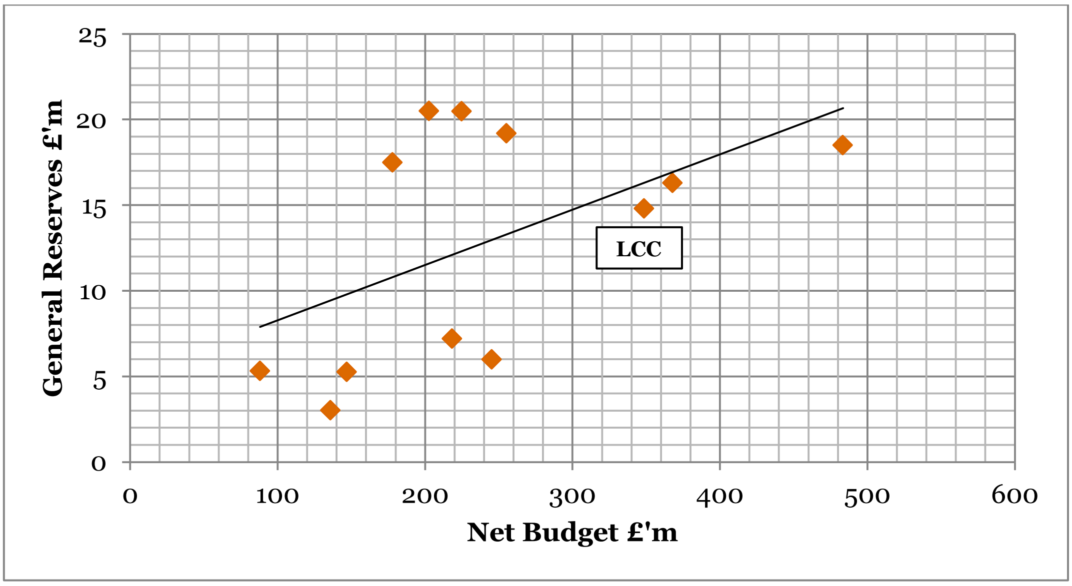
Reserves – General Fund

You have a policy to maintain your general fund at a level consistent with the risks you face, which has historically been at 2-3% of net expenditure. Given the increased level of risk in continuing to deliver significant levels of savings over the next few years, and the risks associated with policy developments, you have opted to increase this to between 4% and 5% of net expenditure. Your general reserve has historically been at the lower end of our benchmark group, and this is an appropriate change given the change in the risk profile over time.

Your forecast for the end of the 2014/15 financial year is to be holding £14.8m of general fund reserves, which represents 4.24% of your net spend. The policies in our benchmark group of Local Authorities ranges from 2% of net expenditure to around 7% of net expenditure. Your level of General Reserves remains relatively low when compared to others, but the gap is smaller than in previous years:



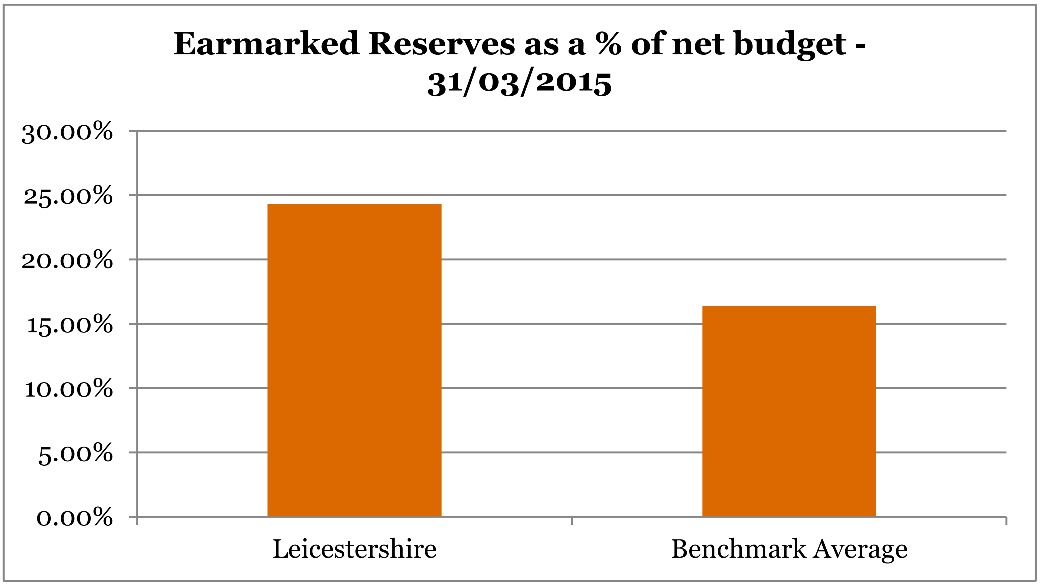
Your policy is within our expectation for the level of general fund reserves which we would independently expect you to hold. In addition, you hold a higher level of earmarked reserves than the Local Authorities in our benchmark group which mitigates this difference to some degree. The following graph shows the level of general reserves the authorities in our upper tier benchmark group held relative to their net budget:



Reserves – Earmarked Reserves

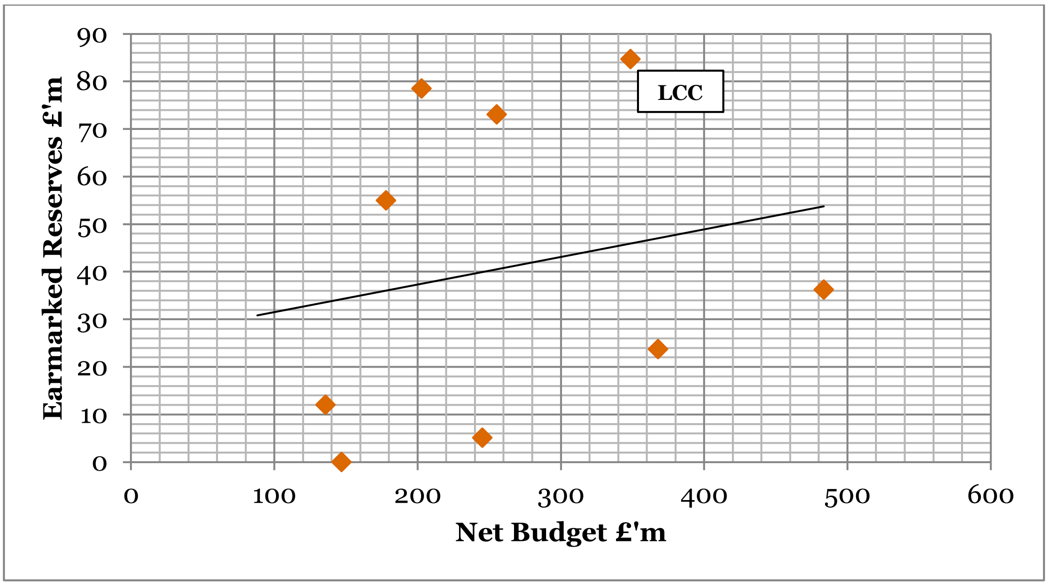
During the past 12 months you have undertaken a detailed review of your earmarked reserves to ensure that all reserves held were in relation to identified future spend, cost pressures and invest to save schemes. This review involved members and resulted in some changes to earmarked reserves being made to reflect future plans.

Your earmarked reserves start the MTFS period remains higher than the average for our benchmark group. These are being held to manage the transition period, fund specific cost pressures and to deliver the transformation programme which you have set out in your MTFS. The costs associated with this transformation, such as severance costs, are being met through the use of these reserves rather than recurrent spending:



The level of earmarked reserves is being held to manage specific future costs identified and address the medium term financial risks which you face. This includes the potential impact of future budgets, the localisation of business rates, uncertainty around funding the Dilnot Commission recommendations and other future changes to public policy. The MTFS estimates that £56 million of the £84.7 million earmarked funds balance will be used over the next 4 years, primarily to deliver the transformation programme.

The following graph shows the level of earmarked reserves the authorities in our upper tier benchmark group held relative to their net budget:



90
80
70
60
50
40
30
20
10
0
Earmarked Reserves £'m
LCC
0
100
200
300
400
500
600
Net Budget £'m

Section V: Economy, Efficiency and Effectiveness

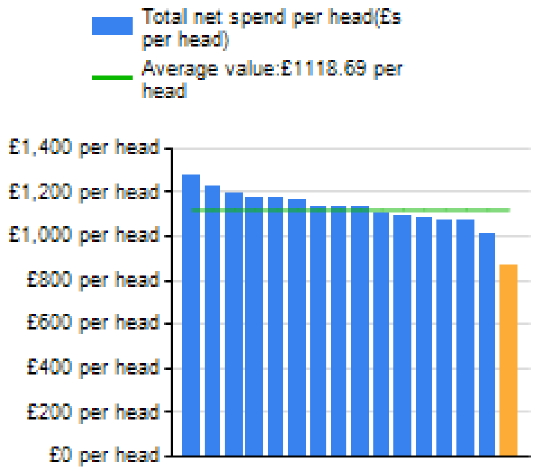
Economy, Efficiency and Effectiveness

The Authority has a responsibility to challenge economy, efficiency and effectiveness in everything it does. This is performed in each department and evident as part of your response to the identification of specific savings compared to service reductions.

Value for Money Profile

We have reviewed the Audit Commission Value for Money (VfM) profile for the Authority. Please note that this section contains comparators with your statistical nearest neighbours. These are the other County Councils which are most like Leicestershire County Council. This is a different benchmark group to that used for the analysis in previous sections of the report, which focussed on our other audit clients. The most recently available information is for the 2013/14 financial year.

Your planned net expenditure per head for 2014/15 was the lowest in the benchmark group:

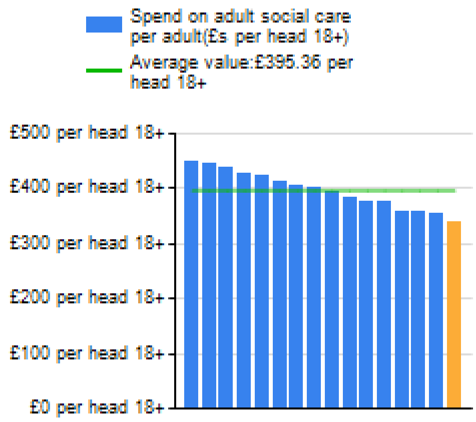


Financial Resilience: The specific measures identified in the 'financial resilience' section of the VFM profile show that during 2013/14 against your statistical nearest neighbours:

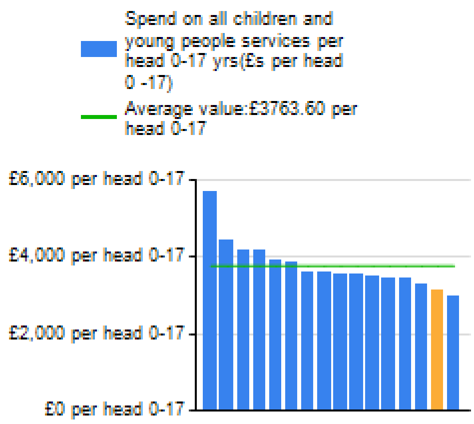
- Council tax requirement was in the middle third at £220.317m against an average of £269.966m;
- Income from fees and charges was in the middle third at 8.98% of total spend (compared with 7.46% in 2012/13). The average was 7.89%;
- Non-school reserves are in the highest third at 20.6% of net expenditure;
- Spend on management and support (back office) services as a proportion of total service spend was significantly lower than at other County Councils, being at 1.3% compared to an average of 4.8%; and
- The total value of assets is in the lowest 10%.

This indicates a broadly positive, financially resilient position. There is a low relative planned spend in most areas, low management support & back office costs and average levels of income from fees and charges. The level of your reserves was explored in a previous section of the report.

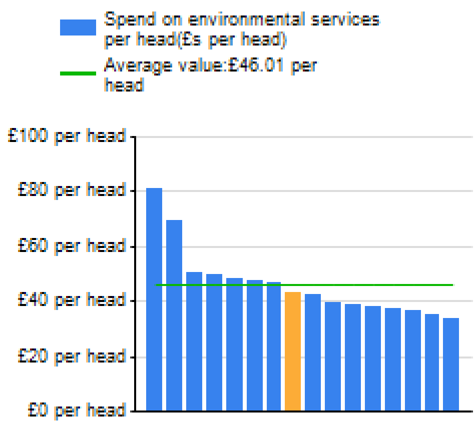
Adult and Social Care (ASC): spending per person on ASC is in the lowest 10% and is the lowest in your benchmark group by a clear margin. This is particularly the case in services for older people (lowest 10%) and adults with learning disabilities (lowest 20%). There is average spend on adults with mental health needs and those with a physical disability.



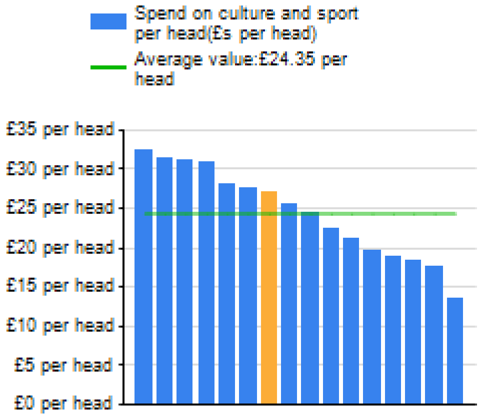
Spend on children's services and young people aged 0 - 17: planned spending per young person is in the lowest 20% of your benchmark group. This is reflected across all key areas of spend, such as social services, looked after children and special educational needs:



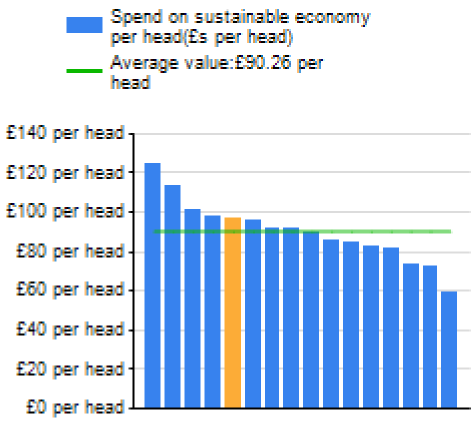
Environmental Services: spend on environmental services has decreased from being well above average in 2005/06 to at or below since 2007/08:



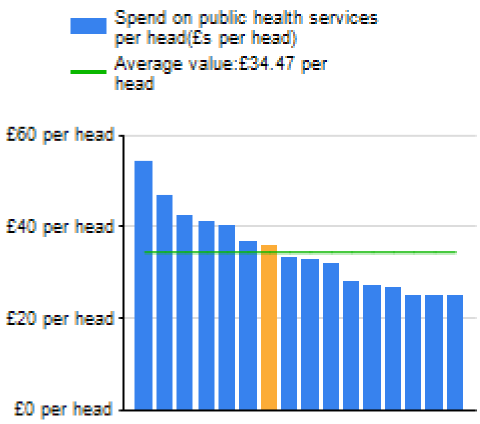
Culture and Sport: spend per person is above average when compared with the benchmark group. This benchmark reflects your provision of a museums service; in most other County Council areas in the benchmark group the museums service is typically provided at District Council level.



Sustainable Economy: total spend on sustainable economy activities is above average, as is the total spend on highways and roads which is above average for the benchmark group and in the highest 20%. The direction of travel is improving compared with the prior year - spending per head reduced by 16%:



Public Health: spending on public health services is slightly above average. Your spend on physical health as a service for adult and children is in the highest 5%, significantly above average:



Outliers reporting: The Audit Commission tool identifies any significant outliers from their data. The most relevant are as follows:

- The number of adults with mental health needs aged 18-64 receiving direct payments is in the highest 10%;
- The number of weeks residents aged 18-64 with mental health needs spent in own provision residential placements is in the highest 5%;
- Income from libraries, museums and archives, and from arts, tourism and the historic environment, are all in the highest 5% as a percentage of spend;
- Spend on street cleaning, planning, planning policy, museums and galleries, trade waste, conservation and listed buildings and local safeguarding board are all in the top 5%;
- Schools budget spending by schools per pupil is in the lowest 10%.

No other significant outliers were identified which would impact on our Value for Money conclusion.

Overall: Your spend tends to be below average in the largest areas when compared to other County Councils, particularly for Adult and Social Care and Services for Young People. You also typically continue to produce good performance when performance indicators are reviewed.

Prioritisation of resources

You undertook an extensive consultation process over the past 12 months in preparation for the 2014 MTFS and through your scrutiny process to involve members in challenging the 2015 MTFS. You identified clear priorities in this process and these have influenced the decisions you made in your most recent MTFS.

Your MTFS shows that you have, in broad terms, prioritised your services in the areas of greatest need.

Section VI: Conclusions

Conclusions

You have set a challenging and robust MTFS. The key points we have noted are:

- You have demonstrated in the past that you have robust programme management arrangements in place and that you achieve the savings targets which you have set yourself. However, the scale of the challenge, particularly during 2015/16, is more significant than what you have faced to date. This is something you recognise through the establishment of the Transformation Programme and the additional resources you have put in place;

- You have applied a number of prudent assumptions in setting your MTFS. In some cases these were more prudent than in our benchmark average. However, we believe these are realistic assumptions which will help you to meet manage the financial risks which exist over the plan period;

- The Audit Commission value for money profile, whilst backwards looking, continues to show a number of key areas where the Authority is providing services which can demonstrate value for money when compared with other County Councils;

- You have set aside a prudent level of earmarked reserves and contingency to manage future cost pressures. Whilst these are larger than in other similar Local Authorities, we believe that you have taken a prudent approach in setting your MTFS. These reserves will be required to effectively deliver the transformation you require; and

- Up to 700 posts may be lost as a result of the changes needed over the next 4 years. You need to ensure that corporate memory is retained during this process, and that gaps in controls do not arise as a result.

In conclusion, we have reviewed your MTFS and the assumptions which lie behind it. We have compared you with other, similar Local Authorities and taken into account our wider understanding of the Local Government sector. Our work in this particular area has not identified any issues which would lead to an unqualified value for money conclusion.

However, despite the preparation you have undertaken and the prudent assumptions you have made, there continues to be a risk around delivery of your MTFS. The main risks you face as an organisation to non achievement of your medium term financial strategy are consistent with those we reported to you in 2014 and can be summarised as follows:

Risk
Slippage: you may not be able to identify or achieve the savings you want either from a service reduction or through efficiencies.
Timing: The timing of savings, service reductions and funding announcements will impact how you deliver against your MTFS.
Assumptions: We have gone some way above to assess the assumptions you have applied in your MTFS. If these assumptions turn out to beincorrect, this would have a significant impact on your ability to deliver a balanced budget over 4 years.
Policy: Current and future changes in government policy have the potential to fundamentally alter the framework within which the MTFS has been developed. Examples may include further integration of Health and Social Care, the impact of the Care Bill and future Comprehensive Spending Reviews.

Appendix: Scope of Work

In our audit plan we set out our areas of focus for the year. One of these was the significant savings requirement to balance your budget over 4 year period.

We agreed to undertake a review of your Medium Term Financial Strategy (MTFS). This work will be done as part of our work on Use of Resources. In particular, this will contribute towards our assessment of you against the Audit Commission's criteria for 2014/15 which consider whether you have proper arrangements in place for:

- securing financial resilience; and
- challenging how you secure economy, efficiency and effectiveness.

Our proposed areas of focus are as follows:

Area of Focus	**Proposed work.**
Programme management	Review the governance structure in place to deliver your plans (including extent of Member involvement), the level and extent of accountability including escalation of issues, and how your monitoring and reporting will work.
Progress to date	• Undertake a detailed review of how you have managed your 14/15 savings programme; • Investigate the reasons behind any significant variations from the plan; and • Consider how this is connected with the forward-looking MTFS.
Assumptions	Review the key assumptions included in the MTFS, comparing them with best practice and those used by other Local Authorities.
Sensitivity analysis	• Apply sensitivity analysis to key assumptions; and • Consider the impact of potential changes to key assumptions and the rigour behind the MTFS.
Economy, efficiency and effectiveness	• Assess how you have prioritised resources as part of the MTFS; and • Update our understanding of your arrangements to review the value for money which your services provide and the actions you have taken in response.
Reserves	Consider the adequacy of your planned level of reserves and contingencies against your stated policy and the level of future risk in delivering the MTFS.

We intend to undertake this work during March 2014 in conjunction with the finance team. We plan to meet with the following people to discuss the points of focus outlined above:

- Judith Spence and Chris Tambini;
- Mick Connell and Business Partner (Adults and Communities);
- Lesley Haggar and Business Partner (Children and Family Services); and
- Phil Crossland and Business Partner (Environment and Transport).