12. APPENDIX 3: ADVISOR'S REPORT – CIPFA

CORPORATE SERVICES SCRUTINY SUB PANEL

REVIEW OF MEDIUM TERM FINANCIAL PLAN

REPORT

September 2012

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CIPFA FINANCE ADVISORY

Certificate No. 5631/06

Contents

1. Executive Summary

1.1 In July 2012, the States of Jersey commissioned CIPFA Business - Finance Advisory (the commercial arm of the Chartered Institute of Public Finance and Accountancy) to support the work of the Corporate Services Scrutiny Sub-Panel in an assessment of the States of Jersey Medium Term Financial Plan 2013 – 2015 (MTFP). This brief outlines CIPFA's preliminary position on this work to September 2012.

Background

1.2 The scope of the MTFP is outlined within the Public Finances (Jersey) Law 2005 and includes for incorporation of all States Income, Revenue and Capital Expenditure and appropriations for Growth, Contingency and Reserves.

1.3 The CIPFA Financial Management (FM) Model is recognised by the UK HM Treasury as setting out the fundamentals of best practice financial management within a public sector organisation and uses a scoring system to provide an objective measure of financial management performance including the identification of strengths, weaknesses and areas for improvement. Importantly the review measures the organisations attitude to Financial Management not just the performance of the Finance Team. Our assessment is based on a mix of evidence obtained primarily through Meetings with Chief Officers, attendance at Hearings and Document Review.

1.4 In order to assist with the assessment we have formulated an approach applying the most relevant Statements and Supporting Questions from the CIPFA FM Model to the States of Jersey MTFP. The CIPFA FM Model is the "gold standard" globally for best practice on Financial Management in the Public Services and is used extensively in North America, the Middle East and Australasia. In terms of our approach in testing the Medium Term Financial Plan, our methodology provides for testing a variety of evidential sources against the CIPFA FM Model Best Practice Statements. In this respect relevant Statements that are considered appropriate to the assessment of the strength of the MTFP were selected. These Statements (9 in total) were categorised between Primary Statements where we would expect the fundamental attributes of such statements to exist within the MTFP including at a granular level testing the strength of some of the important assumptions

Assessing the Strength of the MTFP

1.5 Scoring is in increments of 0.5 from 0 to 4 within a determination as follows:-

Score	How Far Does the Best Practice Statement Apply to the MTFP?
0 / 0.5 / 1	Hardly
1.5 / 2	Somewhat
2.5 / 3	Mostly
3.5 / 4	Strongly

1.6 For reporting purposes we will represent the scoring at a high level with a "traffic light" (RAG Rating) approach with the following scoring:-

Colour	Score
Red	0.0 – 1.9
Amber	2.0 – 2.9
Green	3.0 – 4.0

Evidential Issues

1.7 Primary sources of evidence consisted of:-

- In-depth Document Review – primarily the MTFP and subsidiary plans and workings;
- Attendance at Scrutiny Sub Panel Meetings;
- Attendance and Reports received from Scrutiny Panels
- Interviews with Chief Officers
- CIPFA data

1.8 Having carefully considered all the relevant evidence our scoring for each statements in relation to the MTFP as currently constituted is as follows:-

Statements of Good Practice

Number	Primary Statements	Scoring
PR12	**The organisation's medium-term financial planning process underpins its strategic priorities.**	2.5
L4	**The organisation has a developed financial management strategy to underpin long term financial health.**	2.0
PR8	**Budgets are robustly calculated.**	2.5
L3	**The organisation integrates its business and financial planning so that it aligns resources to meet current and future business objectives and priorities. Performance management is conducted through measures of service delivery and clear understanding of the costs incurred.**	1.5
L2	**The organisation's leadership allocates resources to different activities in order to achieve its objectives and monitors the organisation's financial and activity performance.**	2.5
L6	**The organisation develops and manages employees pay and benefits strategically.**	2.0
PR13	**The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.**	2.0
PR14	**The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement and commissioning.**	2.0
PR15	**The organisation pursues value for money through active management of its fixed assets.**	2.5

1.9 Based on the evidence presented to date our high level comments are outlined below.

Strengths and Areas for Further Development

1.10 In overall terms we summarise the key areas of relative Strengths and areas for Development that the States of Jersey should address in relation to developing the MTFP.

Strengths

1.11 During the course of our work we were able to identify a good number of relative strengths associated with the MTFP. The following list highlights some high level strengths encountered within our work:-

- Comprehensive coverage – key components of a MTFP are all present
- Defined linkage of States of Jersey Annual Business Plans to the MTFP
- MTFP analysis provides for horizon scanning - operational service demand/ demographic changes etc.
- Well presented
- Detailed workings in most areas within scope
- Well explained – transparent approach
- Comparative Positioning - stronger than most we have seen within the UK

Development Areas

1.12 As well as strengths our work identified a number of areas that, in our opinion, require strengthening and further development. There are eight areas which we believe require further development and are outlined below:-

Number	Area
1	Modelling – Architecture
2	Performance Monitoring and Reporting
3	Fixed Time Parameters v Rolling Plan
4	Delivery of Key Assumptions – Tax Yields
5	Delivery of Key Assumptions – Capital Investment
6	Delivery of Key Assumptions – Efficiency Savings
7	Treatment of carry Forwards and Contingencies
8	Linkage between Performance Targets and Financial Resources

1.13 Our high level comments can be summarised as follows:-

Modelling Architecture

- No single model exists that reflects the full consolidated MTFP
- Dependency on full visibility being achieved from a large number of unconnected/disparate components

Performance Monitoring and Reporting

- Outwith existing Budget Monitoring there are no defined specific MTFP Performance Monitoring and Reporting arrangements outwith existing arrangements
- Performance monitoring and reporting framework requires to be embedded
- Absence of defined performance monitoring mechanism that would automatically require adverse variances to be reported and addressed
- Requirement to ensure States of Jersey outcome targets and actual performance are in full synchronisation with the MTFP

- A “silo” approach adopted by Departments mitigates against the optimal management of corporate resources
- Unable to determine the processes and protocols that would be deployed to create the necessary conditions to accommodate a rebalancing of the MTFP.

Fixed Time Parameters v Rolling MTFP

- Fixed Period approach adopted covering 2013-2015 weakens rigour of continuous challenge
- Three Year period is at the extreme “short end” of what would constitute Medium Term Planning in Financial Management terms
- Consistency – risk that consequences beyond the fixed period of the MTFP may not be given adequate attention
- Fixed period can produce short term, reactive behaviours rather than promoting continuous focus over the Medium and Longer Term
- Rolling continuous approach conforms to Best Practice

Delivery of Key Assumptions – Tax Yields

- Tax Yield monitoring detailed on expected Allowances and collection rates yet critical growth drivers (economic growth) appears to be inconsistent with current economic trend data from key neighbouring economies
- Key assumptions – issue of optimism bias
- Assumptions should be re-evaluated in light of forthcoming FPP recommendations on key economic indicators

Delivery of Key Assumptions – Efficiency Savings

- Some Efficiency Savings aspirational/expectational
- Inability to deliver Efficiency Savings Targets
- A cultural acceptance of the concept of “slippage” and non-achievement
- Determination of “real” cashable savings needed arising from direct Management intervention rather than unrequired budget, re-phasing (stopping/slowing)of activity
- Elongating period of saving realisation not consistent with required rigour and challenge
- Carry Forward/Year End Flexibility – prospectivity of sub optimal year end spending/efficiency saving “hedging”
- Expected Savings from Procurement and the Modernisation Programme regarded as ambitious and present high risk of non- achievement

Delivery of Key Assumptions – Capital Investment

- Absence of detail on Business Case information underpinning the Capital Programme
- Lack of precision on timing of individual Projects
- Life cycles costing - assurance required on full provision being made for current and future Revenue Consequences of Capital Projects
- More visibility on Investment Appraisal and Business Case methodology
- Cultural issues associated with financing Capital from Revenue

Treatment of Carry Forwards and Contingencies

- Presumption on Budget construction favours full resource requirement
- Carry Forwards appear to offer a "hedge" against required Efficiency Savings Targets
- Inordinate flexibility on carry forward realisation
- Definition, creation and utilisation of Contingencies inconsistent with standard accounting practice
- Sub-optimal behaviours (VfM and Challenge) associated with utilisation of Contingencies – for known cost pressures

Linkage between Performance Targets and Financial Resources

- The MTFP needs to incorporate a stronger linkage between operational Performance outcome/objectives with financial resources
- MTFP Planning Approach should consider impacts on service standards and quality of outcomes

Conclusion and Recommendations

1.14 If the MTFP is to be an effective working model which enhances Jersey's Financial Management capability it requires to be a central tool and fully integrated within the core management decision making processes of Jersey. We would be of the view that there should be no impediment in realising the Chief Minister's vision of the importance of the MTFP -."The Medium Term Financial Plan is an important next step in Jersey's sustainable long term planning and will provide a foundation for our future." We would fully endorse such a statement – across public entities it should not be regarded as "nice to have" and "conceptual" but a true continuous working model which is core to a financial strategy for Jersey.

1.15 Finally it would be our considered view that in creating an effective MTFP that will be a working model integral to its Financial Management, the States of Jersey should be commended and seen as a strong example of promoting good practice. In terms of the primary objective, scope and detailed workings of the MTFP, the States of Jersey would certainly be regarded as a good example to follow. Whilst we would endorse Jersey's MTFP we would recommend a number of enhancements/improvements which would strengthen the effectiveness of the strategic financial planning further. In this respect we would propose 10 recommendations and these are outlined in the table below:-

	Recommendations
1	Provision of a single comprehensive model which incorporates all aspects of the MTFP.
2	Provision of a defined MTFP Performance Monitoring and Reporting framework which produces high level transparency on the tracking of actual performance against the MTFP.
3	Creation of a stronger linkage between required operational outcomes and the MTFP.
4	Based on a revised Performance Monitoring and Reporting framework the provision of a mechanism that would allow the appropriate decisions to be taken that would lead to the continual rebalancing of the MTFP that would optimise financial outcomes.
5	In accordance with good practice the MTFP should be fully "rolling" across a minimum of 3 years and subject to continuous revision.
6	Key Assumptions integral to the MTFP should be stress tested against the Accounting Concept of prudence – this is particularly relevant for economic growth assumptions even

	where this may prove to be politically unpalatable – this is also especially relevant for the assumptions associated with the current Procurement and Modernisation initiatives.
7	Encourage the identification and surrendering of unrequired budget at the earliest opportunity in-year to enable a corporate strategic approach to be taken within the MTFP framework.
8	For reporting purposes clearly and formally differentiate cashable savings arising from direct Management intervention from the re-phasing (stopping/slowing) of activity – clearly identifying “slippage” and non-achievement.
9	That a more rigorous process be initiated that would prevent departmental/service underspends being carried forward between financial years to fund unrelated/different activities or fund future departmental/operational budget savings.
10	Improved visibility required on Investment Appraisal and Business Case methodology used on Projects incorporated with the Capital Programme. This should demonstrate full incorporation of life cycle costing with complete visibility on how the full current and future Revenue Consequences of Capital Projects is being provided.

2. Background

2.1 In July 2012 the States of Jersey Corporate Services commissioned CIPFA Advisory (the commercial arm of the Chartered Institute of Public Finance and Accountancy) to provide independent advice to the Corporate Services Scrutiny Sub-Panel on the recently formulated and enabled Medium Term Financial Plan (MTFP).

2.2 It should be noted that this report represents CIPFA Advisory’s independent view, taking into account a range of evidence gathered throughout the review. The review was carried out as part of the States of Jersey’s internal scrutiny processes as co-ordinated by the States Greffe. Our review encompassed a range of issues including the following:-

- Consideration of initial lines of enquiry that the Scrutiny Sub-panel may make including questions to be put to the Department of Treasury and Resources
- Evaluating evidence on the strength of the MTFP including the overarching process
- Consideration of Panels’ Reports and the identification of any relevant cross cutting issues
- Assessment of further evidence arising from Public Hearings including that of the Chief Minister and the Minister for Treasury and Resources
- Compilation of a comprehensive Report highlighting the results of CIPFA’s independent review

2.3 The Review took place between July and September 2012. We based our assessment on a mix of evidence obtained through Direct Meetings with the Chief Officers, Corporate Services Scrutiny Meetings, Public Hearings and Document Review.

2.4 Our assessment of the MTFP was benchmarked against Best Practice attributes as contained within the CIPFA Financial Management Model. Specific evidential themes incorporated the following areas:-

- Construction of the MTFP
- Assessment of Key Assumptions - Sensitivity
- Performance Monitoring and Reporting of the MTFP
- Utilisation of the MTFP

2.5 In order to assist with the assessment we formulated an approach applying the most relevant Statements and Supporting Questions from the CIPFA Financial Management Model to MTFP. The CIPFA Financial Management Model is the "gold standard" globally for best practice on Financial Management in the Public Services and is used extensively in North America, the Middle East and Australasia. The Model recognises that using money well leads to more efficient public services and that effective financial management in the public sector now requires financial responsibilities to be more widely diffused throughout the whole of the organisation and in a wider organisational context, how best practice Financial Management (and in particular the MTFP) supports the delivery of the organisation's strategic objectives. The full Model consist of 38 Statements of Good Practice (supported by approximately 400 questions) and cover the entire spectrum of Financial Management from core issues on Accounting and Control, Planning and Budget setting, Audit, Risk Management, Procurement, Efficiency Savings to diffused Financial Management within the "front line" operations of the organisation.

2.6 In terms of our approach in testing the Medium Term Financial Plan, our methodology provided for testing a variety of evidential sources against Good Practice Statements. In this respect relevant Statements that were considered appropriate to the assessment of the strength of the Plan were selected. These Statements (9 in total) were categorised between Primary Statements where we would expect the fundamental attributes of such statements to exist within the MTFP and Secondary Statements which have been selected to test the strength of some of the important assumptions. The Primary and Secondary Statements are outlined in the tables below. It should be noted that the application of these statements are limited to the testing of the MTFP and the evidence and scoring have not been assessed for the Financial Management capability of the States of Jersey in its entirety.

Statements of Good Practice

Number	Primary Statements
PR12	**The organisation's medium-term financial planning process underpins its strategic priorities.**
L4	**The organisation has a developed financial management strategy to underpin long term financial health.**
PR8	**Budgets are robustly calculated.**
L3	**The organisation integrates its business and financial planning so that it aligns resources to meet current and future business objectives and priorities. Performance management is conducted through measures of service delivery and clear understanding of the costs incurred.**
L2	**The organisation's leadership allocates resources to different activities in order to achieve its objectives and monitors the organisation's financial and activity performance.**
L6	**The organisation develops and manages employees pay and benefits strategically.**

PR13	**The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.**
PR14	**The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement and commissioning.**
PR15	**The organisation pursues value for money through active management of its fixed assets.**

2.7 The supporting questions that underpin each statement have been designed to help in the assessment on the degree to which each statement can be rated or scored. The most relevant questions for the States of Jersey MTFP have been selected for this exercise and these are highlighted as "ticked" questions within Appendix 1.

Assessing the Strength of the MTFP

2.8 Scoring is in increments of 0.5 from 0 to 4 within a determination as follows:-

Score	How Far Does the Best Practice Statement Apply to the MTFP?
0 / 0.5 / 1	Hardly
1.5 / 2	Somewhat
2.5 / 3	Mostly
3.5 / 4	Strongly

2.9 For reporting purposes we will represent the scoring at a high level with a "traffic light" (RAG Rating) approach as follows:

Colour	Score
Red	**0.0 – 1.9**
Amber	**2.0 – 2.9**
Green	**3.0 – 4.0**

Evidential Issues

2.10 Primary sources of evidence will consist of:-

- In-depth Document Review – primarily the MTFP and subsidiary plans and workings;
- Attendance at Scrutiny Sub Panel Meetings;
- Interviews with Chief Officers
- CIPFA Benchmarking data

3. MTFP - Good Practice

Assessing the Strength of the MTFP

3.1 This section sets out our assessment in terms of our assessment methodology outlined within Section 2 of this Report. To recap on our scoring assessment the following represents our reported position. Scoring is in increments of 0.5 from 0 to 4 within a determination as follows:-

Score	How Far Does the Best Practice Statement Apply to the MTFP?
0 / 0.5 / 1	Hardly
1.5 / 2	Somewhat
2.5 / 3	Mostly
3.5 / 4	Strongly

3.2 For reporting purposes we will represent the scoring at a high level with a "traffic light" (RAG Rating) approach. This is outlined as follows:-

Colour	Score
Red	**0.0 – 1.9**
Amber	**2.0 – 2.9**
Green	**3.0 – 4.0**

3.3 In respect of the 2011/12 MTFP the following scoring on relevant CIPFA FM Model Best Practice Statements for both Primary and Secondary Statements was achieved:-

Statements of Good Practice

Number	Primary Statements	Scoring
PR12	**The organisation's medium-term financial planning process underpins its strategic priorities.**	2.5
L4	**The organisation has a developed financial management strategy to underpin long term financial health.**	2.0
PR8	**Budgets are robustly calculated.**	2.5
L3	**The organisation integrates its business and financial planning so that it aligns resources to meet current and future business objectives and priorities. Performance management is conducted through measures of service delivery and clear understanding of the costs incurred.**	1.5
L2	**The organisation's leadership allocates resources to different activities in order to achieve its objectives and monitors the organisation's financial and activity performance.**	2.5
L6	**The organisation develops and manages employees pay and benefits strategically.**	2.0
PR13	**The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.**	2.0
PR14	**The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement and commissioning.**	2.0
PR15	**The organisation pursues value for money through active management of its fixed assets.**	2.5

Detailed Findings

3.4 Detailed comments are outlined below.

PR12	The organisation's medium-term financial planning process underpins its strategic priorities.	2.5

MTFP Construction

3.5 The States of Jersey's Medium Term Planning process is founded upon the Annual Budget Setting and Annual Business Plan process. The MTFP contains within its construction the key processes that we would be expect to be incorporated within the generation of a medium term financial plan i.e. it is produced over 3 years; links resources with Departmental Operational, forecasts budget requirements; taking into account factors such as inflation, movements in reserves, the identification of growth and associated costs as well as efficiency savings. By its very nature the Medium Term Financial Plan naturally reflects long term demographic analysis on service demand, economic impacts and joint planning with partners and other stakeholders.

3.6 In terms of construction the MTFP Construction at its highest level contains the main standard components of a properly constructed model. On a comparative basis of coverage the MTFP, as presented, is more comprehensive –more granular in specific areas) than most we have seen across UK Public Bodies. The MTFP is well presented and attempts to clearly explain its components/workings .Whereas there is a clear sufficiency of background workings in most areas, it is our considered opinion that there is some gaps in the detail that underpin some significant assumptions within the Appendices – for example Employment Growth, Contingencies and the exact sourcing of Efficiency Savings associated with the Services – the latter appearing to be more aspirational in character than a precise commitment to effect transformational service change. We provide more comment within Statement PR13.

3.7 On the actual provision of a complete model we understand from the Treasury that despite the comprehensive nature of content, there is no single model in existence that reflects the full MTFP. This is of some concern as we would expect that, due to the complexity, dependences and inter relationships between components of the MTFP, the elimination of error and the maintenance of key controls would be best served within the architecture of a single model. Such a model does not necessarily require being stand-alone but we would recommend that the architecture of the MTFP Model should provide for full visibility on even marginal changes to the smallest of components.

3.8 Active Balance Sheet management within the MTFP is to be commended. However, the lack of modelling does impede visibility on this critical area.

Fixed Time Parameters v Rolling MTFP

3.9 The States of Jersey's Medium Term Financial Plan – 2013-2015 covers a fixed three year period. It would be our view that a three year period is considered to be at the lowest level of what could be considered to be Medium Term. Indeed, it would be our view that a five year planning horizon would provide a stronger foundation for medium term planning.

Notwithstanding this relatively short time span we understand that the MTFP covers a fixed rather than a rolling period.

3.10 From a financial decision making perspective fixed period financial planning can produce sub optimal budget management behaviours – typically short term reactive positions where consequences beyond the planning period not receiving the correct level of scrutiny and can weaken the rigour of continuous challenge. Arguments put forward in support of a fixed period include the promotion of a "Non-Binding" constraint for political decision making on future Assemblies. Whilst we recognise this aim a robust MTFP should be flexible enough to incorporate and adapt to differing strategic changes in strategy.

3.11 We understand that the Treasury has undertaken to model aspects of the MTFP on a rolling position. Notwithstanding this undertaking we would be of the view that the MTFP would benefit from a rolling rather than a fixed period.

3.12 The medium term position is foundational to the setting of the annual operational budgets. In this respect it would be our considered opinion that the States of Jersey's Medium Term Financial Plan would constitute a realistic initial starting point and the Medium Term Financial Plan appears to link with Departmental Business Plans.

3.13 Long term affordability of Capital new investments is usually subject to formal scrutiny including Treasury approval. However, we have had some difficulty in obtaining detailed Business Case data for such Projects. The potential absence of rigorous Project Options Appraisal may be partly influenced by the lack of a requirement to seek external finance as the funding of Capital Projects within Jersey has traditionally been sourced internally.

3.14 In terms of the realisation of Efficiency Savings the States of Jersey's position on achievement is continually monitored at Departmental level and reported through relevant Minsters. Whilst this is a fundamental requirement of Good Practice we would be of the view that there is still some work to more fully demonstrate the actual impact of such savings as the States of Jersey usually reinvests planned savings in other often unrelated activities. In term of Expenditure, as with Income, the States of Jersey has a continuous process of identifying efficiency savings/additional growth - this will be expanded upon in PR13.

L4	**The organisation has a developed financial management strategy to underpin long term financial health.**	**2.0**

3.15 Planning for sustainable long term financial health is an essential component of robust financial management. This statement involves a number of issues concerning financial management strategies which, over the medium to long term, demonstrate a commitment to the long term health of the organisation. As with most aspects of financial management there are a number of different strands running through the development of the financial management strategies envisaged here.

3.16 Our experience suggests that for most Government organisations within the UK, the medium term financial plan is largely predicated upon the 3 year Comprehensive Spending Review Cycle set by HM Treasury with the consequential impact on operational planning. In embarking on a 3 year MTFP approach the States of Jersey is actively seeking the ability to secure a more considered and informed financial strategy.

3.17 As highlighted above there are some programmes that will go beyond such a 3 year timeframe and we would advocate a rolling approach. Whilst a consistent and common approach is taken, three years is considered to be relatively short in terms of strategic planning for long term financial health. This is especially the case for the States of Jersey with the status of an independent state in the context of the current turbulent and uncertain economic environment. The previous annual position taken is heavily weighted towards a short term/reactive approach/position being taken and that long term financial planning is not the primary focus – this is especially true from a political perspective when the tenure for Senators and Deputies of the Assembly of the States of Jersey is four years. Given the constraints of the pre MTFP reactive short term approach we would be of the view that a Medium Term approach of three years should be extended within an acknowledged Medium Term period of 4 to 5 years in respect of the formulation of financial strategy.

3.18 The MTFP has been designed to include the full income and expenditure impacts on all States of Jersey activities. The MTFP appears to be supported by the Business Plans for each operational department although this is largely confined to high level financial positions.

3.19 Some aspects of this statement within the model involve high level financial policies such as accounting practices or spending rules. Our evidence suggests that the regulatory framework, Policies and advisory guidance on financial issues is robust.

3.20 The States of Jersey is traditionally an underspending entity. For 2011 the States of Jersey outturned an underspend of approximately £41m against a full year Net Revenue Budget of £640m – 6.4%. We understand that £13.6m of Contingency which was available and earmarked for spending within 2011 was ultimately not required. A recurring year-end theme for the States of Jersey has been the degree of underspending in a number of key areas usually offset by a number of overspends. As well as cost pressures, the potential of changes and actual fluctuations to Tax Yields - namely Income Tax, Personal and Corporate, Goods and Services Tax (GST), Impots Duty and Stamp Duty as well as Departmental Income requires a considered approach to be taken on Medium Term financial modelling. Whilst we are satisfied that the States of Jersey is fully attuned to the incorporation of balanced funding streams within their medium term model, the potential volatility of income arising from economic uncertainty is considered to be more problematic. Difficulties in delivering efficiencies savings and financing needed Capital Investment (to meet the increasing service demands whilst maintaining matching levels of total income) will make it more difficult to create a stable financial model for the medium and longer term.

3.21 The States of Jersey has a reasonable track record of achieving net spend objectives in accordance with available resources and this demonstration of achievement illustrates the effectiveness of current processes. That said, we believe that the incremental Budget Setting process, funding most Capital Investment from Revenue and Departmental reliance on central funding, reserves and contingencies with significant year end flexibility has not created the cultural rigour of challenge we see in other public entities that provides the appropriate platform to improve financial and operational performance. In essence, <u>our evidence highlights a silo approach adopted by Departments which mitigates against the optimal management of corporate resources.</u> We believe that more can be achieved by improving the synchronising of Business Directorates imperatives with associate financial consequences for the overall position of the States of Jersey. On example of improvement could be the disclosure and "surrender" of unrequired resources in year by Departments rather than "ring fencing" resources as carry forward to a future financial year for an unrelated area of activity.

PR8	Budgets are robustly calculated.	2.5

3.22 Whilst appropriate processes are in place to meet Treasury requirements, the key issue with regards to this statement is whether or not the budgets produced are robust. It is important to note that the scope of assessment relates to how Budget Setting is linked to the MTFP. Annex A to the MTFP outlines the high level Budget for each service. This Annex provides a sufficient balance between high level line by line analysis and the underpinning detail.

3.23 For 2012 the States of Jersey has budgeted for a Net Revenue Expenditure of £618m and a Net Capital Expenditure Allocation of £13.6m. MTFP proposals increase these 2012 levels to £691m and £20.0m for 2015 respectively.

3.24 On Budget construction the baseline position is developed incrementally and "top sliced" between Reviews. As part of the Spending Review process, assumptions regarding budget changes i.e. inflation; pay; productivity; income changes, savings; cashable efficiencies etc. are factored into Base Budget determination. The allocation process to objective service delivery can be trailed including Growths and Savings. There will naturally be areas where planning over the medium term is more problematic particularly the emphasis on consequential impacts on cross cutting issues. The MTFP well illustrates the impact of the significant challenges to services within the medium term. A good example of this is the recognition for the need to increase spending on Health. In this respect a 2% year on year increase has been provided throughout the period of the MTFP. Whilst such a figure appears on the surface to hint at a rather "broad brush" approach being taken, discussions with the Finance Director at Health and Social Services revealed a well-developed approach being taken which factored in a group of expected cost pressures which were fully considered and costed.

3.25 Due to the largely incremental approach adopted our evidence suggests that the scope of any Activity Based Costing (ABC) or Zero Based "bottom up" approach is only marginal at best. That said, the MTFP and the financial planning processes involved within its construction produces a robust trail between the plan and Jersey's aims and corporate objectives with a clear link with strategy albeit on a high level financial basis only.

3.26 We believe that the Base Budget construction would be further improved with a move towards budgets being founded on full costs, with cost drivers being fully explicit in a "bottom up approach" rather than a predominately incremental approach. Anecdotal evidence suggests that Budget Managers are managing their budgets rather than managing costs. An example of this would be spending Budget even if not absolutely necessary or carrying forward unspent budget to fund a required level of savings. We understand that this is a situation that the Treasurer is keen to move away from.

3.27 An area of concern that negatively impacted scoring was the lack of detail behind Capital Programme Project estimates including defined timescales along with the Revenue consequences of Capital. For example within 2014 – a Replacement School totalling some £15m is programmed – whilst assuming this could be achieved in a single year it is difficult to discern the consequential revenue costs relative to running cost activity and the overall impact on the Estates financial position relative to the existing building.

3.28 Critical to the overall “financial envelope” is achieving precision in the calculation of key Income Estimates including Tax Yields comprising:-

- Personal Income Tax;
- Companies;
- Goods and Services Tax (GST);
- Impots Duties;
- Stamp Duty;
- Investment Income including Shareholder Returns; and
- Income from Parishes.

3.29 Prevailing economic conditions are an obvious main driver behind fluctuations in each income stream although the power of the Assembly to vary the level of income by adjusting key parameters such as the rates of Income Tax, level of Allowances and efficiency of tax collection are important variables to consider. Assumption/scenario testing and sensitivity analysis are fundamental to robust financial planning. Within our preliminary work an early line of enquiry concerned the forecasted increase of on Income Tax as outlined below:-

Tax	Budget 2012 £000	Forecast 2012 £000	MTFP 2013 £000	MTFP 2014 £000	MTFP 2015 £000
Personal Income Tax	344,000	360,000	377,000	394,000	420,000
Companies	76,000	74,000	77,000	80,000	84,000
Provision for Bad Debt	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
Totals	416,000	430,000	450,000	470,000	500,000

3.30 A key aspect of these forecasts is the expected estimate of economic growth. Against the background of economic retrenchment and stagnation across Europe, the expected increase in Tax yields of some £50m or 11% growth in two years between 2013 and 2015 appears to be counter-intuitive. Comments on the issue of the robustness of these assumptions will be dealt with in Section 4 of this Report. In relation to this statement our work in this area concluded that elements of income modelling were extremely comprehensive particularly the calculation of impacts of allowances and expected drag from previous political decisions on Tax. However, despite demonstrable precision on key components the estimate of the main variable driver - economic growth will determine in no small way the overall direction of travel for Jersey’s financial strategy. The panel of eminent economists known as the Fiscal Policy Panel are due to provide a view on economic growth for Jersey (amongst other key indicators) in early October. We understand that forecasts within the MTFP will be revised if required accordingly. In essence the approach taken by Jersey has been fully considered and the methodology used is considered to be sound. However, the critical assumption on economic growth has the greatest impact upon the effectiveness of the methodology. In itself the sophistication of the model will always be secondary to the absolute primacy of the accuracy surrounding the main economic assumptions.

3.31 Visibility on cashable efficiency gains is an issue within the States of Jersey. The fact that savings are typically recycled and reinvested is perhaps a factor here. It would be our opinion that the States of Jersey has more to do to demonstrate that Efficiency Savings are generated through <u>explicit management interventions</u> – this will be expanded on within our comments on PR13. Jersey Ministers have made a conscious decision (this is clearly outlined within the MTFP) to achieve targeted savings rather than a top sliced approach. Given the lack of visibility on the service critical nature or otherwise of operational budgets and a track record of underspending this would appear to be a perfectly reasonable approach and one we would endorse.

3.32 A question associated with this statement is the testing of the extent of involvement that managers are involved in setting their budgets. We do not have evidence that substantiates the actual level of involvement however we have been assured that Budget Holders are fully involved in the Budget Setting process and that ownership and accountability issues are not an issue. However, we do understand that financial performance is not consistently integral to officer's appraisals. Given this position it is difficult to understand how full operational and financial accountability for performance can be achieved. In term of accountability we note the impact of Jersey Law and the clarity that this gives in terms of the full accountability that the Accounting Officer for each service has in maintaining net expenditure within the "bottom line". However, we did also note the extremely flexible approach taken on virement to an extent that we have rarely seen. Significant reliance is placed on the effectiveness of the relationship between Treasury and the Departments.

3.33 In summary, whilst Budgets are calculated within a controlled framework we believe that the States of Jersey could do more to demonstrating a robust approach to ensuring budgets are more aligned to actual requirements rather than the overarching incremental approach. This incremental approach together with significant flexibility in the utilisation of resources can mitigate against the challenge needed to ensure that precision in matching resources with delivering operational objectives is maximised. In the face of volatile economic conditions such good practice becomes a necessity across European Public entities.

L3	**The organisation integrates its business and financial planning so that it aligns resources to meet current and future business objectives and priorities. Performance management is conducted through measures of service delivery and clear understanding of the costs incurred.**	**1.5**

3.34 The score for this Statement is 1.5 and is lower than what we would expect to see. This statement involves a number of issues concerning financial management strategies which, over the medium to long term, demonstrate a considered commitment to the long term health of the organisation incorporating robust performance management and a strong appreciation of cost intelligence.

3.35 The questions underpinning this statement relate primarily to the degree to which the business model of the organisation is reformulated and the processes undertaken in achieving that reformulation, taking into account issues such as performance and cost measures or risk. The strength of performance challenge is tested in the context of robust knowledge of cost drivers. Financial Management strategies also include the mechanisms and processes in place to apply or reallocate funds.

3.36 Whilst the resource allocation process and Budget Construction exercise is considered to be adequate there is still a sense that the reactive short term position of a year has primacy and this may well indicate the volatility in parts of the States of Jersey's operations as well as evidence of required improvement. Documented difficulties in the achievement of previously agreed cashable savings within prescribed timescales highlight the potential issues of reliability of the medium term position.

3.37 The inability to quickly adapt and reprioritise areas of underspending due to poor forecasting and/or non-disclosure can lead to sub optimal financial management decisions at a strategic level. Our evidence points to the prevailing Budget Behaviour culture and silo approach of Financial Management within Departments being an inhibiting factor. We did not detect significant evidence of detailed costing approaches (save Health) consistently being applied within Departments associated with the determination of Unit Costs or full life cycle costing. The significant in-built flexibility at departmental level to reallocate or defer spending resources and the lack of apparent pressures for significant budget reduction may well be additional contributory factors.

3.38 Whatever the actual causation the cumulative impact of underspending arising from sub optimal budget behaviours can seriously undermine the department's long-term financial health. At worst "unrequired budget" can be used as a "hedge" against efficiency savings and other cost pressures. The existing Budget Setting processes are highly incremental and do not, in our view, fully challenge core budgets. Whilst we would not advocate, as highlighted above a full Zero Based approach we would be of the view that a lack of rigour produces an element of "padding" within departmental budgets with the prospectivity of unregulated activity/spend being created – this is particularly prevalent in sub optimal year end spending. The relevant question to consider would be -are Carry Forwards the product of re-profiled activity that was truly scheduled to occur? If not it would be good practice for Departments to "surrender" unrequired budget at the earliest opportunity in order that the States can best utilise such resources on unforeseen cost pressures/building up reserves etc.

3.39 In respect of Contingencies we believe that Contingencies have been utilised in a way that is inconsistent with good practice in that they resemble provisions for known cost pressures rather than real Reserves adapted for totally unforeseen requirements. We understand that a £13m set within Contingency Funding has been subsequently used not to meet unforeseen pressures but to "fund Growth Bids and Balance the Budget for 2013". A potential question to be fully answered here would be – is there not too much reliance on contingencies to smooth out potential fluctuations rather than trying to get the Budget Setting "right first time"?

3.40 Our evidence supported the proposition that there is an adequate level of integration and alignment between the States of Jersey's operational objectives and targets and Financial Strategy although evidence of the interaction between operational targets and financial strategy requires to be more visible to provide assurance that there is connectivity between planned operational outcomes and the financial resources that will be consumed to achieve these outcomes. Whilst we understand that there has been significant improvement in Financial Planning and Reporting we would be of the considered opinion that more needs to be done to embed within Performance Management the link between resources and actual outcomes.

3.41 The inability to quickly adapt and reprioritise areas of underspending due to poor forecasting can lead to sub optimal financial management decisions at a strategic level. We detect a prevailing silo approach adopted by some Departments and what we consider to be a potentially inordinate flexibility at departmental level to reallocate or defer spending resources. It would be our view that the cumulative impact of underspending arising from poor forecasting can seriously undermine the department's long-term financial health.

3.42 A strong integration between operational objectives and financial strategy requires a sound knowledge of unit costs and cost drivers – particularly key external cost drivers relative to the States of Jersey's operations. In this respect our evidence suggested that there may be some way to go before critical cost and income data are fully available in a way that decision makers know the exact consequences or impacts of their decisions in terms of resource management.

L2	The organisation's leadership allocates resources to different activities in order to achieve its objectives and monitors the organisation's financial and activity performance.	2.5

3.43 Scoring on this statement of 2.5 reflects the positive arrangements that Jersey has in place for allocation and monitoring financial performance. The MTFP clearly outlines the basis of allocation including the politically approved elements of Growths and Savings. In this respect the MTFP reporting position is robust.

3.44 To be effective, challenge requires good quality regular monthly reporting at senior management and political level, as well as throughout the organisation. The States of Jersey has a robust structure and process associated with Budget and Financial Performance Monitoring. Assembly Members receive a summary of financial performance on a period basis, although there is some doubt as to the comprehensive scope of the information presented at the Council of Minister level. Ministerial involvement is quarterly although in practice, Ministers will review operational Directorate activity each month within their respective Departments.

3.45 Questions supporting this Statement challenge whether budgets are realistic, resulting in over and under spending which are within expected tolerances. In this respect we are convinced that the States of Jersey does follow a considered process. In summary our evidence firmly leads to the conclusion that that resources are fully allocated in accordance with the priorities and objectives of the States of Jersey in the context of risk. Budgets are regularly monitored throughout each year with clear procedures in place covering the reporting of variances. An area for development would be the improvement of connectivity between Financial Performance and Operation Performance or outcomes.

L6	The organisation develops and manages employees pay and benefits strategically	2.0

3.46 As employee costs make up the largest single component of cost within some organisations, in the context of the economic downturn and implications over the funding of pensions and employer contributions this Statement tests the extent that organisations have a strategic approach to the management of employee related cost impacts. We note the Tribal 2010 recommendations in saving £6.9m for each year 2012 and 2013 arising from an implementation of a pay freeze.

3.47 Strategic direction is critical in this area given the challenges for Jersey delivering its objectives in an extremely difficult economic environment and overall funding retrenchment. Well documented pressures on financing Pension Funds further adds to the importance of creating a robust approach to strategically managing pay and benefits over the medium and longer term.

3.48 The questions underpinning this statement relate primarily to the degree to which the business model takes account of actual workforce needs and that key components of employee costs are being appropriately managed. The States of Jersey differs from most Public entities as it manages significant Pension Funds for States employees – this includes a specific Teacher's Superannuation.

3.49 Our evidence suggests that the States of Jersey incorporates provision for the basic components of this statement within its Financial Planning although consideration of radical planning is inevitable if Jersey is to successfully rise to the challenges that the Modernisation Programme envisages.

3.50 The States of Jersey, like other government organisations is tied to industry norm negotiation protocols for the determination of terms and conditions of employment and flexibility in moving outwith such settled custom and practice can be difficult. The recently launched Modernisation Programme endeavours to address staffing issues associated with the introduction of process improvement across all services.

3.51 In respect of the key components of this Statement our evidence suggests that the States of Jersey has a strong awareness of the impacts and liabilities relating to the current staffing structure and current remuneration issues - absenteeism is actively reported and managed.

3.52 The Modernisation Programme will represent a significant challenge to the States of Jersey – perhaps the largest challenge that the States will face over the next few years. In this respect we would advocate some caution over the expectations arising from expected efficiency savings attributed to this programme.

3.53 Overall, we could not find workforce planning that had the degree of necessary precision envisaged by the full application of this statement. That said we are confident that the States of Jersey will make up ground as dictated by the current as well as medium term critical economic imperatives and operational challenges

PR13	**The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.**	**2.0**

3.54 This statement tests the degree to which the organisation systematically pursues opportunities to reduce costs and improve value for money.

3.55 The States of Jersey committed to CSR savings of £65m with some £14m being earmarked against Staff Terms and Conditions. From the £65m approximately £ 11.1m was attributable to the Department of Education, Sport and Culture. We understand that the Department will only achieve some £7.6m (Grant Funding of Fee Paying Schools was continued but mitigated in part by some £2.8m of compensating savings) within an extended timescale of 2016. It is expected that £55 by 2015 – recalibrated from £57m being delivered by 2013.

3.56 Overall there is no doubt that there is due rigour in the tasking of Departments to identify savings. The Resource Principle of Balancing Taxation with Spending has required Efficiency

Savings to be an effective and deliverable strategy. As highlighted earlier a targeted approach is taken rather than “Top Slicing “approach. The achievement of savings is reported on a monthly basis within a RAG Rated Risk profile. What is less clear is the degree to which Efficiency Savings are derived from unrequired Budget or the judicious utilisation of Carry forwards. More worrying is the apparent cultural acceptance of “slippage” and non-delivery of critical savings. Looking at the nature and reprofiling of expected savings including the saving expected from the notoriously difficult area of Staff Terms and Conditions, it would be our considered opinion that Jersey is required to do more to systematically deliver cost reductions and demonstrate value for money.

3.57 Previous negative comment on the State’s ability to deliver Efficiency Savings by the Comptroller and Auditor General as well as the Corporate Services Scrutiny Panel reporting to the States back in November 2011 does not provide a confident picture of capability in this area. Looking at individual Questions supporting the Statement there is only a mixed picture at best with our evidence only agreeing partially with the following:-

- Do Managers focus on managing their costs and reducing inputs to achieve their goals rather than on using up their budgets?
- Is cost reduction targeted at specific budgets or activities, following consideration of priorities, rather than as a standard percentage across all activities?
- Do Managers examine cost drivers of high-spend areas to understand risks and options for cost reduction?
- Does the organisation regularly examine its staffing structure, working practices and pay bill to improve overall productivity?
- Does the organisation routinely undertake business process reviews and implement findings?

3.58 It is clear that there is much attention being directed to improving value for money as a means of meeting future resources constraints but cost reduction activity has been predominately focussed on Back Office Support Services initiatives. However unpalatable, it is our experience that significant cashable savings only accrue when all services (including Front Line Services) are subjected to a consistent level of VfM scrutiny.

3.59 From both Document Review, meetings with Service Finance Directors and Panel Meetings we found a range of divergent opinions as to the extent to which the States of Jersey actively demonstrates a Value for Money approach as standard. This may indicate inconsistencies across the services on accountability and ownership for delivering VfM services indicating that accountability for delivering cost effective services was still not fully embedded at operational delivery. The relevant question would be articulated as are Budget Holders accountable for delivering value for money services and is such accountability evaluated through the appraisal process?

3.60 As highlighted in paragraph 3.26 it would be our considered opinion that the States of Jersey needs to do more to focus Managers on managing their costs rather than using up their budgets. In part we believe this is a behavioural issue. This position may well be exacerbated by the extremely significant levels of dependency placed upon Financial Support staff within Departments.

3.61 Whilst the States of Jersey may, as a collective entity have a robust process in place to identify and pursue cost reduction and improve value for money, we believe that a combination of factors including undue flexibility, ownership and accountability and the culture of achieving service imperatives having primacy over optimal financial performance, do not produce an effective foundation to maximise the capability of the States of Jersey in the pursuit of VfM. It is noted that a significant element of Efficiency Savings relate to support activities rather than front line services. A medium term approach will necessitate a more balanced position and we believe that more needs to be done to ensure that the requirement to continuously reduce costs and optimise VfM is embedded in a consistent basis throughout the activities of the States of Jersey.

PR14	**The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement and commissioning.**	**2.0**

3.62 The Procurement focus on Vfm is predominately co-ordinated by Treasury and Resources. Foundational to Procurement within the States of Jersey is a Corporate Procurement Strategy and this initiative incorporates best practice reflecting national, regional and local economies and would include for a number of the following outcomes:-

- Suppliers deliver improved quality and impact;
- Better value for money from third parties;
- Strengthened national procurement capacity;
- Stronger impact achieved through increased market collaboration; and
- Improved application of procurement skills and commercial awareness across the States of Jersey.

3.63 We understand there are significant expectations that Procurement Savings can materially contribute towards targets. It is expected that through *"retendering to get better value for money and simply reducing our buying where we can, to deliver savings of £6.5 million by 2013."*

3.64 We have been unable to obtain evidence as to the status of the achievement of such Procurement Savings.

PR15	**The organisation pursues value for money through active management of its fixed assets.**	**2.5**

3.65 The States of Jersey has, within its Balance Sheet as at 31 March 2011 a Net Book value of some £2,922 million of Property, Land and Infrastructure Assets.

3.66 The significant reduction in resources across the public sector has led to a renewed focus on the active management of Fixed Assets. In respect of the MTFP the States of Jersey has given due prominence to the incorporation of its Asset Management in relation to the Office Estate Rationalisation including an Office Consolidation Project.

3.67 The strategy highlights best practice and includes a Three Phased Approach that systematically outlines an approach to key Properties and Investment consequentials.

3.68 Provision is made for:-

- Change Opportunity - Consolidation/Reallocation Feasibility
- Procurement/ Investment
- Valuations
- Asset Disposal including Piquet House
- Forward Investment plans
- Asset Management Strategies

3.69 In 2009 the States of Jersey carried out a review of its corporate estate - a significant comment is that with 69 separate locations in and around St Helier, the State's Office Portfolio is fragmented and does not engender collaborative working between different departments.

3.70 On a comparative basis we would be of the view that the States of Jersey are attempting to pursue a VfM approach to the active management of fixed assets. Whilst the strategy is considered to offer embryonic capability we do consider that it offers a sound platform for improvement by virtue of incorporation within the MTFP.

4. MTFP - Assumption and Utilisation Issues

4.1 Characteristics of a robust MTFP including the information feeding into it would include the following attributes:-

- Relevance;
- Accuracy;
- Reliability;
- Consistency;
- Completeness;
- Timeliness; and
- Adjustable/Flexible

4.2 As with the appraisal of options the determination of key assumptions requires taking account of the potential for risk and uncertainty to arise in addition to an element of potential optimism bias. In relation to optimum bias HM Treasury, in supporting guidance to the 'HM Green Book' have estimated a top ceiling of some 200% on Equipment Capital Projects and an upper ceiling of 41% on Outsourcing Projects. Therefore important factors to consider in testing assumptions incorporated within the MTFP would include an appreciation of:-

- **Risk** – a situation where all possible outcomes are known while the outcome that will occur is not known although it is possible to estimate the probability associated with each possible outcome;

- **Uncertainty** – do not know all possible outcomes – the probabilities of the outcomes are unknown or both the outcomes and probabilities are unknown; and

- **Optimism Bias** – the tendency for forecasters/appraisers to be systemically overly optimistic.

4.3 A key technique used to evaluate scenarios in the context of the above factors is Sensitivity Analysis. We are aware that the States of Jersey Treasury have used sensitivity analysis for some components of the MTFP. Sensitivity analysis provides for the recalculation of the value or cost/income set at the upper and lower end of the range of likely estimates and possibly some intermediate values. However the application of standard variations of plus or minus some arbitrary percentage to each assumption will not adequately reflect the sensitivity of the activity assumption to its particular portfolio of risks. In respect of the key Economic Growth Assumptions this is highly relevant. The undernoted table highlights key economic assumptions used within the MTFP as foundational to the calculation of Tax Yields and other key areas:-

Annual Changes	2011 %	2012%	2013%	2014%	2015%
Real GVA	1.2	1.4	2.0	2.5	2.5
Employment Growth	1.0	0,5	1.0	1.0	0.5
Average Earnings	2.5	3.5	3.8	4.1	4.8

4.4 We understand that these figures are tracked with the UK Office of Budget Responsibility. On the basis of these indicators the Tax Yield assumptions have been partially founded. Using the lowest sensitivity threshold we are advised that the negative differential would be a £3m loss in Personal Income Tax Yield. Whilst we have no contra indicators that show a different set of economic indicators should be used, external trends on Tax Yield indicate that forecasted economic growth may not be sustained and may impact beyond the lower threshold differential of £3m.

4.5 For Jersey the dependency on the Financial Services industry cannot be underestimated. The volatility in global markets has produced a level of uncertainty in which cyclical industry norms are considered to be no longer predicated. We fully understand the impact and value of confidence on the realisation of such economic indicators. However, we would positively recommend that he States of Jersey fully adjust the MTFP to reflect the most up to date advice from the Fiscal Policy Panel as soon as it is received.

4.6 The degree to which a forecasted change to a component or components of the MTFP changes the overall balancing of Income to Expenditure and Balance Sheet will be a matter of judgement and ultimately materiality. What our work was unable to reveal was the processes and protocols that would be deployed to create the necessary conditions to accommodate a rebalancing of the MTFP. This will necessarily include for Political direction and approval and require existing processes to be enacted. However, for the MTFP to fulfil its optimal potential there needs to be a such a rebalancing process to exist in a way that creates a fully rolling model that requires continuous change and refinement, as it is unlikely that changes to one aspect of the MTFP will have no or limited impact on another component.

4.7 If the MTFP is to be an effective working model which enhances Jersey's Financial Management capability <u>it requires to be a central tool and fully integrated within the core management decision making processes of Jersey.</u> We would be of the view that there should be no impediment in realising the Chief Minister's vision of the importance of the MTFP -."The Medium Term Financial Plan is an important next step in Jersey's sustainable long term planning and will provide a foundation for our future." We would fully endorse such a statement – across public entities it should not be regarded as "nice to have" and "conceptual" but a true continuous working model which is core to Financial Strategy. Finally it would be our considered view that in creating an effective MTFP that will be a working model integral to its Financial Management, the States of Jersey should be commended and seen as a strong example of promoting good practice. In terms of primary objective, scope and detailed workings of the MTFP, the States of Jersey would certainly be regarded as a good example to follow.

4.8 Whilst we would endorse Jersey's MTFP we would recommend a number of enhancements/improvements which would strengthen the effectiveness of the strategic financial planning further. In this respect we would propose 10 recommendations and these are outlined in the table below:-

	Recommendations
1	Provision of a single comprehensive model which incorporates all aspects of the MTFP
2	Provision of a defined MTFP Performance Monitoring and Reporting framework which produces high level transparency on the tracking of actual performance against the MTFP
3	Creating a stronger linkage between required operational outcomes and the MTFP
4	Based on a revised Performance Monitoring and Reporting framework the provision of a mechanism that would allow the appropriate decisions to be taken that would lead to the continual rebalancing of the MTFP that would optimise financial outcomes
5	In accordance with good practice the MTFP should be fully "rolling" across a minimum of 3 years and subject to continuous revision
6	Key Assumptions integral to the MTFP should be stress tested against the Accounting Concept of prudence – this is particularly relevant for economic growth assumptions even where this may prove to be politically unpalatable – this is also especially relevant for the assumptions associated with the current Procurement and Modernisation initiatives
7	Encourage the identification and surrendering of unrequired budget at the earliest opportunity in-year to enable a corporate strategic approach to be taken within the MTFP framework
8	For reporting purposes clearly and formally differentiate cashable savings arising from direct Management intervention from the re-phasing (stopping/slowing)of activity – clearly identifying "slippage" and non-achievement
9	That a more rigorous process be initiated that would prevent departmental/service underspends be carrying forward between financial years to fund unrelated/different activities or fund future departmental/operational budget savings
10	Improved visibility required on Investment Appraisal and Business Case methodology used on Projects incorporated with the Capital Programme demonstrating full incorporation of life cycle costing with complete visibility on how the full current and future Revenue Consequences of Capital Projects is being provided

Appendix 1

CIPFA Financial Management Model – Extract of Relevant Statements and Supporting Questions

Supporting Performance – Process		Selection
PR12	**The organisation's medium-term financial planning process underpins its strategic priorities.**	
1.	Does the *Medium-term Financial plan* represent a properly resourced, realistic programme of action over the medium term?	✓
2.	Does the *Medium-term Financial Plan* examine scenarios, risks and sensitivity analysis?	
3.	Does the organisation use formal processes to link the *Medium-term Financial plan* to other organisational plans (e.g. IT strategies, workforce strategy, asset management plans and service development plans)?	✓
4.	Does the organisation use formal processes to link the *Medium- term Financial plan* to the annual operational budgets?	✓
5.	Does the organisation's *Medium-term Financial Plan* reflect joint planning with partners and other stakeholders?	
6.	Does the organisation regularly review its *Medium-term Financial Plan*?	✓
7.	Is there a requirement in the Financial Regulations or Standing Financial Instructions to evaluate the financial implications and the long term affordability of new policy options, initiatives and major projects, involving *Finance staff* and using recognised option appraisal methods?	
8.	Is the long term affordability of new investment assessed?	✓
9.	Are there arrangements to review whether expected financial cost savings are realised?	✓
10.	Are there exit plans for time-limited funding streams?	✓
11.	Are targeted zero based budgeting exercises undertaken periodically?	
12.	Does the Medium-term Financial Plan consider options for new sources of income, new ways of reducing costs and of attracting additional sources of funding?	
13.	Does the organisation evaluate opportunities to invest to save (e.g. early intervention and prevention), identifying evidence, probability and targeting of impact, value for money and methods of realising future benefits and savings?	✓
14.	Does the organisation seek to diversify its funding streams, to reduce risk?	

Supporting Performance – Leadership		Selection
L4	**The organisation has a developed financial management strategy to underpin long term financial health.**	
1.	Does the *Leadership Team* demonstrate commitment to the strategy for long term financial health through their statements and actions?	✓
2.	Does the organisation review the balance of funding streams to ensure long term financial health, fairness to users, and development of the local economy, for example between tax raising, grant funding and charges?	✓
3.	Are there clear financial management policies that together underpin sound and sustainable long term finances? Policies may include accounting practices, approach for bidding for external resources, levels of contingency funds and reserves, procurement, asset management, business cases, affordability of capital investment, efficiency gains and targets, financial risk management, risk financing and insurance, treasury management, wider market and trading opportunities, charges and subsidies for users.	
4.	Do financial management policies support strategic business aims, resilience and financial standing?	✓
5.	Are financial management policies communicated to *Managers* and the *Management Team,* widely understood and consistently applied?	✓
6.	Does the *Board* or *Audit Committee* receive assurance on compliance with financial management policies and on the follow up of material deviations?	
7.	Are financial management policies reviewed regularly and updated?	
8.	Do post-completion project reviews take place and include identification of actions to improve financial management?	
9.	Do external audit and inspection comment favourably on the processes for strategic risk management, resilience and financial standing?	

Securing Stewardship – Process		Selection
PR8	**Budgets are robustly calculated.**	
1.	Does the organisation produce a *Medium-term Financial Plan*?	✓
2.	Is the *Medium-term Financial Plan* consistent with the organisation’s aims and objectives?	✓
3.	Does the *Medium-term Financial* plan take account of local and national priorities, changing legal requirements, demographic trends and demand levels and national standards?	✓
4.	Does the organisation prepare its budget in accordance with its corporate objectives, strategies and *Medium-term Financial Plan*?	✓
5.	Does a risk assessment of material items of income and expenditure inform budget setting, and their reporting to the *Board* with financial implications, mitigating actions and contingency provisions?	
6.	Are fees, charges and concessions, including new options, related to policy objectives and reviewed annually?	
7.	Are revenue and capital budgets based on plans and projections about resource needs, pay and inflation, productivity levels, and income?	
8.	Are cost reductions, growth and savings options identified and reliably costed as part of the budget process?	✓
9.	Is the reporting of cashable efficiency gains reconciled with and reflected in the budget?	✓
10.	Are the revenue consequences of the capital programme and other expenditure commitments, including the consumption of capital (e.g. depreciation) reflected in revenue budgets?	
11.	Are forecast or actual budget variances and trends reflected in budget preparation?	
12.	Are managers fully involved in setting their budgets, working with *Finance staff*, so that they take ownership?	✓

Supporting Performance – Leadership		Selection
L3	**The organisation integrates its business and financial planning so that it aligns resources to meet current and future business objectives and priorities. Performance management is conducted through measures of service delivery and clear understanding of the costs incurred.**	
1.	Does the organisation operate to clear criteria for reviewing and justifying its activities, expenditure and income policies, including the need for public subsidy, the economic value provided, the impact on people most in need, the risks involved and alternative agents of delivery?	
2.	Does the *Corporate Business Plan* demonstrate how resources are allocated strategically to deliver the organisation's aims, objectives and priorities?	✓
3.	Does the *Medium-term Financial Plan* draw together realistic estimates of funding to support the achievement of strategic objectives?	
4.	Does analysis of the medium term financial environment form an explicit backcloth to the *Corporate Business Plan*?	
5.	Is formulation of the *Corporate Business Plan,* or the linked financial plan, based on analysis of cost implications of policy choices?	✓
6.	Is the *Corporate Business Plan* developed in collaboration with delivery partners and stakeholders?	
7.	Do delivery partners' plans align with the *Corporate Business Plan*?	
8.	Does the *Medium-term Financial Plan* examine scenarios to develop financial flexibility, adequate contingency and reserves, based on a risk assessment and sensitivity analysis?	✓
9.	Do the *Corporate Business Plan* and *Medium-term Financial Plan* address the impact of key external cost drivers: social trends; demographics and changes in service demand; and accelerating commitments? Major examples include elderly social care, waste disposal, pensions, interest rates, environmental sustainability.	✓
10.	Does the *Leadership Team* approve and understand the demand management strategies for demand led services and activities?	
11.	Does the *Board* and *Management Team* regularly review priorities to enable resources to be redirected from areas of lesser priority, not relying principally on pro rata cuts to generate savings?	✓
12.	Does the *Corporate Business Plan* or the linked financial plan; reflect efficiency targets, over a medium term time horizon?	✓
13.	Is the *Corporate Business Plan* underpinned by clear and coherent operational plans, workforce plans, and procurement plans?	
14.	Is the *Corporate Business Plan* reviewed and updated on a regular basis?	
15.	Do measures used for performance management link outputs and outcomes with costs?	✓
16.	Does *Board* and *Management Team* reporting bring together information on financial performance, activity levels, outcomes and risk?	✓
17.	Does monitoring of performance give rise to rapid response and corrective action?	
18.	Do external audit and inspection comment favourably on the processes for planning and review?	

Securing Stewardship – Leadership		Selection
L2	**The organisation's leadership allocates resources to different activities in order to achieve its objectives and monitors the organisation's financial and activity performance.**	
1.	Do the *Medium-term Financial Plan* and budget show the resources allocated to major spending activities and programmes, with useful summaries?	✓
2.	Is the financing of expenditure transparently explained in the budget summaries and reports?	
3.	Does the *Medium-term Financial Plan* project forward the financial position for at least three years?	✓
4.	Does the *Board* review activity levels, actual spend, balance sheet items, and forecast outturn against the budget, at a minimum quarterly, to ensure the organisation will not overspend and that income and expenditure are in line with budgets and agreed policy, and is achieving planned outcomes?	
5.	Do the *Management Team* review activity levels, actual spend, balance sheet items, and forecast outturn against the budget monthly, to ensure the organisation will not overspend and that income and expenditure are in line with budgets and agreed policy, and is achieving planned outcomes?	✓
6.	Does the *Leadership Team* monitor Key Performance Indicators at least quarterly?	✓
7.	Is financial information relevant, clearly presented, timely and comprehensible to the non-financial reader? This applies to *Board* member reports as well as *Management Team* reports.	
8.	Are budgets realistic, with over- and under-spending within expected tolerances?	✓
9.	Are there governance arrangements for scrutiny, review and challenge of the draft budget, including stakeholder consultation?	✓
10.	Are there processes to adjust budgets in year and to seek *Board* or *Management Team* level approval if major programmes are varied by more than pre-set tolerances?	
11.	Are decisions to change resource allocations transparent, justified and made in accordance with the organisation's rules?	
12.	Has the organisation a policy to avoid reliance on one-off resources to finance recurrent expenditure?	
13.	Has the organisation a declared policy on treatment of over- and under-spending, including end of year flexibility?	✓
14.	Does the *Leadership Team* receive reports that show clearly the impact of current allocations and performance on future years?	

Supporting Performance – Leadership		Selection
L6	**The organisation develops and manages employees pay and benefits strategically**	
1.	Is pay based on an analysis and strategic planning for workforce needs?	✓
2.	Do compensation arrangements reward in some way employees with excellent performance?	
3.	Are employer pension contributions and future liabilities understood and are they sustainable?	✓
4.	Is the impact of equalities legislation on workforce compensation understood?	
5.	Does the organisation monitor and follow the outcome of legal cases that will impact on its pay liabilities?	
6.	Are severance terms reviewed regularly and in line with sector comparators?	
7.	Is the cost of absenteeism and sickness understood, monitored and reported?	✓
8.	Does the organisation develop strategies to reduce the cost of absenteeism whilst supporting the well-being of employees?	
9.	Is incremental pay progression understood and its impact on future payroll costs clear?	✓
10.	Is the organisation clear about its flexibility under national agreements to vary pay?	

Supporting Performance – Process		Selection
PR13	**The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.**	
1.	Does the organisation examine the relative cost and performance of services, including financial services, and test them against internal and external benchmarks to identify improvements?	✓
2.	Are cost reductions and efficiency routinely sought and realised as part of service reviews?	✓
3.	Do *Managers* focus on managing their costs and reducing inputs to achieve their goals rather than on using up their budgets?	✓
4.	Are targets for efficiency gains and spending reductions routinely agreed and set?	✓
5.	Does the organisation use national and local performance indicators to monitor performance (including financial performance)?	
6.	Are alternative delivery methods (e.g. outsourcing, collaboration and shared services) investigated and pursued?	✓
7.	Is cost reduction targeted at specific budgets or activities, following consideration of priorities, rather than as a standard percentage across all activities?”	
8.	Do *Managers* examine cost drivers of high spend areas to understand risks and options for cost reduction?	✓
9.	Does the organisation work across internal and organisational boundaries to achieve improvements (e.g. pooled resources, end to end process review)?	
10.	Does the organisation routinely undertake business process reviews and implement findings?	
11.	Does the organisation regularly examine its staffing structure, working practices and pay bill to improve overall productivity?	✓
12.	Does the organisation use technology to improve productivity, e.g. automating processes, implementing self-service or encouraging mobile working?	
13.	Is action taken to improve inefficient workflow processes (e.g. using lean thinking techniques, standardised processes, eliminating re-keying, reducing duplication)?	
14.	Does the organisation seek opportunities to capitalise on its skills and assets, and to spread overheads, by undertaking work for other public sector organisations where this improves value for money?	

Supporting Performance – Process		Selection
PR14	**The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement and commissioning.**	
1.	Does the organisation have a corporate procurement strategy?	✓
2.	Does the organisation have procurement capacity to drive and realise the strategy?	✓
3.	Does the organisation develop its capacity by training professionally qualified and expert procurement staff?	
4.	Do *Managers* involved in procurement understand their responsibilities?	
5.	Does the organisation publish a forward procurement plan for suppliers?	
6.	Does the organisation participate in framework contracts, joint procurement or consortia to exploit economies of scale and market influence?	✓
7.	Does the organisation evaluate appropriate procurement strategies, e.g. lease, buy or make?	
8.	Does the corporate procurement strategy incorporate gateway reviews for high risk projects?	
9.	Does the organisation ensure most purchasing is under formal contract and monitor off-contract purchasing?	✓
10.	Does the organisation have effective and adequately resourced contract monitoring and reporting arrangements in place?	✓
11.	Does the organisation ensure value for money during the life of a contract through active contract management, creating opportunities for improved methods during long life contracts?	✓
12.	Does the organisation seek value for money through encouraging competition and contestability, accessing wider markets, packaging contracts, supply chain management and developing supplier relationships?	
13.	Does the organisation research and gather market intelligence to develop creative solutions with potential suppliers?	✓
14.	Does the organisation work with others to stimulate and develop markets where they are weak?	✓
15.	Is procurement used to meet the strategic objectives of the organisation, including impacts on the environment, workforce training, the local economy or community engagement?	✓
16.	Is e-procurement (e.g. purchase to pay and e-tendering) used as a means of reducing administration costs and/or increasing competition?	
17.	Are e-auctions used as a method of increasing value for money?	
18.	Does the organisation award contracts through assessing whole life costs and benefits using the appropriate investment appraisal technique?	✓

Supporting Performance – Process		Selection
PR15	**The organisation pursues value for money through active management of its fixed assets.**	
1.	Does the *Leadership Team* actively review asset utilisation and opportunities for more intensive use and estates rationalisation?	✓
2.	Is there an asset management plan that reviews the condition, sufficiency and suitability of assets in the light of business needs, and ambitions of the *Corporate Business Plan?*	✓
3.	Does the *Medium-term Financial Plan* include targets for the value of asset disposals?”	✓
4.	Are asset sales determined by planned rationalisation rather than as a quick fix funding stream?	
5.	Are intangible assets, such as intellectual property, actively managed?	
6.	Is stock management reviewed to optimise delivery times versus holding costs?	