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Effective service and financial planning have always been essential to the delivery of high quality services. The new duty of best value and the requirement to produce best value performance plans make sound planning an even more important priority for all councils.

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Preface

The Audit Commission oversees the external audit of local authorities and National Health Service (NHS) agencies in England and Wales. Additionally, the Commission is required to undertake studies to enable it to make recommendations for improving the economy, efficiency and effectiveness of services provided by these bodies; and it is required to comment on the effects of statutory provisions or guidance from central government on the economy, efficiency and effectiveness of these agencies.

Good service planning and careful resource allocation have always been essential for the delivery of high quality services to the community. But existing service and financial planning in local government does not always serve the community well. The Local Government Bill currently before Parliament sets out new statutory duties on local authorities to undertake in-depth performance reviews and report annually on their own performance. This duty highlights the importance of planning, particularly given the requirement to produce annual best value performance plans (BVPPs).

This paper is, therefore, an integral part of the Commission’s developing advice and guidance on best value implementation. Of course, the importance of sound service and financial planning goes beyond the challenge of preparing the annual performance plan. Ongoing service planning and resource allocation provides the broader foundations for all local authority activity.

There is a new urgency, however, in the need for local authorities to address their planning processes. The number of statutory plans is increasing, setting demanding national standards and targets for most services. Changes in the financial framework, for both revenue and capital expenditure, challenge councils to reconsider their approach to financial planning, to develop more strategic financial models, and to maximise resources from partnerships, including those with the private sector (Ref. 2).

In many authorities these changes are taking place within the wider context of new political structures (Ref. 3). New roles and responsibilities for elected councillors – not just the duty to deliver best value – will need to be backed by sound service and financial planning which helps them to:

- identify community needs and allocate resources to them;
- focus on strategic decisions to bring about real improvements in service performance and delivery; and
- move away from year-on-year negotiations over detailed budget changes, which are often a small fraction of total local government activity and expenditure.

This paper is based on research carried out over the last 18 months, including fieldwork carried out in 15 authorities, several of which have been piloting best value [APPENDIX 1]. Interviews took place with senior officers, councillors and partner organisations. These partners included other tiers of local government, health authorities, housing associations, police authorities, and training and enterprise councils. To complement

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1 See the guidance set out in an earlier report on best value, Better By Far (Ref. 1), which is to be updated shortly. The Commission will also be publishing guidance on the audit of best value performance plans.
the interviews, the study included an attitude survey of all of those interviewed, together with a wider sample of managers and staff. An additional source of financial planning information has been a questionnaire for directors of finance and treasurers, sent to a sample of local authorities in the second half of 1998. The response rate and quality of the information provided in the returns was extremely high and has assisted greatly in drawing conclusions from the study. Definitions of the financial terms used in the report can be found in Appendix 2.

The paper also draws on research into the experience in the UK private sector and international public sector. Appendix 3 provides more details of these aspects of the work. Although the structures, functions and funding of local government differ in other countries, lessons can be learned from innovative approaches taken in other sectors.

This study revisits Audit Commission recommendations in recent years for improving the way in which local government works. The Commission has encouraged councils to look carefully at the quality of the financial and performance information that underpins their decision-making (Refs. 4 and 5). It has also emphasised the need for a longer-term approach to financial planning. While many councils argue that local government’s short-term approach is a result of annual funding settlements and central government’s own short-termism, Audit Commission recommendations have been influential in moving the agenda forward (Refs. 6 and 7). A recent Commission study of the costs of early retirement highlighted the need to determine the future financial commitments when decisions are made (Ref. 8).

The paper’s findings and recommendations cover the three key aspects of local authority service planning and resource allocation that will underpin the delivery of best value: the corporate dimension; service planning; and financial planning. The Commission aims to promote the good practice found in a number of authorities to encourage all councils to tackle those areas of planning that need improvement. Lessons learned from leading councils will be invaluable in helping all local authorities through the early years of best value.
Three key aspects of local government planning will underpin the delivery of best value: the corporate dimension, service planning and financial planning.

The paper is aimed at councillors and senior officers. While it is written predominantly for local government, its principles apply equally to police and fire authorities and partner organisations such as health authorities. It is also likely to have a wider audience among those concerned with public sector finance. The findings and recommendations also raise issues to be addressed by government. Local audits based on this study are taking place throughout England and Wales during 1999, with the aim of helping local authorities with preparations for their first BVPPs, which are required by 31 March 2000. These plans will be subject to audit by the end of June 2000. While the details are yet to be finalised, interim guidance from DETR indicates that the focus of best value performance plan audits will be:

- an evaluation of the systems that support the plan’s performance and resource information;
- an assessment of whether the plan has been prepared in accordance with statutory guidance; and
- a judgement on whether the plan and the improvement targets that it sets are realistic and challenging (Ref. 9).

The study was carried out by staff within the Commission’s Local Government Studies Directorate: Jane Elgar, Richard Shore and Damian Riley, with external assistance from Janet Paske and Phil Blake, under the direction of Greg Birdseye. Patrick Gray of Oxford Research Ltd and Tony Bovaird of Aston University undertook additional research into the UK private sector and international public sector. The development of the paper was greatly assisted by an advisory group drawn from local government, central government, other professionals and academics, and the private sector [APPENDIX 4].

The Commission would like to thank all those who contributed to the study, including all local authorities and other bodies that provided information in response to questionnaires and more general enquiries. While acknowledging this contribution, responsibility for the study’s findings and recommendations rests with the Commission alone.
1. Service and financial planning in context

Why service and financial planning is important

1. Planning is the key thread running though any organisation. In local government it has always been important, enabling councils to set objectives and priorities, turn policy decisions into programmes of action, decide how best to allocate the resources available, and review the results so that learning feeds back into the decision-making process [EXHIBIT 1].

2. The current period of rapid and radical change requires councils to meet new national and local priorities. The duty to provide best value to the community makes effective planning even more important.

3. One of the key aims underpinning best value is the search for continuous service improvement. Councils with well-planned services and resource allocation should be much better equipped to respond appropriately to community needs. Good planning can ensure that short-term fixes are not achieved at the expense of long-term sustainability. Well-informed decisions, which are open to scrutiny, will also enable councils to demonstrate clearly to the community the ways in which they are responding to local aspirations, leading to far greater accountability.

4. While many would argue that these principles are self-evidently good sense, good practice is not widespread. Councils spend over £70 billion a year providing services to their local communities. Yet all too often, poor planning leads to money being badly spent and services that do not reflect local needs [BOX A, overleaf]. This paper seeks to encourage all local authorities to start the process of improving their planning to meet the requirements of best value. Elected councillors, senior officers, service managers and staff all need to be involved.
The development of service and financial planning in local government

Best value will also challenge existing service structures. Traditionally, many local government services have been provided direct to the public by separate, professionally staffed service departments. At the time of local government re-organisation in 1974, the need for greater co-ordination was recognised (Refs. 12 and 13) and by the mid-1970s many new organisational structures were in place. These included policy and resources committees, and chief executives and chief officer management teams. However, the planning and delivery of services typically continued to be carried out top-down in separate departments, and the key relationships remained those between service committees and their chief officers.

In the 1980s, two key national policy developments affected service planning in local government. First, legislation in major service areas – in housing, education and social services – began to challenge the council’s role as the only provider of services. For example, local management of schools (LMS)\(^\text{II}\) devolved many decisions previously made by the local education authority (LEA) about the use and control of resources. Second, the previous Government’s policy of compulsory competitive tendering (CCT) required councils to open up service provision in certain service areas to competition.\(^\text{III}\) CCT led to new contractual arrangements between councils and the private sector, encouraging business planning in direct service organisations (DSOs). But opponents argued that CCT also led to greater fragmentation of local government services and to a cost-driven approach, at the expense of a focus on quality services for users.

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**BOX A**

**Example of the costs of planning failure**

Failures in the planning of school places mean that surplus places in some areas cost local government £100 million a year overall, while overcrowding in other areas puts good quality education at risk (Ref. 10). By 2002, over £5 billion in single regeneration budget (SRB) funding will have been spent on local community safety initiatives, but many projects have been hampered by inadequate planning, particularly the absence of a clear focus on the problem that they are trying to solve. A recent evaluation by Her Majesty’s Inspectorate of Constabulary (HMIC) identified only 17 out of 335 local community safety schemes as successful.\(^1\) Such examples highlight a need to re-examine core planning processes in local authorities.

*Source: Audit Commission*

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\(^1\) HMIC research discussed in Audit Commission, *Safety in Numbers* (Ref. 11).

\(^\text{II}\) LMS was introduced by the Education Reform Act 1988.

\(^\text{III}\) CCT was introduced by the Local Government Planning and Land Act 1980. The Local Government Act 1988 extended compulsory competition to a number of new areas.
Throughout the 1980s and 1990s, national government imposed increasingly tight controls on local government finances. The Government has reduced the proportion of income raised by councils locally and limited spending through the Standard Spending Assessment (SSA) mechanism, through capping, and through real reductions in the level of the annual Revenue Support Grant (RSG). Many local authorities argue that this has left them with little freedom of manoeuvre in financial planning and resource allocation. Planning capital investment programmes has also been difficult because of uncertainties over capital funding from year to year, the complexity of regulations surrounding capital expenditure – which has in many cases been ‘ringfenced’ – and the increasing proportion of funding that has come from competitive bidding processes, such as Capital Challenge.

The priorities for local government service and financial planning processes have therefore been to deliver services within tight financial constraints and to meet the requirements of CCT and other changes in the statutory framework. These priorities have led to an emphasis on economy and efficiency, and sound budgeting and budgetary control – the traditional strengths of local government planning – supported in many service areas by policies that have devolved management responsibilities and budgets. The downside has been the entrenchment of a cautious, incremental approach, which is no longer appropriate now that local government is having to adapt to new challenges.
Three drivers of change

9. Three new challenges should prompt local authorities to rethink traditional approaches to planning their budgets and services [EXHIBIT 2]:

- the duty to deliver best value, together with the implications of new political structures and proposals to reform local government finance;
- the need to respond to rising community needs and expectations within continuing financial constraints, involving a greater emphasis on partnerships and other joint working arrangements that span the public, voluntary and private sectors; and
- a commitment within local government to involve service-users in planning and resource allocation and to work closely with local communities to improve services.

EXHIBIT 2
The three key drivers of change

New challenges are prompting councils to rethink their approach to planning their budgets and services.

Source: Audit Commission
10. From April 2000, best value will introduce a demanding new performance framework, which places a much greater emphasis on accountability to local people for the services that a local authority provides. The statutory duty on local authorities to produce an annual best value performance plan (BVPP), which reports on performance and sets future targets, will be informed by a rolling five-year programme of in-depth service reviews covering all local authority functions. Reviews are to be based on the ‘4Cs’ – challenge, compare, consult, compete – set out in the Government’s White Papers for England and Wales (Refs. 14 and 15). Councils should:
   • challenge why and how a service is being provided;
   • compare performance with that of other local authorities, and across the public, voluntary and private sectors;
   • consult with local communities, including taxpayers, service-users and businesses; and
   • embrace fair competition as a means of securing efficient and effective services.

11. In carrying out their reviews, councils will need to look carefully and fundamentally at the resource implications of the services that they provide, making explicit links between policy priorities that reflect community needs and spending decisions. This approach to resource allocation demands a longer-term financial perspective, not least because the reviews themselves will have to be programmed over a five-year cycle. The Government is committed to providing greater stability in local government funding and, in July 1998, announced its intention to move to a three-year grant settlement; the SSA formula has been frozen until 2001.

12. However, changing community needs are likely to be met by a revision of current spending priorities rather than through substantial new resources. Local authorities will be required to make annual efficiency savings of 2 per cent of revenue expenditure as part of the service-level agreement between the Treasury and the DETR (announced in December 1998).

13. The Government also proposes to simplify the capital funding regime. The proposed changes include three-year plans in which the Government will set out total levels of central government support, with allocations to individual councils based on a new ‘simple and stable’ formula. There are also proposals for a single capital ‘pot’ of money, which will free local authorities from many of the existing restrictions on capital spending (Ref. 14). The intention is to provide a framework that supports innovative local approaches, taking advantage of opportunities to pool resources across the public sector and to maximise the generation of resources from the private sector.
The broader modernising agenda challenges local authorities to look at new political structures and other initiatives to improve local democratic accountability. There is still much thinking to be done. Sound service and financial planning should support new political structures and enable member leadership; assessing local needs, setting the council’s priorities and allocating resources to them. The ‘fit’ between political structures, managerial arrangements and planning processes is vital.

While traditional service-based structures have led to strong, clear lines of accountability, they have hampered planning for cross-cutting issues, such as community safety and community healthcare, which need co-ordinated solutions. Best value requires a new approach to service planning, which breaks down these barriers and places service review, challenge and improvement at the heart of local authority activities [EXHIBIT 3].

The following chapter, Why is there a need for improvement?, draws on the findings of the Commission’s fieldwork to highlight current problems and causes for concern. Chapter 3, Better planning, sets out the Commission’s views on solutions, illustrated by examples of good practice that were identified during the fieldwork. Chapter 4, The way ahead, summarises the Commission’s conclusions and recommendations for improvement.
2. Why is there a need for improvement?

17. This chapter identifies where improvements are needed, under three headings: the corporate dimension, service planning and financial planning [BOX B].

The corporate dimension

Establishing a corporate approach

18. While many authorities have vision statements, relatively few currently have a corporate plan, either annual or medium-term. The agenda is now changing. Best value requires a clear corporate expression of councils’ performance and future targets through the publication of BVPPs. One of the most crucial issues will be establishing links between existing plans and planning processes, and BVPPs. Precise definitions will vary according to local circumstances, but councils will need to have a clear understanding of the distinctive purpose of different plans and their unique contribution [EXHIBIT 4, overleaf].

BOX B

Planning in local government

The corporate dimension: planning at a corporate level is about the overall co-ordination of an authority’s activities, its sense of direction and ability to think and act strategically. The corporate approach should be member-led, reflect community needs, involve and inform staff, and be set within the context of the authority’s contribution to partnerships and other joint initiatives. Corporate resources are also required to monitor and review authority-wide performance and ensure that future decisions are informed by the results.

Service planning: the planning that takes place at a service level is the essential building block of all local government activities, on which the day-to-day management and delivery of services to the community is based. Service planning ranges from statutory planning requirements and longer-term service strategies, to more detailed business plans for a particular service or aspect of a service. It should be informed by corporate aims and objectives, an analysis of need, the resources available, a review of performance, and future targets for improvement.

Financial planning: financial planning covers the annual budget process and any medium- or longer-term financial strategies, for both revenue and capital expenditure. It should provide a framework for allocating resources to support corporate aims and objectives, and service priorities.

Source: Audit Commission

1 The situation is different in Wales, where authorities were required to produce service-delivery plans that focused on corporate priorities, following reorganisation in 1996. Issues and good practice are discussed in detail in Audit Commission, A Learning Experience (Ref.16).
Increasingly, some of the key decisions for local authorities require co-ordination between different services – for example, environmental issues, community safety and services for older people, as well as new government priorities, such as lifelong learning and social exclusion. Best value requires a fundamental re-appraisal of the balance between allowing services the freedom to plan their activities and allocate resources accordingly, and the need for corporate review and the co-ordination of a five-year review programme. Traditional service-based ‘chimney stack’ structures for service planning can hinder this balancing act [EXHIBIT 5].

To meet these challenges, many councils need to strengthen their corporate approach by:

- establishing mechanisms for resolving competing demands;
- good communications; and
- avoiding bureaucracy.
Mechanisms for resolving competing demands

21. Many councils have yet to establish mechanisms for identifying competing demands, which may arise between different service priorities, or between identified service priorities and resource allocation. Failure to identify competing demands is leading to inconsistencies and difficulties in implementing corporate aims and objectives [BOX C].

EXHIBIT 5
The impact of council structures on planning
‘Chimney stack’ structures can undermine the development of a client-focused, corporate approach.

BOX C
Examples of the consequences of failing to identify conflicting policies within councils

- A decision to raise charges for home help services as a short-term measure to meet a projected budget overspend leads to more elderly people going into residential homes, contrary to the council’s policy of care in the community.

- A council policy to support rural communities is offset by cuts to subsidised bus routes and by the closure of small community centres.

- A council policy to reduce dependency on car use is undermined when free home-to-school transport is cut.

Source: Audit Commission fieldwork
Good communications

22. A council’s corporate approach needs to be well-communicated and understood by all staff. This is not always the case. More than half the local government staff surveyed – at all levels – do not think that corporate aims and objectives are shared throughout their authority [EXHIBIT 6].

Avoiding bureaucracy

23. It is important for authorities to ensure that corporate planning processes are not bureaucratic. A cost-benefit analysis would help to identify the demands made on service directorates and departments by the corporate centre, and the costs of associated consultation initiatives. In practice, few authorities have attempted to cost their corporate and service planning, or to link resources to specific activities. Most fieldwork authorities reported that planning usually involves senior officers only. There is little significant officer involvement below third-tier level. Involvement of more junior members of management and staff, as well as partners and elected members, would help to ensure that planning includes a wider range of views.

EXHIBIT 6

Staff awareness of their local authority’s overall aims

Staff are not always well informed about their authority’s corporate aims and objectives.

‘The overall sense of corporate vision and direction is very strong at all levels of the authority.’

Source: Audit Commission survey of staff attitudes, 1998
Key players

The role of councillors

24. Councillors face an increasingly complex task:

- the Government is setting a demanding national agenda with a much greater emphasis on challenging the purpose and performance of local authority services;
- the gap between the rising demand for services and the resources available to local government is widening; and
- there is less money for ‘doing things’ and more emphasis on community governance, which will require resources to be deployed in new ways, including working more closely with partners and local communities.

25. Within the overall agenda to improve democratic processes, the challenge for elected members is to give strategic leadership to the process of improvement and change. Clear priorities that reflect corporate aims and objectives are needed, to focus resources on community needs.

26. Agreeing priorities means judging the relative costs, quality and value of services; meeting national requirements will have to be balanced against local needs (expressed through community consultation). The best value review process will require tough decisions about which services are less important or could be provided in new ways, so as to release resources for other priorities.
27. In the tight financial climate for local government, the most common approach to bridging the income/spending gap has been across-the-board cuts, with limited protection for education and social services and other front-line services. Audit Commission fieldwork suggested that, to date, switching resources to areas that reflect member priorities has been limited in many authorities; finance directors indicate that setting the annual budget is incremental in most councils [EXHIBIT 7].

28. The councillors interviewed argued that they had limited scope for re-allocating resources, due to tight financial pressures, existing service commitments and central government’s control of funding. A view echoed by many was that:

‘Financial planning is led by essential commitments, not political priorities.’

EXHIBIT 7

Resource reallocation in local government

Few councils have been able to direct resources to areas that reflect member priorities, because the budget process remains incremental.

Source: Audit Commission survey of local authority finance directors, 1998
29. Many members also pointed out that as they receive information on spending only for their own service area, they are not in a position to make comparisons between services. While a broad financial framework is set early in the year, budget deliberations in service committees take place too late to allow full consideration of how best to support corporate and service policy priorities. In future years, the annual cycle of BVPPs will require earlier consideration of the resources available for service improvement and change.

Staff

30. Effective staff communication is a basic requirement of good planning. One chief executive commented:

‘There is a wealth of information locked into the lower tiers of the organisation. We need to become much better at extracting that intelligence...’

31. Initiatives to improve service performance and break down traditional service barriers often require new skills and a broader range of competencies. Informing and involving staff should also be an integral part of the process of change, but all fieldwork authorities reported that this was largely left to individual service departments. While some departments have developed innovative ways of involving staff in service planning, many councils need to strengthen their overall approach. Most do not use comprehensive performance appraisal systems.¹

External partners

32. Partnerships cover an increasing range of planning activities, from community planning processes to the joint planning and development of crime prevention strategies required by the Crime and Disorder Act 1998. Best value is likely to be a powerful stimulus to further partnership initiatives, requiring councils to consider the planning and delivery of all their services in entirely new ways.

33. The potential benefits of partnership working are substantial. Councils should consider carefully how they could strengthen their service and financial planning to overcome some of the difficulties that they will face in planning services jointly (Refs. 17 and 18). Three issues in particular need consideration:

• establishing shared objectives;
• pooling financial resources; and
• monitoring and reviewing partnership activities.

¹ This confirms the findings of the earlier People, Pay and Performance audit, which found that where performance appraisal schemes are in place, they often relate only to senior staff.
Establishing shared objectives

Many councils have corporate objectives that cannot be met by the council acting alone. Priorities such as safer streets or healthier communities involve the local police and health authorities. Councils should be setting their strategic objectives in consultation with these partners. But, in many councils, such consultation is not well developed. And, as a result, partner organisations do not always share councils’ views that partnership activities are part of their ‘core business’ [EXHIBIT 8].

EXHIBIT 8
Investing in partnership activities
Local government’s partners do not always consider joint activities to be financially significant.

'Partnership activities are peripheral to this organisation's activities in terms of the financial resources allocated to them.'

Source: Audit Commission attitude survey of local authorities and partner organisations, 1998
35. The problems are not all of local government’s making, nor are they necessarily within councils’ ability to resolve acting alone. The Government is encouraging councils to work in partnership with health agencies on community health issues, but targets to cut waiting lists may impose a different set of priorities on scarce health authority resources. One way for local authorities to minimise the impact of these potential conflicts locally is to include partners from the outset in developing priorities (Ref. 19).

Pooling financial resources

36. Pooling resources between agencies has not been a common practice in the public sector, and has not been encouraged by statutory constraints on public agencies’ activities. However, recent shifts in central government thinking means that some of these constraints are more likely to be removed (Ref. 14).

37. The Crime and Disorder Act 1998 already requires local agencies to develop joint community safety strategies with a variety of local partners, including health and police authorities. In many cases, authorities will want to pool resources to put these strategies into action. The Health Act 1999 sets out a framework that challenges local authorities to develop innovative ways of working with local health authorities [BOX D].

**BOX D**

**Partnership in action**

For the right services to be delivered to local people at the right time, local government and the health service must work together in partnership. The Government is proposing to remove barriers to joint working by introducing a number of new powers.

- **Pooled budgets**: Social services and health authorities will be able to bring their resources together into a joint budget, to plan and provide services. This is intended to make it easier for staff in either agency to pull together a comprehensive integrated package of care for users.
- **Delegated responsibilities**: One authority (either on the social services or health side) will be able to transfer funds and delegate functions to the other to take overall responsibility for planning both health and social care. The aim is to put the needs of patients and users at the heart of service planning and eliminate wasteful gaps and overlaps.
- **Better integrated service provision**: NHS providers will be able to deliver social care services beyond the level possible under current statutory constraints. Social services in-house providers will be able to provide a range of community health services – for example, chiropody and physiotherapy – in contract with the NHS. This would have the great advantage of offering an integrated service from one provider rather than many.

*Source: Health Bill (February 1999) and executive summaries of Partnership in Action (Department of Health, September 1998) and Partnership for Improvement (Welsh Office, September 1998)*
Monitoring and reviewing partnership activities

38. Not all councils properly monitor the effectiveness of partnerships, with clear targets against which they can review progress. The Commission’s evidence indicates that most councils and their partners – over 80 per cent – believe that they share a common understanding of the partnership’s objectives. But in many cases there are no measurable outcome indicators, targets and timescales in place to assess whether these objectives have been achieved [EXHIBIT 9].

39. As well as providing the basis for the partnership’s accountability to external stakeholders, rigorous monitoring and review will help to build the openness and mutual trust between partners that has often proved difficult to develop.

EXHIBIT 9
Assessing the success of partnerships
Partnerships do not always have clear targets against which they can review progress.

Source: Audit Commission attitude survey of local authorities and partner organisations, 1998
The wider community

Consultation will be a key to best value. The Local Government Bill sets out a general duty to consult, alongside specific requirements to consult on service reviews. But many authorities are failing to get the most from the considerable resources that now go into community consultation initiatives. Too often, communities’ views are not fed into major decisions that affect them. Overall co-ordination of community consultation is weak, and links between consultation, service planning and resource allocation do not always exist.

Consultation is largely carried out by individual service departments, with little information available for judging the efficiency and effectiveness of consultation activities across authorities. This is leading to:

- duplication of effort and lost opportunities for pooling resources;
- a concern about stagnation and ‘consultation fatigue’ both inside and outside the council [BOX E]; and
- a failure to feed the results into decision-making processes.

BOX E

The dangers of a poorly focused consultation exercise

One LEA produces a four-year strategic service plan, which is reviewed annually. There is an annual consultation exercise on the plan, which was described by one senior officer as a ‘cumbersome beast’. Consultation is carried out through a number of formal groups, covering elected councillors, teachers and headteachers, governors, professional associations, trade unions, further and higher education and the local training and enterprise council.

Three particular weaknesses in the current approach were identified:

- the plan has too many strategic objectives;
- there are tremendous difficulties in meeting the deadlines for the various meeting cycles; and
- the views of parents – who represent a key constituent interest – are poorly represented.

The objective is now to focus the plan on key priorities, rationalise the proliferation of consultation mechanisms and reach groups that are currently under-represented, particularly parents.

Source: Audit Commission fieldwork

Many authorities are failing to get the most from the considerable resources that go into community consultation
For many authorities, making consultation count when taking hard decisions about resources remains an aspiration. Most believe that consultation should have an important influence on resource allocation. But what happens in practice is rather different [EXHIBIT 10]. Authorities should be asking themselves how they make effective consultation a reality, before embarking on the major task of consultation in the best value framework.

**Service planning**

42. The Commission’s work identified a number of concerns relating to how local authorities currently plan and deliver their services to meet community needs:

- the absence of service targets that reflect corporate aims and objectives;
- the implications of cross-cutting issues;
- the effects of statutory planning requirements; and
- the need to establish links between service planning and resource allocation, which in many authorities are carried out as separate activities.

**EXHIBIT 10**

**Consultation and resource allocation**

Making community consultation count in resource allocation decisions remains an aspiration for most local authorities.

*How important do you think community consultation is in influencing resource allocation decisions: (a) Ideally? (b) In practice?*

Source: Audit Commission survey of local authority finance directors, 1998
Setting service targets

44. Corporate aims and objectives are often defined only broadly and need to be translated into specific objectives and targets for individual services [EXHIBIT 11]. Few authorities yet have a performance management system that puts service activities into the corporate context and sets clear targets for staff.

45. Reviewing services against targets will be a cornerstone of the best value framework. But there is still a lot of work to be done in setting measures of performance, standards and targets at service level. All fieldwork authorities identified this as an area for improvement. In many services, little performance data is currently collected. Where performance measures do exist, they typically focus on resource inputs, without these being linked to service activities or outcomes for users. Councillors will play an important part in performance review, but many argue that they receive performance information that is inadequate to challenge either the way in which services are provided or the standards achieved.

EXHIBIT 11
Managing service performance
Corporate aims are often broadly defined and need to be translated into specific targets.

Source: Audit Commission
Cross-cutting issues

46. Successful approaches to cross-cutting issues depend on breaking down the barriers that have come about because service departments have historically planned in isolation from each other. Opinion in local government is divided about whether current arrangements for service planning can meet this challenge [EXHIBIT 12].

47. Many authorities have taken the initiative by planning services jointly across departments, and a number of fieldwork authorities can point to examples of good practice:

‘There has been much more of a person-centred approach to planning services for adults with learning difficulties. Services have been looked at with a view to making best use of existing facilities and reducing the amount of travelling clients have to do. This has involved working with education, leisure and economic development.’

(A director of social services)

EXHIBIT 12
Planning to tackle cross-cutting issues

Opinion is divided within councils about their capacity to plan an effective response to cross-cutting issues.

Source: Audit Commission survey of local authority staff attitudes, 1998
48. But the strength of traditional structures and approaches to service planning can easily undermine new ways of working. Cross-cutting member/officer groups do not always work well in practice. In one authority, working groups on the council’s five strategic priorities were discontinued and responsibility for priorities was handed back to service committees. The problems were that:

- the working groups did not report regularly to committees, so that there was no defined audience or structures to action their findings;
- the groups had no formal decision-making powers or control over resources; and
- there was no overall co-ordination of the groups’ activities or mechanisms for making resource allocation decisions between competing demands.

49. Project and task groups need to be supported by clear lines of reporting, and mechanisms for holding decision-makers to account for cross-cutting issues. In practice, these lines of reporting and accountability have yet to be established in many authorities.

**Statutory planning requirements**

50. Statutory plans have a considerable influence on the planning process in local government. They provide an important framework for improving performance to meet national standards and targets. For example, education development plans require local education authorities (LEAs) to set out plans for raising standards in schools over a three-year period, and there is an annual review of progress against targets.

51. Local authorities widely recognise the value of statutory plans. However, with at least 30 separate plans currently required by central government, affecting most local government services, there is a danger of ‘planning proliferation’.

52. National government needs to consider carefully the demands that statutory plans make on local government, but councils must take the initiative locally to look at how they meet these demands. Although individual departments often take the lead in preparing statutory plans, there are seldom links between officers with similar responsibilities in different service areas. Few authorities have considered how statutory plans could be drawn together to minimise the resource demands on individual departments, or take advantage of opportunities for joint working to resolve potentially competing demands on service priorities and resource allocation.

53. Co-ordinating all these plans should now be a priority. BVPPs will require authorities to bring together performance information from a range of other plans, to provide a clear statement of overall performance that local people can understand, and an overall picture of the council’s priorities and the resources to support them. Achieving this level of co-ordination will be a considerable challenge.

**National government needs to consider carefully the demands that statutory plans make on local government**
Links between service planning and resource allocation

54. One of the core requirements of the BVPP will be a clear expression of how resources are allocated to meet community needs. In practice, this requires a planning cycle that brings together policy decisions, service planning and the budget process. The absence of these links means that, in many authorities, planning is currently driven by the budget:

‘The service planning and resource allocation cycles are separate at the moment. Planning is finance-led and the approach has been savings-driven. The separation of service and financial planning is a weakness we didn’t know we had until recently. Because the budget has been a self-contained process, opportunities to address the base budget have not been taken and not enough attention has been given to strategic service issues.’

(A chief executive)

Financial planning

55. Overall, local government probably spends around £120 million on financial planning every year, including the revenue budget and the capital programme. But there is little correlation between the resources allocated to financial planning, and the size of the annual revenue budget and capital programme [EXHIBIT 13].

56. Local authorities need to review their spending on financial planning as part of a wider review of strategic financial planning activities. In particular, they should move away from short-term approaches, in both revenue and capital budgets.

EXHIBIT 13
The costs of financial planning
There is little correlation between budget size and the amount spent on financial planning by councils.

Costs of financial planning (£000s)

Source: Audit Commission survey of local authority finance directors, 1998
Revenue planning

57. There has been a widespread view in local government that longer-term financial planning has not been possible because the overall financial framework has been dominated until recently by annual announcements from central government. As budget pressures have mounted, the priority has been the short-term management of budget cuts to best protect existing services. Councils claim that political and economic changes make medium- and longer-term financial planning difficult.

58. Councils should not assume, however, that such uncertainties make forward planning impossible, or a pointless exercise. A financial forecast is judged on its accuracy over time. A financial plan should be judged on its capacity to take into account uncertainties in future needs and the resources available, and ensure that the council is able to sustain its commitments over the medium and long term.

### BOX F

**Longer-term financial planning**

Local authorities operate in an uncertain political and economic environment. A sample of local authority finance directors gave over 100 reasons why this made medium- and longer-term planning more difficult.

#### LOCAL POLITICAL ENVIRONMENT
- Priorities change as a result of a shift in political control
- Lack of clear priorities due to ‘no overall control’ or lack of political leadership
- A medium-term plan becoming a ‘hostage to fortune’ – either through raising public expectations or creating ‘bad headlines’

#### LOCAL SOCIO-ECOOMIC ENVIRONMENT
- Changing preferences and needs of service-users
- Changes in local demography, leading to changes in demand for services

#### NATIONAL FUNDING ENVIRONMENT
- Annualised local government financial settlements, for both revenue and capital funding
- An increasing number of specific and earmarked grants
- Changes in government spending restrictions, such as capping rules
- Uncertainty around results of competitive funding bids

#### NATIONAL SOCIO-ECOOMIC ENVIRONMENT
- Changes in macro-economic conditions; eg, inflation levels and interest rates
- Changing national priorities with local impact

*Source: Audit Commission fieldwork*
Local government’s financial planning continues to be characterised by short-term horizons

59. However, local government’s financial planning continues to be characterised by short-term horizons. While a number of authorities have responded positively to the Government’s move to three-year SSA settlements, only 45 per cent of authorities have financial plans for revenue that extend beyond the short term and over half of them have been in place for only two years or less.¹

In many cases, such plans contain estimates of available resources (usually looking three years ahead), but planning has seldom been built around the forecast. One corporate director commented:

‘The medium-term financial strategy is dominated by staying within the capping limit. Officers have not sat down with councillors and looked at longer-term issues about adapting services and the budgets required to meet longer-term community needs.’

60. This short-term thinking is reflected in the failure of councils to develop measures of financial performance to support new approaches to financial planning. Only one-third of local authorities currently have performance indicators in place for financial planning. These focus on budgetary control and monitoring; for example, producing a budget on time, producing a balanced budget, and revenue outturn to be within X per cent of revised estimates. Other significant areas of performance are rarely covered:

- the robustness of medium- and longer-term financial forecasts;
- the realism of medium-term financial strategies and plans;
- the provision of open and accessible information, which allows spending to be related to corporate aims and objectives, and to service activities; and
- the integration of capital projects, including future revenue commitments, into mainstream financial planning.

¹ Based on an Audit Commission survey of local authority finance directors that was carried out in summer 1998.
Capital planning

61. Many councils have begun to re-appraise their capital programming and planning, and medium-term (usually three-year) plans for capital are increasingly common [EXHIBIT 14]. But the local government White Papers assume that local authorities have comprehensive capital strategies, reflecting corporate priorities and community needs (Refs. 14 and 15). Few authorities can match these requirements:

‘Without a strategy or any list of priorities we were in an awful mess. Schemes were being worked up without any reference to each other or financial services and with commitments extending over a number of years. Last year a moratorium was put on all new capital projects until priorities were agreed.’

(A head of financial services)

EXHIBIT 14
Capital planning
A majority of councils now have medium-term capital plans.

'What time period is covered by your current capital plan?'

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
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</thead>
<tbody>
<tr>
<td>Number of years</td>
</tr>
<tr>
<td>0%</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

Source: Audit Commission survey of local authority finance directors, 1998

1 The Audit Commission’s national report, Capital Gains (Ref. 6) highlighted the problems created by short-term horizons in capital finance.
62. The range of different funding regimes for capital has made it particularly difficult to co-ordinate capital projects. As the Government has tightened the controls on borrowing for capital expenditure through credit approvals, other sources of funding – in particular competitive bidding – are increasingly important in capital expenditure [EXHIBIT 15]. As a result, projects do not always support identifiable corporate aims – they are sometimes included in an authority’s plans simply because the grant money is available. One metropolitan council report for councillors outlined the implications of committing matched funding to initiatives that it otherwise would not choose to support:

‘Increasingly the council will be faced with the stark choice of getting no resources at all or having to accommodate its priorities within those established through the many bidding regimes which exist.’

(A P&R committee report, December 1997)

EXHIBIT 15

**Competitive funding**

Challenge funding represents an increasingly important source of capital finance for local government.

<table>
<thead>
<tr>
<th>Available funding (£m)</th>
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<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>1992/93</td>
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<tr>
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<td>1999/2000</td>
</tr>
</tbody>
</table>

- City Challenge
- Capital Challenge (pilot)
- Schools Renewal Challenge Fund
- SRB Challenge Fund
- Estates Renewal Challenge Fund

Source: Capital Gains (Ref. 6)
63. The lack of a co-ordinated capital programme in many councils means that the true value for money of many projects remains largely untested. Revenue and capital planning are separate processes in many councils, making it difficult to weigh the costs and benefits of ongoing revenue commitments against other priorities. As a result, capital investments have often proved to be unsustainable, leading to wasted resources [BOX G].

More needs to be done

64. Better service and financial planning should be high priorities for all councils. Authorities need to re-appraise traditional ways of planning services and allocating resources to them to meet the requirements of best value. There is a need:

- for a more strategic approach and greater co-ordination at a corporate level;
- to involve and inform councillors, staff, partners and communities;
- to make and strengthen links at a service level between what are often separate planning activities, especially the links between service priorities and resource allocation; and
- to develop longer-term financial horizons in both revenue and capital planning.

65. The process of change has begun, but more needs to be done: working with partners to plan and allocate resources in the most effective ways; making sure that community consultation makes its proper contribution to service planning and resource allocation; and breaking down the legacies of service departments planning and operating in isolation from each other, which has contributed to fragmented service delivery. Best value significantly enhances the importance of service and financial planning as a strategic activity. The next chapter sets out good practice examples that were identified during the Audit Commission’s research.

BOX G

The revenue costs of capital assets

Assets can be wasted if councils do not consider the sustainability of capital investments. A treasurer of a large metropolitan borough council characterised the authority’s regeneration partnerships as being ‘hooked on – they’re just not considered with the rest of the budget...’ The result, according to the assistant director of regeneration, is that ‘(this) city is littered with empty community centres’, which were built with Capital Challenge funding, without consideration of the medium-term revenue implications of maintaining them.

Source: Audit Commission fieldwork
3. Better planning

66. This chapter sets out ways of addressing the weaknesses in service and financial planning detailed in Chapter 2. Corporate, service and financial planning need to be considered as a whole. Changes have too often been made piecemeal, so that they have not added overall value. Links need to be strengthened both across and down through the organisation, to bring separate processes together and a range of disparate initiatives – which often cover some of the most important cross-cutting issues – into the mainstream [EXHIBIT 16].

**Principles of effective planning**

67. There is no single model for effective service and financial planning, but there are key principles. Planning should be: *open, anticipatory, intelligent, coherent* and *action-oriented*. These principles reflect standards of good practice in local government and are equally applicable to corporate, service and financial planning. They should guide councils through a continuous process of decisions, planning, action and review [EXHIBIT 17].

**EXHIBIT 16 Integrated planning**

Best value will demand stronger links between corporate, service and financial planning processes.

Source: Audit Commission
Open

68. Service planning and resource allocation should be inclusive of a wide range of views – both from within councils and from the community. To achieve best value, local authorities will need to give the public a greater say in the planning of services:

‘A best value approach to planning services is in conjunction with the users.’

(A chief executive)

69. Local authorities need to be fully accountable for the services that they provide and the resources that they allocate to them. Such accountability requires clarity in decision-making. Trade-offs will be required to balance the budget. These decisions need to be transparent, based on clearly costed options, and open to public scrutiny.

EXHIBIT 17
The principles and practice of good planning
These key principles should guide councils through a continuous process of decisions, planning, action and review.

Source: Audit Commission
Anticipatory

70. Planning is crucial in an uncertain and changing environment. It is not about predicting the future, but about establishing and evaluating options on the basis of carefully considered priorities and an analysis of local needs. Without a long-term horizon, there is a real danger that service and financial planning is no more than a series of short-term expedients, storing up greater – and unforeseen – problems in the future. Best value will be delivered only where both service and financial planning have a long-term perspective [EXHIBIT 18].

Intelligent

71. A vast amount of data is collected, analysed and disseminated by local government, but much of it fails to meet current information needs, still less the requirements of best value. The key is whether the information fits its purpose – whether for making decisions and setting priorities, managing services or judging performance. Councillors need the right information so that they can take decisions that balance the demands of the many stakeholders in local government.

EXHIBIT 18
Developing longer-term planning
Longer-term service and financial planning will help to ensure sustainable service improvements.

Source: Audit Commission
Improvements in information for managers will help them to manage their services more efficiently and to plan services more effectively to meet community needs. Equally, the community and other stakeholders need information that allows them to hold the local authority to account for the services that it provides. This information must therefore be presented in an easily accessible way and be widely available.

Coherent

Looking at the local authority from the perspective of service-users provides a good measure of the effectiveness of the links between different services. All too often, at present, sorting out a single issue means dealing with a number of different departments, none of which appears to communicate with others, so that several visits or telephone calls are required. If local government services are planned in this way, resources are not used to best effect and councils are likely to be providing a poor customer service. Ideally, services should be ‘seamless’, with co-ordinated planning processes bringing together different service units to provide a client focus.

Service managers can derive great benefits by pooling resources and expertise. Increasingly, they will be called on to respond to a new policy agenda in which issues like social exclusion demand innovative approaches and integrated solutions, involving social services, education, health, housing, transport and others.

Action-oriented

Councils must ensure that they do not become process-driven. Service and financial planning is important not for its own sake, but to improve the services provided to local people. Too often, weaknesses in planning open up a gap between strategic intentions and the implementation of policies; for example, where policies cannot be implemented because resources are not available to support them or where other essential links (between departments, or area-based structures) do not exist in practice. These gaps will not be identified without rigorous performance review.

The purpose of these five principles is to provide a framework to help councils to identify the strengths and weaknesses of their planning. It will be for individual authorities to decide the most appropriate ways of tackling these issues locally. This chapter includes a range of different approaches and examples of good practice under three main headings: the corporate dimension, service planning and financial planning.

Service and financial planning is important not for its own sake, but to improve the services provided to local people.
The corporate dimension

77. An authority’s corporate approach should fit the organisation: its size, mix of services and resources. It is also likely to reflect the authority’s environment and history – for example, if it is working between different tiers of local government or where there are opportunities to attract external funding in areas of deprivation. But all councils must now consider whether their corporate approach can support new purposes. In many cases it will require strengthening. The five principles of effective planning provide an important corporate framework for action [BOX H].

BOX H

The corporate dimension and the five principles of effective planning

Effective planning is:

Open – there is clarity about who makes decisions and how they are made, and this informs and involves all key stakeholders internally and externally – councillors, staff, the community and partners;

Anticipatory – it is forward-looking, setting aims and objectives in the context of future needs and a robust analysis of existing commitments and available resources;

Intelligent – it is informed by sound information (performance, needs-based and financial) for setting priorities and for dealing with competing demands on scarce local authority resources;

Coherent – it provides a framework for dealing with a range of statutory planning requirements, breaking down barriers between services and tackling cross-cutting issues; and

Action-oriented – it links strategic decisions to implementation, through service planning, resource allocation, and monitoring and review. It promotes problem-solving and learning at all levels of the organisation.

Source: Audit Commission
The benefits of a strong corporate framework

78. To be more corporate does not mean centralisation or top-down control. Authorities with a strong corporate core include those with area-based structures and those with traditional service committees and departments. But organisations with highly devolved management need strong corporate co-ordination to provide foundations for:

- informing and involving all key stakeholders – members, staff, external partners and the wider community;
- dealing with cross-cutting service issues; and
- strengthening accountability.

79. The need to avoid bureaucracy is not an argument against having a corporate plan, which can be a valuable part of the planning process. Having a corporate plan means having a clear written statement of the council’s objectives, and how they are to be achieved, and allows the public to hold the council to account for its performance against these objectives. It also establishes clear links between services and corporate priorities, which enable the authority – in particular, councillors – to assess progress.

Northamptonshire County Council has made a start to this challenging task. The Council recently published its first performance plan. The plan is backed up by six corporate objective plans aiming to provide a detailed set of tasks and performance measures so that members and the public can assess the council’s progress.

80. Whether or not a council has a corporate plan, a cornerstone of accountability is having a clear set of priorities against which performance can be judged. The first step to achieving this – and a first step in preparing for best value – is to carry out a wide-ranging strategic review of an authority’s activities, and match them against its aims and objectives.

Carrying out a strategic review

Delivering local services to a consistently high standard at an acceptable cost begins with a council’s vision for the local community. The council needs to be clear about the services which local people expect and the resources and opportunities available to deliver them.

(Local Government White Paper (England), paragraph 7.8)

81. The purpose of a strategic review is to establish or re-appraise corporate objectives in the light of community needs, current commitments and longer term service and financial plans. It provides the foundations for the best value review process. The review should provide answers to some fundamental questions:

- How effective have existing corporate initiatives been, such as anti-poverty or community safety strategies?
- What additional resources are likely to be available for new corporate initiatives?
- Do services currently reflect the needs of the local community?
- What do they cost and are they sustainable?
- What are we failing to provide?
- What are the options for changing the existing pattern of service provision to meet future community needs?

82. In carrying out a strategic review, the key considerations are its content, timing and who should influence the strategic review process.
The content of a review

83. A strategic review contains four core components: needs analysis, audit of existing commitments, gap analysis, and strategic choices and recommendations.

Needs analysis

84. This should go beyond an assessment of the total volume or quality of the services that the council provides. Local authorities should be asking fundamental questions about how objectives are determined and whether they are appropriate to meeting local needs. Considerations should include relevant statutory requirements, as well as the results of community-wide consultation exercises, demographic trends and current political commitments made by councillors.

Audit of existing commitments

85. An audit should assess the resource implications of current corporate and service commitments [CASE STUDY 1]. An accurate assessment of the revenue and capital implications of current commitments over the medium term will help councils to ensure that they have a clear picture of the sustainability of existing work, and of the affordability of any new projects that they may be considering. This audit is also an opportunity to review the outcomes and impact of existing initiatives.

CASE STUDY 1

Ipswich Borough Council: an audit of corporate activity

Background

Ipswich was concerned about the number of corporate projects that it had up and running. Senior officers and members wanted to know whether the projects were relevant to community needs, whether they were effective in meeting needs, and what their financial implications were.

Action

The Council carried out a review of all its corporate projects and teams – who leads them, who is involved at member and officer level, the budgets attached to them – and identified more than 30. The review exposed opportunities for rationalising the number of ongoing projects and redirecting resources to new priority areas.

Results

The Council is better informed about the extent of its current corporate commitments. The next stage will be to identify projects that could be discontinued or where efforts could be pooled. In future, if any new project teams are being considered, questions will be asked about how they relate to existing groups, whether there is a danger of duplication or overlap, what resources they will require and whether these could be used to better effect through joint working.
Officer time is also an important consideration. While some initiatives may have dropped down the list of corporate priorities, ongoing commitments may still have significant resource implications at service level. Service managers in a number of authorities commented on the unrealistic expectations of councillors and senior officers about the capacity of the organisation to deliver on a large number of projects at any one time.

Gap analysis

The next stage is to identify any gaps in service provision; what should be provided to meet future demands and priorities; and projecting the resources available in the medium and long term.

Councillors need information that sets out realistic options and allows them to make informed decisions about the costs relative to the expected benefits of their choices. This information should include an analysis of the resources likely to be genuinely ‘free’ for allocation to priorities, which are not tied to ongoing commitments or statutory requirements.

Strategic choices and recommendations

The final stage is for councillors to make strategic choices based on the findings and recommendations of the review, which will set the direction of the authority over the medium and longer term. To support sustainable policy and resource allocation decisions, tough choices will need to be made that reflect a balance between community needs and aspirations, other priorities, service performance and the resources available [BOX I].

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**BOX I**

**Strategic review outcomes**

The outcome of the review should be a clear statement of:

- community needs;
- corporate objectives;
- the impact of existing corporate initiatives and strategies;
- current service provision;
- any gaps in service provision and, equally important, any services or activities that no longer meet community needs and objectives;
- service performance;
- the timetable for best value reviews, focusing on weakest services first;
- resource commitments;
- the costs and benefits of different options for future service provision;
- additional resources likely to be available, including potential savings from phasing out activities; and
- the implications of partnership activities.

*Source: Audit Commission*
The timing of a review
90. Member involvement at an early stage in the strategic review process is critical to ensure political commitment. Once the review process has been completed, recommendations need to go to the appropriate decision-making bodies, allowing time for full debate and consideration. The review process may lead to significant changes, and councils cannot afford to rush this part of the process. Councillors require adequate time to consider the recommendations, and councils will need to examine their arrangements to ensure that the outcome of the strategic review ties in with committee and budgetary cycles. Time will also need to be built in for consulting with the authority’s partners and other key stakeholders.¹

Who should influence the strategic review process?
91. The review will play an important part in establishing the council’s overall medium- and longer-term direction, as well as helping to define the five-year programme of best value reviews. Its findings will impact on many areas of council activity and on the wider community and should, therefore, be based on input from all key stakeholders, including councillors, staff, service-users and local communities, as well as partner organisations [CASE STUDY 2].

92. Strengthening the corporate framework will be invaluable in helping councils to establish a clear set of priorities. To implement these priorities, a number of issues will need to be addressed at a service level, as a starting point for councils’ best value service reviews.

¹ See Audit Commission Better By Far (Ref. 1) for a discussion of the timetable for the corporate review process under best value.
CASE STUDY 2

Stoke-on-Trent City Council: carrying out a strategic review of social services

Background
After Stoke gained unitary status following reorganisation in 1996, the director of social services felt that a strategic review was essential in order to ensure that the new department’s objectives and services reflected the needs of the community, rather than the inherited spending patterns of the old county.

Action
- The review included an examination of existing aims and objectives, a broad-based needs analysis that drew on a wide range of data, an audit of existing provision, an assessment of strengths and weaknesses (a SWOT analysis), and gap analysis. This resulted in a number of choices and recommendations being proposed to the social services committee.
- A wide range of stakeholders was involved from an early stage, including councillors, staff, users and partner organisations. This ensured ownership of the review process and the subsequent implementation of its recommendations.
- The review focused not only on specific service areas, but also covered a number of ‘thematic’ areas such as ‘the transition from childhood to adulthood for people with disabilities’. This gave policymakers a more holistic understanding of the needs of local users, and helped them to identify areas of unmet need in existing patterns of service provision.

Results
The outcome of the review is a three-year strategic plan for the department. This identifies how its objectives relate to those of the authority as a whole, and the implications for specific service areas. The review also provides a catalyst for developing 80 ‘projects for change’, which identify core tasks, targets and timescales for their achievement, and named officers with responsibility for completing the projects. These projects frequently involve teams drawn from right across the council, as well as partner organisations. The projects are seen as a way of breaking down the change agenda into manageable components against which progress can be measured and monitored.

The review was felt by senior officers to have been a success in terms of challenging patterns of service provision inherited from Staffordshire. The Council recognises that the next step is to integrate the strategic review of service provision with a medium-term financial strategy, which will put money behind priorities.
Leading councils are making efforts to improve co-ordination ... and ensure member ownership of cross-cutting issues

Service planning

When authorities are re-appraising their approaches to service planning, the Audit Commission’s five principles of effective planning provide a similar framework for action [BOX J].

94. There are two key tasks at a service level. First, co-ordinating service planning, which must now tackle cross-cutting issues and accommodate a range of statutory planning requirements. Second, working towards a single policy and resource allocation cycle for service and financial planning, which aligns service planning with corporate priorities and resource allocation.

BOX J

The five principles applied to service planning

Effective service planning is:

Open – informs and involves staff, partners, service-users and the wider community. It provides the basis on which councillors and the public can make judgements about services;

Anticipatory – is forward-looking, providing sustainable services to meet changing community needs;

Intelligent – brings together information (on needs, priorities, services and resources) as the basis for informed decision-making;

Coherent – co-ordinates a range of statutory planning requirements and links services to corporate priorities and financial planning processes; and

Action-oriented – provides a framework for co-ordinated service delivery and review, tackling cross-cutting issues and setting challenging and realistic targets for service improvements.

Source: Audit Commission fieldwork
Co-ordinating service planning

95. Traditional political structures and managerial arrangements, which have been the basis for service planning in local government, are now under review, both locally and nationally (Ref. 3). Some authorities have already replaced service committees with new arrangements for cabinets and scrutiny committees; some are replacing service departments with a smaller number of directorates.

96. Leading councils are making efforts to improve co-ordination between service departments, and to ensure member ownership of cross-cutting issues that do not fit neatly into individual service committees [CASE STUDIES 3 and 4, overleaf]. Middlesbrough Borough Council has introduced resource units in each of its four service directorates, bringing together policy, finance and human resources staff. The council hopes that ‘out-posting’ these staff will make it easier to break down ‘smoke-stack’ thinking within individual directorates.

CASE STUDY 3

Coventry City Council: using policy co-ordinating committees and policy teams to improve cross-service working

Background
Coventry has committed itself to a set of objectives that require clear councillor leadership and dedicated officer support, if they are to deliver real improvements to the area.

Action
The Council established four policy co-ordinating committees; each of these is focused on the achievement of a specific corporate objective. The co-ordinating committees are supported by 19 policy teams providing officer support. Each policy team has a short statement of purpose followed by:

- a list of which aspects of the vision are supported by the work of the policy team;
- a list of which priorities in the Coventry Community Plan are supported by the work of the policy team;
- a description of other policy teams with which this policy team will work; and
- an indication of the main external partners that are involved with the team.

Results
These developments are at an early stage, but the Council hopes that such arrangements will clarify political responsibility for achieving its objectives. The policy teams have brought together staff expertise from across the authority to focus on implementing council objectives. The public now has a single point of contact for issues such as community safety and the Council’s anti-poverty strategy.
CASE STUDY 4

Northamptonshire County Council: allocating responsibilities for cross-cutting issues

**Background**
Northamptonshire wanted to ensure that both officer and member responsibilities for delivering cross-cutting services were clearly allocated.

**Action**
The council assigned the key service areas to named directors and committees.

<table>
<thead>
<tr>
<th>CORPORATE OBJECTIVE</th>
<th>RESPONSIBLE DIRECTOR</th>
<th>RESPONSIBLE COMMITTEE/GROUP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continually improving educational achievement</td>
<td>Strategic director, education and community learning</td>
<td>Education and community learning committee</td>
</tr>
<tr>
<td>Developing social welfare and promoting health</td>
<td>Strategic director, social care and health</td>
<td>Social care and health committee</td>
</tr>
<tr>
<td>Developing and supporting the local economy</td>
<td>Strategic director, environment</td>
<td>Anti-poverty and economic development commission</td>
</tr>
<tr>
<td>Protecting and improving the environment</td>
<td>Strategic director, environment</td>
<td>Environment committee/Agenda 21 commission</td>
</tr>
<tr>
<td>Building safer communities</td>
<td>Strategic director, resources</td>
<td>Community safety commission</td>
</tr>
<tr>
<td>Reducing inequality and poverty</td>
<td>Strategic director, resources</td>
<td>Anti-poverty and economic development commission</td>
</tr>
</tbody>
</table>

**Results**
The Council has identified clear lines of responsibility for the delivery of cross-cutting services to the local community.
Coping with the proliferation of statutory plans will also require improved co-ordination. As a first step, a number of authorities have begun to map these requirements [CASE STUDY 5]. Ipswich Borough Council has gone a stage further and has changed the format of its housing strategy document for 1999/2000, integrating it with other services and better reflecting corporate priorities [CASE STUDY 6, overleaf].

### CASE STUDY 5

**Gateshead Metropolitan Borough Council: mapping statutory planning requirements**

**Background**
Gateshead is mapping out its statutory planning processes to ensure that it supports both national requirements and local circumstances. In particular, the Council was concerned to avoid duplication of effort in the collecting of performance information and ‘consultation fatigue’ among some local groups.

**Action**
The Council addressed the problem in three stages:

- conducting an internal audit of its statutory planning requirements, including an assessment of the performance information collected for each plan and the consultation requirements;
- pinpointing gaps in current performance data required by statutory plans, to inform the development of relevant local performance indicators under best value; and
- constructing a ‘consultation matrix’ that identifies user groups that may be subjected to multiple consultations and at risk of ‘consultation fatigue’, or other groups that may be under-represented.

**Results**
This has enabled the Council to match national requirements with local circumstances, and to avoid duplication or gaps in the collection and provision of information, and consultation on the range of plans that it now produces.
A single policy and resource allocation cycle

In many authorities, service priorities have been determined by budgets that often reflect out-of-date spending patterns. Service and financial planning need to be brought together in a single policy and resource allocation cycle, to ensure that the allocation of resources flows from changing service needs and priorities [EXHIBIT 19].

CASE STUDY 6

Ipswich Borough Council: tying statutory plans into a corporate policy whole – the development of the housing strategy

Background
The Council was concerned that its housing strategy did not reflect its broader corporate priorities.

Action
For 1999/2000, the document moves away from previous section headings on separate service activities, to five key headings that reflect the Council’s priorities:

- **best value** – covering service performance and quality, customer satisfaction, community involvement and consultation;
- **partnerships** – covering corporate partnerships, stakeholder involvement, existing and new partnership activities;
- **investment and regeneration** – covering the housing environment and local facilities, the local economy, job creation, environmental sustainability, and physical improvements;
- **health** – covering standards and condition of homes, personal and home safety, well-being and health promotion; and
- **inequalities** – covering community housing needs, poverty, access, crime, transport, community care and social exclusion.

Results
The plan now provides a much clearer public statement of how the housing strategy supports the Council’s corporate priorities.
Existing good practice includes Gateshead City Council’s policy and service planning approach, Coventry City Council’s policy, priorities and resources cycle and the City of Westminster’s business planning process. A number of important principles inform these approaches:

- all significant spending decisions (capital and revenue) are made within the framework, so that they can be judged and prioritised;
- services share information and documentation on how they contribute to overall objectives; and
- the timing of the process and its key stages allow consideration of corporate and service priorities before detailed budgetary decisions are made.

There are four key elements to the policy and resource allocation cycle: setting priorities and managing trade-offs, co-ordinating the process, making informed choices, and scrutinising and reviewing.

Service and financial planning need to be brought together in a single policy and resource allocation cycle.

EXHIBIT 19
A single policy and resource allocation cycle

A single policy and resource allocation cycle will ensure that the allocation of resources flows from changing community needs and service priorities.

Source: Audit Commission
Setting priorities and managing trade-offs

101. Where policy decisions are taken in a number of service committees, an appropriate forum to co-ordinate the planning cycle is required. Informal arrangements between leading councillors and the management team have typically been used to manage the annual budget in many councils. But because they have operated informally, such arrangements often do not appear to include community or partners’ views. Where they are clearly linked to corporate aims and objectives, an appropriate forum can be a powerful tool [CASE STUDY 7]. Groups need to meet early in the planning cycle. If they meet too late, their impact on broader policy issues will be limited and their considerations focused more narrowly on only the detail of the budget process.

CASE STUDY 7

City of Westminster: a ‘star chamber’ process can be a powerful tool in supporting corporate priorities

Background
Meetings take place in July. They include chairs of service committees, chief officers, leading councillors from the policy and resource committee and senior managers from the chief executive’s department.

Action
Serious negotiations over the detail of service and financial planning take place at these meetings, including any resource re-allocation to meet strategic priorities and a discussion of the implications of strategic priorities for current patterns of service delivery. The four elements are:

- committed expenditure and savings;
- growth items – as a result of statute and council choice;
- new initiatives and service improvements – for example, working with the health service and the Crime and Disorder Act; and
- new savings options.

Results
The process ensures that, in their detailed service and financial planning, service committees and departments take account of the Council’s strategic priorities and their resource implications. The outcomes are formalised through the Council’s annual business planning cycle.
Co-ordinating the process

102. Timing is crucial to the policy and resource allocation cycle. The annual cycle needs to start early enough and progress in a way that allows informed discussion and consideration of policy priorities, linked to the resources available. Specific stages of the process need to have been started and/or completed by key dates throughout the year. The timetables developed by Gateshead and Westminster provide coherent examples of such a process. Both begin with a corporate review to provide an overall context for more detailed service reviews. The budget is then set in the light of agreed priorities for the following financial year, ensuring that policy decisions are supported by a realistic appraisal of the resource available [CASE STUDY 8 and CASE STUDY 9, overleaf].

## CASE STUDY 8

**Gateshead Metropolitan Borough Council: a single policy and service planning cycle**

<table>
<thead>
<tr>
<th>DATE</th>
<th>ACTION</th>
<th>OFFICER RESPONSIBILITIES</th>
<th>MEMBER RESPONSIBILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>• Year 1 BVPP published</td>
<td>• Chief executive’s (CE’s) department</td>
<td>• Policy and Resources Committee (P&amp;R)</td>
</tr>
<tr>
<td></td>
<td>• Review of corporate and service priorities</td>
<td>• CE’s department</td>
<td>• P&amp;R</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Chief officers (COs)</td>
<td></td>
</tr>
<tr>
<td>May – June</td>
<td>• Performance review</td>
<td>• Service departments</td>
<td>• Service committees</td>
</tr>
<tr>
<td></td>
<td>• Service statements of policies and procedures updated annually</td>
<td></td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>• Initial budget guidance and strategic financial review</td>
<td>• Treasurer/CE’s department</td>
<td>• P&amp;R</td>
</tr>
</tbody>
</table>

*cont.*
### CASE STUDY 8 (cont.)

**Gateshead Metropolitan Borough Council: an integrated policy and service planning cycle**

<table>
<thead>
<tr>
<th>DATE</th>
<th>ACTION</th>
<th>OFFICER RESPONSIBILITIES</th>
<th>MEMBER RESPONSIBILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>August – September</td>
<td>• Consultation</td>
<td>• Co-ordinated by CE’s department</td>
<td>• Co-ordinated by P&amp;R</td>
</tr>
<tr>
<td></td>
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<tr>
<td>October – November</td>
<td>• Interim review of current year’s performance.</td>
<td>• CE’s department</td>
<td>• Service committees</td>
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<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Development of action plan and targets for next year</td>
<td>• COs</td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>• Members’ seminar following initial RSG announcement</td>
<td>• COs</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• Individual service committees receive plans for their service</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• P&amp;R receives all action plans</td>
</tr>
<tr>
<td>December</td>
<td>• Strategic budget guidance</td>
<td>• CE and treasurer</td>
<td>• P&amp;R</td>
</tr>
<tr>
<td></td>
<td>• Budget targets set for committees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January – February</td>
<td>• Committees approve base budgets</td>
<td></td>
<td>• Service committees</td>
</tr>
<tr>
<td></td>
<td>• Budget reports prepared, with proposals for savings and growth linked to service implications</td>
<td></td>
<td>• Co-ordinated by P&amp;R</td>
</tr>
<tr>
<td>March</td>
<td>• Year 2 budget set</td>
<td></td>
<td>• Full council</td>
</tr>
</tbody>
</table>
CASE STUDY 9

City of Westminster: the business planning process has four key stages

JANUARY – APRIL: CORPORATE REVIEW

The most important service and resource issues are established for the forthcoming year, taking account of the current year’s business plan priorities. These also take account of the leader of the council’s speech delivered in March each year.

MAY – JUNE: ANNUAL REVIEW AND CHANGING PRIORITIES

The performance of existing services is assessed and measured against the new priorities established during the strategic review. Discussions now begin on resource allocation for the three-year revenue and five-year capital expenditure plans from the forthcoming year.

JULY – MARCH: SETTING BUDGET OPTIONS, PRIORITIES AND TARGETS

Growth and savings options are agreed for the next three years (five years for capital). The following year’s business plan priorities and targets are finalised, and committees approve their business plans. Policy and resources committee approves all committee business plans.

APRIL ONWARDS: QUARTERLY PERFORMANCE MONITORING

Next year’s priorities and targets are monitored and scrutinised through quarterly performance monitoring reports that are made to operational sub-committees.
Authorities will benefit from bringing forward the timing of the budget process (Ref. 20). The earlier the budget process starts, the less likely it is to be simply an incremental exercise and the more likely it is to reflect strategic service considerations [EXHIBIT 20].

Making informed choices

The policy and resource allocation cycle requires high standards of reporting and documentation. Comprehensive service plans should include a clear definition of the service provided and the needs that it meets, a statement of how the service contributes to corporate aims and objectives and a realistic appraisal of resources [EXHIBIT 21]. In Manchester City Council, service plans first bring together corporate aims and objectives, service priorities and strategic financial considerations. Once these have been agreed, second stage management action plans are prepared and agreed [CASE STUDY 10, overleaf].
A service plan should contain a number of core components.

- Service definition
- Needs that the service meets and its clients/customers
- Evidence of community consultation and involvement in the planning process
- How the service contributes to corporate aims and objectives
- Cross-cutting service and partnership activities
- Performance measures that focus on inputs, outputs and outcomes
- A report on past performance against targets
- An action plan for improvements alongside future targets
- An opportunity for comments and feedback

Source: Audit Commission

The policy and resource allocation cycle requires high standards of reporting and documentation.
CASE STUDY 10

Manchester City Council: providing clear documentation and reporting to underpin service planning

Background
A core component of the Council’s service planning framework is a clear system for documenting the activities of service departments, highlighting the links between corporate aims, service activities and the resource implications.

Action
Stage 1 service plans focus on changes for the forthcoming year, set within a three-year time horizon. Their purpose is to:

• set the context for the changes proposed;
• show how these changes will contribute to corporate aims and objectives;
• set out policy and resource allocation options;
• highlight areas for joint working, between departments and with partners;
• show how the service will achieve service improvements, cost effectiveness and efficiency; and
• establish outcomes and timescales.

The plans are reported to service committees in November, following informal discussions with committee chairs in September/October and the treasurer’s budget forecast in July.

Stage 2 management action plans are then developed in tandem with the budget process (December – February). These are more detailed plans, providing the basis for regular monitoring reports to service committees and twice yearly reports to Policy and Resources Committee.

The proforma for Stage 2 plans includes:

• contribution to corporate objectives;
• service objectives and priorities;
• service activities;
• action required by named lead officers;
• timetable for action; and
• performance targets for action.

Results
Key officers and members have comprehensive information on which to base year-on-year resource allocation decisions. The provision of clear targets and timetables for action allows members to assess progress, and gives the public a clear view of whether the Council is meeting its service commitments.
Scrutinising and reviewing

105. Best value places service review, challenge and improvement at centre-stage for all councils, involving both officers and elected members. Reviews of service performance should therefore be an integral part of the policy and resource allocation cycle. Ipswich Borough Council has had a system of annual performance review in place for a number of years. The authority has recently strengthened its approach to support best value reviews. Councillors and external experts, such as business people and academics, now participate in a new ‘challenge’ stage within the performance review process [CASE STUDY 11].

106. Better co-ordination of service planning and linking it to the budget process are major challenges. But these changes are essential to supporting best value reviews. To ensure that annual reviews are properly resourced, new approaches to financial planning are also required.

CASE STUDY 11

Ipswich Borough Council: performance review is an integral part of the policy and resource allocation cycle

Background

Ipswich Council has worked hard to ensure that members are involved in performance review. A particular emphasis is placed on the development of performance measures to track progress on service objectives, and strengthening the review process to support best value.

Action

Councillors’ panels are appointed from each service committee to consider performance plans and evaluate them against common criteria. Panels are given a proforma to complete with four questions for councillors to consider:

- Do the objectives set out for the service fully reflect what councillors wish the service to achieve?
- What are the three or four most important performance indicators?
- Do the performance targets adequately reflect the service that councillors wish to be provided?
- Are there any parts of this service on which councillors would wish further work to be undertaken in the current year?

To support the best value review process, members and external experts now participate in a new ‘challenge’ stage focusing on the links between the service under review and its contribution to council priorities, as well as the future resource implications of the service.

Results

Members are actively engaged in performance review and the best value review process. The use of external experts provides a source of fresh ideas and innovative suggestions for service improvement, at an early stage of the review.
Financial planning

107. Financial planning will need to become a more strategic activity, supporting corporate aims and objectives and a new set of cross-cutting service priorities. Approaches may differ, but they should share underlying principles of good practice [BOX K]:

BOX K

The five principles applied to financial planning

Effective financial planning is:

Open – transparent financial decisions are supported by clear and accessible information. Resource allocation is informed by community consultation and partnership activities;

Anticipatory – is forward-looking to ensure the longer-term sustainability of the council’s services and activities. Provides options and assesses risk;

Intelligent – provides information to inform decisions, based on a robust analysis of available financial resources (short- and long-term), existing and future commitments, and likely levels of funding;

Coherent – provides the financial mechanisms to support the allocation of resources to corporate and service priorities; and

Action-oriented – develops close working links with services to provide efficient and effective financial planning processes that fulfil corporate and service planning needs.

Source: Audit Commission

108. There are two components of a more strategic approach: developing medium-term financial plans and reflecting service priorities in budgeting.
Medium-term financial plans

109. Some councils are already making good progress in developing medium-term financial plans. For example, six county authorities in East Anglia are working together to move to longer-term financial planning, starting with the identification of the key issues [CASE STUDY 12].

CASE STUDY 12

The East Anglian Treasurers’ Initiative 1998: identifying the key issues in medium- and long-term financial planning

Background
The counties of Bedfordshire, Cambridgeshire, Norfolk, Northamptonshire, Lincolnshire and Suffolk are seeking to develop a longer-term strategic approach to budgeting that supports service planning and improvement.

Action
The initiative has pinpointed the key issues and is seeking to achieve radical changes:

1. Most budgets have traditionally been prepared within a one-year timescale, which limits the opportunity to make changes over a longer period and reduces the focus on strategic goals. The new approach requires three- to five-year thinking, with a medium-term plan as an output within which the annual budget sits.

2. Most existing planning is budget-driven, focusing on the need to achieve savings. The new approach should be policy-driven, starting with:
   • corporate and service objectives (which, should in turn, be informed by community priorities and indicators);
   • priorities derived from these objectives; and
   • outputs and indicators of performance that are linked to the budget process.

3. Capital budgets and expenditure have, in the past, been considered separately from core revenue planning in a number of the authorities. The new approach requires capital expenditure options to be considered alongside revenue budget planning.

4. Community consultation usually took place late in the budget-setting process. The new approach requires consultation early on with a broader range of groups (including staff and the general public), with the focus on longer-term proposals, reflecting corporate and service priorities.

Results
The next stage is to further develop these proposals in the six county councils involved.
110. Local government can also learn valuable lessons from the private sector. Leading edge companies operating in dynamic market environments, such as mobile telecommunications, find longer-term planning beneficial [CASE STUDY 13]. Longer-term planning in these companies shares common objectives, equally applicable to local government [BOX L], which:

- look forward at least three years;
- provide an overview of all the main activities of the organisation;
- are more than simply a forecast that seeks to predict the future, but also support policy options; and
- are part of an ongoing process that plays an important part in the strategic development of the company.

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**CASE STUDY 13**

**Vodafone plc: the importance of medium-term planning**

**Background**

Vodafone Group started in 1985 as part of Racal Electronics. It was later floated and is now the eighth largest company on the UK Stock Exchange. It has five operating divisions, accounts for 40 per cent of the UK mobile phone market, and operates in 13 countries.

In this rapidly changing market sector – growing at 40 per cent a year – the company places great emphasis on a structured five-year planning cycle. This enables business developments to remain responsive to external changes.

**Action**

The planning process includes the following core components:

- a ‘brainstorming session’ to generate ideas for what the company as whole wants to achieve in different areas – such as fixed systems or the internet;
- an assessment of market conditions and what their likely impacts will be on the company’s business areas over the lifetime of the planning cycle; and
- the development of five-year rolling business plans by each division that are informed by, and annually updated in the light of, changing market conditions.

**Results**

The company is better equipped to anticipate and react to changes in its external environment, and its business planning supports its overall objectives.
The development of medium-term financial planning in local government must address some key strategic issues:

- the optimum timeframe for future strategies and how binding they should be;
- whether the strategy represents a realistic programme of action over the medium-term; and
- integrating revenue and capital planning.

The timeframe

Some councils have already opted for three-year plans. Authorities also need to decide the degree to which the financial strategy should be binding. Elected members in Warwickshire County Council, for example, have been offered three options, ranging from indicative plans – with the budget continuing to be set on an annual basis – to fixed three-year budgets. Indicative plans will achieve least in terms of refocusing financial planning, and it is likely that most councils will opt for something in between indicative plans and budgets that are set three years in advance. In Warwickshire, it is felt that this middle way will guarantee services a minimum level of resources with some potential for increases.

BOX L

The purposes of longer-term planning

Longer-term planning offers benefits that are common to both private sector businesses and local government. The purpose of longer-term financial strategies in the private sector falls into four broad categories and can be compared with parallel activities in local government.

1. Options for the future direction of the company, which help to determine markets and activities ... strategic policy decisions that influence the future shape of services to users over the medium-term.

2. Plans for the optimum use of major fixed assets and long-term investments ... a comprehensive medium- and longer-term capital programme.

3. A lever for significant policy changes that affect the whole organisation ... challenging and changing service provision to meet community needs.

4. A management tool that provides a framework for financial stability and for building the annual budget ... three- to five-year rolling revenue plans for sustainable services, reviewed through the annual budget.

Companies have found that the success of financial strategies depends on innovative thinking and a perspective that is independent of the budget process so that plans are not simply budget-driven. However, year one of the financial strategy must be the budget for the current year's business plan; otherwise, the longer-term plan quickly becomes ‘divorced from reality’.

Source: Audit Commission research
The electoral cycle should not be an excuse for failing to develop longer-term financial strategies to complement the annual budget process. A rolling strategy, which can be amended and moved on each year, is designed to provide a stable framework that can accommodate changes of direction. Medium-term financial planning in local government should really gain momentum since the Government’s announcement of three-year SSA settlements. The Government’s intention to review and roll forward the SSA settlement in the middle year provides a more stable climate for medium-term planning in local government. The annual budget process becomes one of fine-tuning the figures as plans are rolled forward, ensuring much greater certainty for the programming and timetabling of service activities. This commitment by central government should be beneficial for all councils, particularly at times of uncertainty, such as immediately before and after elections.

A realistic programme of action

Medium-term financial planning should enhance councils’ ability to deliver on policy commitments. Strategies are more than a forward forecast of likely revenue and committed expenditure, but should link these to policy considerations and local circumstances [CASE STUDY 14]. The strategic review process (described earlier under ‘The corporate dimension’) should set out options as the basis on which tough financial decisions are to be made. The key issues for the financial strategy are:

- How will spending need to change to reflect corporate priorities in the future?
- What other commitments will affect the financial strategy (for example, pension fund contributions, early retirements)?
- How much of the authority’s income is available for new policy initiatives? What implications will this have for existing services?
- How stable/subject to fluctuation is this discretionary money?
Integrating revenue and capital planning

**CASE STUDY 14**

Coventry City Council: a five-year resource strategy

**Background**

Coventry’s five-year strategy is more than just a forward forecast of available revenue and committed expenditure. It links a number of key areas of current and future expenditure to local and national policy issues, and to macro-economic circumstances.

**Action**

The strategy consists of several elements:

- the international economic scene and the national position:
  - longer-term (implications of the comprehensive spending review, release of capital receipts)
  - public finances (few expectations of additional extra resources);
- the local position:
  - RSG settlement, committed net expenditure, inflation, council tax scenarios;
- allocation of resources within the total budget:
  - outstanding issues from earlier years
  - specific issues, such as a comparison of spending against SSA
  - resource reallocation within approved budgets to reflect policy priorities (councillors take a corporate lead);
- corporate reserves:
  - strategic capital reserve created for corporate priorities
  - use of reserves planned over more than one year; and
- capital planning:
  - exploit all funding opportunities
  - review asset base
  - maximise use of new ways of working, such as the Private Finance Initiative and joint ventures.

**Results**

The strategy provides the basis for a financial planning framework that is well-placed to support a five-year programme of best value reviews and to ensure that plans for improvement are backed up by appropriate resources.

**Integrating revenue and capital planning**

115. A financial strategy should bring together revenue and capital planning to:

- weigh the priority of commitments arising from capital investment against other revenue pressures;
- include detailed exit strategies for partnership activities that receive time-limited external funding; and
- consider specific issues, such as PFI, which shift costs from capital to revenue, and make future calls on the budget that may compete with services and staff costs.
New capital management information systems are likely to be needed to complement the work of strategy groups. Clear and agreed criteria are needed for prioritising capital projects [CASE STUDY 15]. Weighing and prioritising these criteria requires great care, otherwise there is a danger that the availability of external funding will continue to play a disproportionate part in the decisions made.

CASE STUDY 15

Flintshire County Borough Council: developing a clear set of criteria to prioritise capital projects

Background
Flintshire recently introduced four-year capital planning to improve the management of its capital programme and to help to ensure the sustainability of future commitments. The Council has also introduced a system to prioritise capital projects.

Action
Within the Council’s capital programme, there are seven agreed criteria for ranking projects, and for linking these to service plans. They are the extent to which a proposed scheme:

- meets the Council’s key strategic objectives and statutory service requirements;
- accords with the committee’s service development plan;
- benefits the residents and businesses in all communities, including creating and safeguarding jobs;
- has a complementary/adverse impact on other services/facilities (including those provided by other agencies and the private sector);
- has implications for ongoing revenue expenditure or income generation;
- maximises the financial contribution from external funding sources; and
- has a positive environmental impact.

Other factors that are also taken into account include: overall cost, phasing and flexibility, the availability of partnership funding, potential capital receipts generated, nature of scheme (that is, design, tender, build), duration, land availability, and planning requirements.

Results
The Council is able to make coherent decisions in developing capital schemes, and has a much clearer understanding of the connections between service priorities and its four-year capital programme.
EXHIBIT 22
The Private Finance Initiative

Many authorities are interested in PFI, but few have schemes in place at present.

To take account of PFI deals, the strategy should include changes over time in the contribution of additional financial support from the government. This is discussed in detail in Taking the Initiative: A Framework for Purchasing Under the Private Finance Initiative (Ref. 2).

117. Local authorities are being encouraged to give more attention to income generation and to initiatives such as PFI. A number of directors of finance indicated their authority's interest in PFI, but relatively few authorities actually have schemes up and running at present [EXHIBIT 22]. About one-third of councils have schemes in preparation. The financial strategy should provide a framework for well-informed decisions, which are based clearly on any longer-term financial implications of the decisions made.¹
Reflecting service priorities in budgeting

118. Councils must consider carefully how they prioritise spending to meet corporate and service aims and objectives. They must go beyond ad hoc initiatives and challenge the underlying structure of budgets and historical spending patterns. Directors of finance will have an important role in shifting the focus to outcomes for users, which should be based on (Ref. 7):

- new approaches to building the budget; and
- strengthening community consultation.

This approach to financial planning should involve elected councillors:

‘Financial planning was previously officer led and provided “sound management”. An important change over 18 months to 2 years has been the development of member understanding and commitment to a more strategic approach.’

(A council leader)

New approaches to building the budget

119. Several authorities are exploring the potential of activity-based budgeting (ABB) and priority-based budgeting (PBB) to link resource allocation and service priorities. Activity-based budgeting is not widely used in the UK, but in other European city governments it has demonstrated a range of benefits [CASE STUDIES 16 and 17, overleaf]. In Tilburg City Council in the Netherlands, budget decisions are based on an analysis of three elements: the activities carried out; the ‘product’ that these activities lead to; and their outcomes or policy effect. The Tilburg approach has also become widely accepted in Germany and is now the statutory basis for budgets in all German municipal authorities.
CASE STUDY 16

Tilburg City Council: activity-based budgeting in action

Background
The Council wanted to shift to a system that clearly linked budget inputs and outcomes for service users. Political leaders were particularly concerned to make resource allocation decisions that were informed by the impact of those decisions on their constituents.

Action
The budgeting approach is based on rethinking the work of service units in terms of ‘products’ (outputs) delivered to customers outside the unit. More than 230 products have been identified, which are categorised into product groups and policy areas. Product descriptions distinguish between the activities carried out, the product that they lead to, and outcome targets (the policy effect). These elements are defined and measured each year. This process of definition and measurement involves staff and, in turn, informs individual performance targets. Costs are assigned to products and, on this basis, the budget is constructed. To complement the budget process, an audit is carried out every four years, which looks at budgets within a wider context, including social changes that affect services, service quality and customer orientation.

Results
The advantages of the Tilburg model, which is based on a highly devolved structure, are that:

- political leaders have well-founded information on costs and performance for making decisions;
- citizens are better informed about how money is spent and the performance of services;
- managers and staff have more opportunity to be innovative and creative in meeting the needs of customers; and
- services are more responsive to changing needs.

The results of citizens’ surveys show a steady increase in the level of user satisfaction. Tilburg has balanced its budgets since the late 1980s, and is the only Dutch municipality to have a budget surplus for the last six consecutive years.
120. Priority-based budgeting is being considered by a number of local authorities in the UK. It provides criteria for funding decisions based on the contribution of service activities to corporate aims and objectives [CASE STUDY 18]. Some authorities have begun to address the complexity of mapping expenditure, which has been broken down by service departments, on to new objectives that cut across conventional boundaries. In Manchester City Council, for example, attempts have been made to refocus parts of the 1999/2000 budget on to ‘themes’. The aims are to identify what is currently being spent on the Council’s priorities and to relate direct service costs to measurable outputs.

**CASE STUDY 17**

**Stadt Passau: implementing an output-oriented budgeting model**

**Background**

In Germany, activity-based budgeting is part of the federal government’s initiative to reform local government, the equivalent of the modernisation agenda in the UK. The key objectives are to complement strategic planning and resource allocation, and to open up the budget process by encouraging the participation of councillors, staff and citizens.

**Action**

The new approach in Stadt Passau has been implemented in stages:

- 1996 – the process of defining the individual products and services of the Council began, looking at what was provided to a range of ‘customers’ – citizens, businesses, visitors and others;
- 1997 – the products and services of each city enterprise were redefined to provide a clearer focus on customers and their needs;
- 1998 – for the first time, overall budget levels were attributed to products and services; and
- 1999/2000 – a comprehensive system will break down the overall budget and attribute costs to individual products and services in each of the city’s enterprises.

**Results**

The Council is well placed to carry forward the federal government’s modernising agenda. The budgeting system has facilitated radical decisions that have allowed substantial resource reallocation to priority areas of council activity. Future developments will include performance indicators to provide the basis for comparison between local authorities, and other enterprises in the public sector.
As council budget structures shift towards an outcome focus, lines of reporting and accountability need to be maintained (Ref. 21). Linking budgets more closely to service activities and priorities should lead to greater transparency and accountability in the budget process.

**CASE STUDY 18**

Northamptonshire County Council: ensuring that resources are allocated to support corporate priorities

**Background**
As a best value pilot, Northamptonshire has been concerned to develop an approach to budgeting that will ensure a clear focus of resources on council priorities.

**Action**
Policy-led budgeting is being piloted in Northamptonshire’s planning and transport services. It is based on looking at corporate and service priorities, and establishing budgets in each service area at four levels of expenditure:
- minimum;
- current;
- realistic enhanced; and
- ideal.

**Results**
The system is designed to give decision-makers a better understanding of the service implications of different budget levels. Option appraisal techniques are also being used to assist in decision-making, which will inform the sorts of tough choices about resource reallocation that will be required under best value.
The role of community consultation

122. To meet the requirements of best value, the results of community consultation will need to be given a high priority in resource allocation. Given the resource constraints on local government, it is important that greater consultation does not raise community expectations to an unrealistic level. A positive approach to this dilemma, adopted by leading local authorities in the UK and other countries, is to link consultation more explicitly to the resources available [CASE STUDIES 19, 20 and 21].

A powerful framework

123. Taken together, improvements to corporate, service, and financial planning will provide a powerful framework for councils to strengthen the planning and delivery of their services and to achieve best value. The first step is to recognise that service and financial planning in local government needs to be a more strategic activity, in which resource allocation flows from policy priorities that are based on extensive community involvement.

CASE STUDY 19

Neath Port Talbot County Borough Council: a comprehensive consultation exercise on different budget options

Background

In gearing up for best value, the Council wanted to ensure that it had a robust approach to community consultation on the annual budget. Some members were concerned that such exercises would make it difficult to manage competing demands on the Council’s limited resources. The Council decided to make the need to trade off competing priorities a central part of its approach.

Action

A household survey carried out for the Council listed 21 services and asked which three services should be prioritised for improvement and additional spending. It also asked whether respondents would favour a reduction in council tax if this meant cuts in services.

Results

More than 80 per cent of respondents favoured maintaining services, and a majority expressed a preference for visible services to be targeted for more resources. As a result, an additional £250,000 was put into visible services.

This chapter has highlighted some of the key features of the new approach: strategic review, a single policy and resource allocation cycle and longer-term financial planning. The final chapter sets out the Audit Commission’s conclusions and its recommendations for improvement.
CASE STUDY 20

City of Phoenix, Arizona, USA: a well-publicised consultation exercise on the annual budget

Background
The City Council wanted to ensure public input into the budget, and to raise community awareness of the financial constraints that it faced in continuing to provide high-quality services. It decided to hold a public consultation exercise outlining growth and savings options for the following financial year.

Action
For 1998/99, the City prepared a trial budget identifying savings and proposals for additional expenditure. Eleven budget hearings were held by councillors in April and early May. A news pamphlet was distributed throughout the city and inserted in a local Sunday paper. The trial budget was presented widely to boards and commissions, city employees and community organisations.

Results
Feedback was incorporated into the city manager’s proposed budget, which was presented to the Council in mid-May. The Council met and agreed changes. A public hearing was held in mid-June, which adopted the budget for the financial year starting on 1 July. The Council reports that the public has responded positively to this initiative, and it is intending to expand the number of hearings held next year to accommodate greater numbers of stakeholders.

CASE STUDY 21

Christchurch City Council, New Zealand: getting community views on the budget

Background
Since 1996, New Zealand councils have been required by law to consult on a ten-year financial strategy, because spending decisions often have long-term financial implications (Ref. 22). For the annual budget plan, authorities are required to allow at least a month for public submissions and to consider submissions at a public hearing.

Action
In Christchurch, consultation on the budget begins in July and lasts throughout the financial year. The strategy and resources committee sits as a hearings panel for public submissions, which rose in number from 285 in 1995 to 551 in 1997. All submissions are circulated in advance. Individuals can appear and have four minutes to speak. The decisions of the hearings panel go to the full Council for approval. Changes made as a result of the hearings are itemised separately in the budget, which includes an illustration of the extent to which different groups benefit and pay for the services.

Results
This system gives a very different perspective on the budget from ‘normal’ budget documents. The Council argues that a clear identification of ‘winners and losers’ is critical to ensuring accountability to the public for financial decisions.
4. The way ahead

124. Traditional approaches to service and financial planning do not support user-focused service provision. ‘Chimney stack’ planning creates barriers to addressing complex, cross-cutting issues that are increasingly significant in meeting the needs of the community. Short-term financial planning has not enabled councils to direct scarce resources into priority service areas, or to ensure that current commitments and decisions about future priorities are sustainable.

125. Best value requires new approaches to service and financial planning that meet the demands of partnership working, as well as challenging councils to review and improve their performance. Councils must also respond to the demand for greater accountability, based on active community consultation in the decision-making process. Better community consultation requires policy decisions to be based on clearly costed options, which are open to scrutiny and review.

126. The time is ripe for change. While there are issues that the Government still has to finalise at national level – in particular, new democratic structures and the future financial framework for local government – councils should be taking steps now to strengthen their planning processes to prepare for the statutory implementation of the best value framework in April 2000.

127. This report has set out the Audit Commission’s recommendations for improvement in a framework that has two key elements. The first is to strengthen the links between corporate, service and financial planning. The second element is the five principles of effective planning, which reflect current standards of good practices in local government – open, anticipatory, intelligent, coherent and action-oriented. The five principles will assist councils in improvement and change [see BOXES H, J and K; EXHIBIT 23].

EXHIBIT 23

Five principles of effective planning

These key principles will assist councils in improvement and change.

WHERE HAVE WE COME FROM?

Closed  Reactive  Uninformed  Fragmented  Bureaucratic

WHERE ARE WE GOING TO?

Open  Anticipatory  Intelligent  Coherent  Action-oriented

Source: Audit Commission
No single officer or committee can be given responsibility for improving service and financial planning. Setting corporate objectives, the planning of services and allocating resources to them are core activities. Making improvements requires the involvement and commitment of all members, senior officers, service managers and staff. Such involvement will require councils to look carefully at internal communications, how staff are informed and involved, and the support that elected councillors need – in particular, new information requirements – to enable them to take a more strategic view. In some councils, the process of change is already under way to ensure that local authorities can deliver continuous improvement to their communities well into the 21st century. But others will struggle with the demands of best value unless they address the concerns identified in this paper.
Recommmendations for local government

1. Carry out a strategic review of priorities and resources, to provide a foundation for the five-year best value review cycle (paragraphs 83-93).

2. Assess the plans needed at a corporate level; in particular, the information requirements of the best value performance plan (paragraphs 55; 79-82).

3. Extend joint planning with partners, including setting shared objectives, pooling financial resources, and strengthening monitoring and review processes (paragraphs 33-41).

4. Develop effective mechanisms for community consultation to inform corporate aims, service planning and resource allocation (paragraphs 42-4; 125).

5. Map the requirements of all statutory plans, and integrate with other planning processes to provide a foundation for the annual best value performance plan (paragraphs 55; 99).

6. Establish clear lines of reporting and accountability for cross-cutting issues (paragraphs 97-8).

7. Introduce a single policy and resource allocation cycle that clearly links policy decisions, service review and the budget process (paragraphs 100-7).

8. Develop medium-term financial plans, which look forward at least three years and ensure that the best value review cycle is properly resourced (paragraphs 111-17).

9. Use activity-based budgeting or priority-based budgeting to target resources on priority services (paragraphs 121-4).
10 Improve the co-ordination of capital planning, establishing agreed criteria for prioritising capital projects; ensure that future revenue implications are taken into account in capital spending decisions (paragraphs 118-20).

11 Review and improve financial information and reporting; the budget process should be opened up to all councillors, staff, partners and the community (paragraphs 121-5).

**Recommendations for central government**

12 Co-ordinate the statutory plans currently required of local government (paragraphs 52-5).

13 Move quickly to implement changes to the revenue and capital framework for local government set out in the recent White Papers; in particular, to increase stability in revenue funding and clarity in capital funding (paragraphs 59-61; 63-4).

14 Continue to review national policies to facilitate joint planning between councils and local partners; in particular, the range of national standards that lead to conflicting targets and make it difficult for partners to agree local priorities (paragraphs 37-9).
Appendix 1: Method of study

The Audit Commission based this report on a broad range of evidence. The research included:

- fieldwork visits to 15 local authorities in England and Wales;
- an attitude survey of staff within those 15 authorities;
- a questionnaire survey of local authority directors of finance;
- fieldwork visits to a sample of private and voluntary sector organisations, and health authorities; and
- an analysis of international public sector good practice, based on a sample of local authorities from Europe, North America, and New Zealand.

Fieldwork visits to 15 local authorities in England and Wales

This involved two or three visits to each site, and included document analysis and interviews with the chief executive, director of finance, chief officers, and managers from service departments. It also included interviews with leading councillors in each authority, and a number of interviews with partner organisations such as police authorities, health authorities, schools, and private and voluntary sector groups. The Commission is grateful to all these bodies and, in particular, to the local authorities that participated:

The City of Westminster
The London Borough of Harrow
Manchester City Council
Gateshead City Council
Coventry City Council
Devon County Council
Northamptonshire County Council
Middlesbrough Borough Council
City of Stoke-on-Trent
Neath Port Talbot County Borough Council
Flintshire County Council
Ipswich Borough Council
Guildford Borough Council
Scarborough Borough Council
South Somerset District Council

An attitude survey of staff within these 15 authorities

All interviewees were asked to participate in a survey, which was also distributed more widely among staff of different grades. The survey involved respondents in assessing a series of statements on service and financial planning, and indicating whether they strongly agreed, agreed, disagreed, or strongly disagreed with each statement. The survey results are based on 350 completed survey returns.

A supplementary survey on partnership working was also conducted with interviewees in partner organisations, and personnel involved in partnership working at the fieldwork sites. The survey results are based on 22 completed survey returns.
A questionnaire survey of local authority directors of finance

A postal survey of a representative sample of local authority finance directors provided quantitative data on inputs to financial planning, as well as qualitative information on financial planning processes in local government. The survey results are based on 54 completed returns.

Fieldwork visits to a sample of private and voluntary sector organisations, and health authorities

This research was carried out on behalf of the Audit Commission by Oxford Research Ltd. It included site visits and interviews with senior personnel in 15 private sector organisations, 2 voluntary organisations and 3 health authorities. A summary of the findings is included in Appendix 3.

An analysis of international public sector experience, based on a sample of local authorities from other countries

This research was carried out on behalf of the Audit Commission by Tony Bovaird of Aston Business School. It was based on document review and telephone interviews with senior personnel in local authorities from the rest of Europe, North America, and New Zealand. A summary of the findings is included in Appendix 3.
## Appendix 2: Financial planning definitions

<table>
<thead>
<tr>
<th><strong>Activity-based budgeting (ABB)</strong></th>
<th>The objective of activity-based budgeting is to link costs to defined service activities and outputs.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic Credit Approval (BCA)</strong></td>
<td>The amount set by central government each financial year giving an authority ‘permission to borrow’ to fund capital projects.</td>
</tr>
<tr>
<td><strong>Challenge funding</strong></td>
<td>Provided by central government in response to proposals for specific projects. The total amount of funding available is limited, so not all bids are successful. Bids frequently involve matched funding from the local authority and other partners, which contribute 50 per cent of the overall resources for the project. The largest fund is the Single Regeneration Budget (SRB).</td>
</tr>
<tr>
<td><strong>Incremental budgets</strong></td>
<td>Budgets that use the previous year’s expenditure as a starting point, adding an allowance for inflation, or are based on a formula such as predicted growth in a client group.</td>
</tr>
<tr>
<td><strong>Longer-term plans</strong></td>
<td>Five plus years.</td>
</tr>
<tr>
<td><strong>Medium-term plans</strong></td>
<td>Three to five years.</td>
</tr>
<tr>
<td><strong>Private Finance Initiative (PFI)</strong></td>
<td>Public-private partnerships for significant capital projects.</td>
</tr>
<tr>
<td><strong>Revenue Support Grant (RSG)</strong></td>
<td>Central government funding for local government revenue activities. The level of RSG for each authority is set on an annual basis and relates to its SSA.</td>
</tr>
<tr>
<td><strong>Short-term plans</strong></td>
<td>One to two years.</td>
</tr>
<tr>
<td><strong>Standard Spending Assessment (SSA)</strong></td>
<td>Annual calculation by central government of the level of spending required by an authority to provide a standard level of service. From 1998, the overall SSA figure for local government is set on a three-yearly basis, and rolled forward in the middle year.</td>
</tr>
<tr>
<td><strong>Supplementary Credit Approval (SCA)</strong></td>
<td>The permission to borrow in addition to the BCA for specific projects.</td>
</tr>
<tr>
<td><strong>Priority-based budgeting (PBB)</strong></td>
<td>Aims to allocate resources according to a defined set of criteria that reflects the authority's strategic aims.</td>
</tr>
<tr>
<td><strong>Zero-based budgeting (ZBB)</strong></td>
<td>Involves entirely re-costing services on an annual basis.</td>
</tr>
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</table>
Appendix 3: Lessons from other sectors

Long-term planning in the private and voluntary sectors and the health service

This reports on research into 20 organisations, including 15 companies – 5 of which were previously in the public sector – and 3 health authorities and 2 voluntary sector organisations.

The research found a range of different practice, within a broad consensus about the value of having a medium- and longer-term framework.

Purpose

The purpose of a longer-term approach is broadly related to the sector in which the organisation operates. Some sectors are characterised by fast-changing markets in which companies need constantly to re-assess a range of possible future directions. Other sectors – such as banking – are more highly regulated, and planning is about exploiting a narrower range of market opportunities. For example, a new chief executive at the Co-operative Bank identified the need to develop a longer-term approach to client recruitment. Five-year plans enable the bank to assess the return on investing in young clients, who will not yield an immediate return but offer the prospect of profits in the future as their earnings rise.

Longer-term planning is an important management tool in companies with large fixed assets that involve substantial capital investment (PowerGen) or long lead times for developing a product before it can be sold (SmithKline Beecham’s pharmaceutical activities).

In these diverse organisations, approaches to longer-term planning share two key aims: to enrich strategic decisions about the future direction of the organisation and to assist in enhancing performance [BOX M]. Planning is used as a basis for:

• challenging assumptions about the future;

| BOX M |

The purposes of medium- and longer-term planning.

Chief executives in the private sector argue that medium- and longer-term planning has a critical role:

• ‘The planning process has to address fundamental issues about the type of activities that the company will be involved in the future.’

• ‘Long-term planning is necessary to underpin policies to promote steady growth.’

• ‘The planning process is a basis for defining a set of common targets to lever up performance in diverse businesses.’

• ‘We use the planning framework to bring about major changes in direction.’

• ‘Medium- and long-term planning has proved to be a powerful instrument for identifying risks and opportunities.’

• ‘Through longer-term planning, we have achieved constructive change, seen better performance and improved our accountability.’

Source: Audit Commission
• analysing opportunities in future markets;
• targeting products and services on the opportunities; and
• building teamwork.

Planning timeframe
The most common timeframe for longer-term plans in the private sector is five years. A number of companies, including SmithKline Beecham and PowerGen, also use ten-year forward financial projections to assist in long-term decision-making. Shell has a two-year business planning cycle, combined with scenario planning which looks forward 25 years. There has been a recent move towards longer-term planning in five of the other organisations. This reflects a combination of internal changes and external factors:
• the increasing complexity of the company as it has expanded;
• a new chief executive being brought in to tackle stagnation or deal with an industry crisis;
• exploring broad future policy options; and
• exploiting longer-term business opportunities in a niche market.

Scenario planning provides a framework for thinking beyond the formal planning horizon. Shell has used scenario planning for 30 years. Scenarios relate to the long-term business environment and cover the lifespan of major structural investments. A number of other organisations, including SmithKline Beecham and Oxfam GB, explore alternative scenarios as part of the planning process.

Diffusion and ownership
There is a consensus that generating a sense of ownership of the planning process within the organisation is vital [CASE STUDY 22].

Lessons for local government
The research concludes that:
• companies operating in a range of sectors – some in rapidly changing markets, where there is a high degree of uncertainty – find it useful to plan forward for five years or more;
• the test of planning is not to predict the future accurately, but to shape the direction and enhance the performance of the business or organisation, in the short, medium and long term;
• planning must be challenging. A strong commitment from the highest level is crucial;

CASE STUDY 22

PowerGen: developing employee involvement
PowerGen considers it very important that its subsidiary businesses have a sense of ownership of longer-term plans. Businesses are expected to disseminate plans to their employees. Several are Investors in People (IiP). IiP highlights the importance of involving employees and ensuring that they understand how the activities in which they are involved fit into business strategies and corporate objectives. The company has a set of values based on ‘working together, working better’. Formal and informal means of communication are used and focus on teams.
outside support can help to bring in innovative thinking;
- enhancing performance depends on targets and milestones that are appropriate and demanding; and
- the planning process must be designed to be as inclusive as possible and accountable to all key stakeholders.

Service and financial planning in local government: a review of international experience

This research highlights a number of innovative practices in service and financial planning in international experience, looking at how local government in other countries has:

- developed longer-term financial planning;
- linked agreed service priorities and resource allocation;
- shifted the focus of financial planning from inputs to service outputs and outcomes; and
- implemented new approaches to service and financial planning.

Longer-term financial planning

Longer-term financial planning is most strongly embedded in New Zealand, where local authorities are required by law to produce a financial strategy that covers a minimum of ten years. In practice, Christchurch City and Rodney District councils plan for the life of their major assets (for example, water, sewers and roads), which can mean 70-80 year financial statements. The Christchurch City Council ten-year programme includes a forecast of asset values and debt ratios (that is, the level of debt liability in relation to any changes in the value of assets), which enables authorities to keep track of trends in borrowing. The long-term financial strategy has become a critical document in New Zealand local government. The strategy brings together information about projected needs and the resources likely to be available (both revenue and capital). Any new capital projects have to be included, reflecting ongoing maintenance costs as well as the costs of borrowing. As a result, the future impacts of council decisions are identified quickly. Councils have to report on the financial strategy on an annual basis.

Linking service priorities and resource allocation

The most systematic approaches to prioritisation are based on zero-based budgeting (ZBB) in the cities of San Diego and Phoenix, USA. The San Diego approach, in particular, embraces a clear challenge to existing policies and ways of working, searching out alternative ways of providing services, both in-house and externally. The ZBB exercise is annual and expected to yield significant budget savings. The reviews are carried out by citizens’ panels made up of people with specialist expertise and knowledge. Many authorities consult extensively with the public to inform the decisions made by elected members. In the City of Tilburg, Netherlands, there is a twice-yearly customer satisfaction survey. Tilburg also engages consultants to carry out a four-yearly ‘preventative audit’, which is a comprehensive review of the authority’s finances and a wider review of issues affecting services such as the quality of management and customer focus.
Shifting the focus of financial planning to service outputs and outcomes

Outputs
The most systematic approach to defining outputs, which link budgets directly to services provided, is found in the Tilburg model (Netherlands) and parallel developments in German local authorities, such as Stadt Passau [see main text, CASE STUDY 17]. The City of San Diego, USA, is also piloting activity-based costing in the police department.

To support these developments, a number of authorities in the USA, including the City of San Diego and Gresham City, Oregon, are active participants in benchmarking programmes. Gresham City is involved in a programme that has developed a set of performance measures for 14 services and covers 80 different authorities. Measures typically include customer satisfaction, timeliness, efficient use of resources and effectiveness of the service.

Outcomes
In many of the authorities, there is a desire to give greater weight to quality of life issues in judging the contribution and performance of services, but there is a long way to go in developing acceptable definitions of outcomes. Some authorities have made a start. In parallel with initiatives to benchmark its services, a Gresham citizens’ committee is developing community indicators and targets for the performance and quality of services at a community level. To support this, budget information will in future be based on service activities – that is, broad programmes of action that provide related services to the community. For example, ‘transportation’ will bring together transport planning, design and construction, maintenance, traffic management and street lighting. Currently these services are managed by different units in two departments and have separate budgets.

Implementing new approaches
Fast change has been achieved in many authorities. In some cases, this has been in response to crises – such as the financial difficulties faced by Tilburg – or has been imposed by government requirements – for example, longer term financial planning in New Zealand and activity-based budgeting in Germany.

However, the research concludes that the pace of change has been much greater and has continued for longer than external factors alone can explain.

There are a number of common factors:
• the leadership role of influential elected members;
• innovative approaches to community consultation and participation, including those relating to budget decisions;
• partnerships with key local stakeholders;
• staff commitment; and
• a focus on outcomes.

Underpinning all of these approaches is the willingness to learn and move forward, to plan for the future needs of local communities and to pursue the search for improved service delivery.
The Audit Commission would like to thank the following members of the advisory group:

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