APPENDIX 1

Directorate of Resources

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Value for Money Strategy

March 2009

VALUE FOR MONEY STRATEGY

Contents:

		Page No.
1	Introduction	
2	Objective	
3	What is Value for Money?	
4.	The Value for Money Framework	
5.	Strategic Priorities for Improvement	
6	Governance Framework	
7	Service Review Framework	

1.0 Introduction

1.1. The Council has a duty to achieve best value in its activities and use of resources. The Council is required to demonstrate that it achieves Value for Money and the Comprehensive Performance Assessment (CPA) and Comprehensive Area Assessment (CAA) include a significant element for a Value for Money judgement.

1.2. In any event the Council has a clear priority to achieve Value for Money from all its activities, whether they are funded from Council Tax, Government Grant or any other source.

1.3. The Council has constrained resources and to deliver the maximum outcomes residents need means being effective in the delivery of services at optimum cost.

1.4. The Council has generated efficiency savings of £25 million over the past 5 years and achieved the required Gershon efficiency savings of 2.5% per annum between 2004-05 to 2007-08, from April 2008 a new national indicator was introduced NIS 179 Value for money – total net value of ongoing cash - releasing value for money gains that have impacted since the start of 2008-09 financial year in 2008/09 the Council achieved £4.7 million and is forecasting to achieve £5.7 million in 2009/10.

2.0 Objective

2.1 The objective of the Value for Money Strategy is to ensure that the Council has in place a framework and the necessary activities and monitoring and review processes that enable Value for Money to be delivered across all Council's services.

2.2. This means not only having the necessary foundations upon which Value for Money can be built such as sound financial management procurement procedures, budgetary control, performance monitoring etc., but also having key monitoring information on what things cost, benchmarking, cost comparisons, outcome measurement etc. so that effective decisions can be made.

3.0 What is Value for Money?

3.1 The Council has limited resources in money, people, assets, systems and capacity and needs to make the most of these in delivering its Vision and Priorities. Greater Value for Money means greater outcomes that can be delivered.

3.2. To achieve Value for Money we need to achieve Economy, Efficiency and Effectiveness:-

- Economy – minimising the cost of resources used or required (spending less) = reducing inputs for the same outputs (e.g. reduced accommodation costs reduced cost of supplies through better purchasing)

- Efficiency – producing the same or better outputs by doing things differently and reducing the inputs required (e.g. less staff time used, joining up across services).

- Effectiveness – deploying resources to meet objectives (spending wisely) = (for example, how many people were prevented by home care services from needing residential care (quantitative); satisfaction levels among users of the planning service (qualitative))

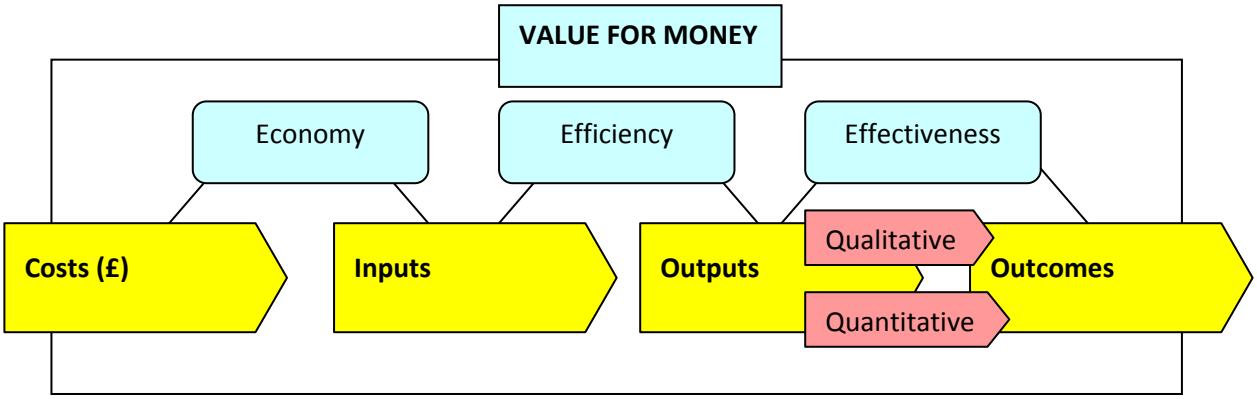


Diagram 1 - Audit Commission – Use of Resources guidance for councils 2007

4.0 The Value for Money Framework

4.1. Achieving improved Value for Money is not a straightforward and simple exercise, it is a complex subject and it is impacted by various themes and components. It is the sum of many activities linked to good management: Finance and budget management, Property management, ICT, Procurement, HR, Performance Management, working in Partnership, effective project management etc.

4.2. To achieve a comprehensive, systematic and consistent approach to Value for Money the following overall framework needs to be adopted:-

WHAT WE NEED TO DO		Vision	-	Clear vision for the "One Council"
		Corporate Plan	-	Clear statement of themes, priorities and corporate outcomes
		Transforming What We do	-	Clear objectives for modernising, improving performance and achieving VFM in delivering Vision and Corporate Plan.

ACTIVITIES TO DELIVER OUTCOMES		Service Plans	-	Activities to deliver Corporate Plan
		Service Strategies	- - - -	Partnerships working Statutory plans Resources deployed Targets/performance indicators linked to outcomes
		Service Team Plans	-	Specific workplans linked to service plans
		Individual Staff	-	Key individual goals
KEY SUPPORT SERVICE STRATEGIES TO ENABLE OUTCOMES		MTFS & MTFP	)	
		ICT	)	Key use of resources Components to enable Corporate Plan to be delivered and to optimise use of assets and value obtained.
		HR Organisational Development	)	
		Asset Management	)	
		Risk Management	)	

KEY PROCESSES TO ENSURE VFM		Performance Management	- -	Post Project Review Capital Programme Analysis
		Data Quality	-	Data Quality Policy and Practice
		Understanding Costs and Quality	-	Consistent Benchmarking across all Council Services
		Improving Business Efficiency	-	Consistent use of service statistics and financial costing, unit costing, financial performance.
		Improving Partnerships and Collaborative working	-	Link finance, risk and performance reports for key activities
		Robust Procurement and Commissioning Framework	-	Implement overall Procurement and commissioning Strategy
		Robust Project Management	- - -	Capital Programme planning and monitoring Consistent Project Management Standards across the Council Strategic Project Management overview

				and co-ordination

MAKING IT HAPPEN		Financial Management	-	Overall robust financial arrangements
			-	Financial codes of practice
			-	Compliance internal audit
			-	Budget monitoring
		Monitoring and review	-	Financial statements and accounting
			-	Service reviews
			-	Residents surveys/service surveys
			-	Consultation and review
			-	Post Implementation reviews
		Governance	-	Governance framework

5.0 Strategic Priorities for Improvement

5.1. In building on our achievement in delivering VFM there is a need to more consistently apply VFM principles and practices across the Council's activities.

5.2. In particular the following elements are highlighted as a priority:

- Adoption of key principles in all activities
- Introduction of consistent key improvement requirements across all services
- Service reviews

5.3. These elements are further described below:-

<u>Key Principles</u>

To achieve VFM the Council needs to consistently apply key principles in its activities and partnerships it enters into:

- The integration of VFM principles within all management, planning and review processes
- To adopt recognised good practice where appropriate
- To benchmark our activities against other similar councils and organisations where this is considered useful.
- To respond to opportunities to enhance the Effectiveness, Efficiency and Economy of activities, including service delivery and procurement
- To promote a culture of continuous improvement and innovation

- To demonstrate actively to both internal and external observers that the achievement of VFM is sought in all activities undertaken
- To ensure that all employees recognise their continuing obligation to seek VFM for the Council, and therefore the residents of the Isle of Wight, as part of their routine activities.

Key requirements

Understanding Costs & Quality:

- Get an understanding of what drives the service and what costs are associated with service activity and performance.
- To achieve more with the same level of resources, or achieve the same with less.
- Services can substitute cheaper resources for more expensive ones or
- Creating more productive time, freeing up resources to frontline service delivery.

Consistent and Better Benchmarking:

- Structured benchmarking activity where the cost and quality information can be defined and understood.
- Regular benchmarking activity for use within service and business planning and be part of ongoing Service Reviews.

Improving Business Efficiency:

- Transforming and seeking to improve business processes.
- Using less resources to achieve the same level of service, removing waste and inefficiencies to speed up standard transaction and cutting bureaucracy and red tape.
- Streamlining processes and reducing avoidable contact, better matching of scarce resources to workload and pressures that are identified by the public.
- Comparing our staff structures and levels of service transactions with others through benchmarking to review business costs.
- Business Process Improvement (BPI) and Business Process Re-engineering (BPR) offer the Council the opportunity to identify ways of saving money, by eliminating wasteful activity and spending.
- Identifying irregular spending

Improving Partnership & Collaborative Working:

- Working with others can generate economies of scale and enable cost savings and efficiencies to be achieved.
- Working in partnerships uses the strengths and abilities of others, engenders innovation and can streamline processes and remove waste.

Improving Procurement:

- Better deals, aggregating spending power, buying with others, improving competition.
- Negotiating an increased level of quality of service for the same costs.
- Avoiding purchases that are not needed; that our needs are met and not exceeded.
- Improving negotiations so that the best deal is achieved for the service in terms of both cost and quality
- Optimizing the cost of delivering over the full life cycle rather than minimizing initial price.
- Introducing incentive into the contract for quality improvements throughout its duration
- Aggregating transactions to obtain volume discounts.
- Collaborating with other Departments to obtain best prices/discounts from bulk buying
- Streamlining the procurement and finance processes (BSIP); reducing the levels of stock held

Applying Technical Accounting and Business Process Techniques:

- Understanding and investigating cost and revenue behaviours and modelling and forecasting there impact on budgets and cost centres.
- Routinely using appropriate appraisal techniques, such as whole life costing, options appraisals, investment appraisals (such as NPV), activity based costing, and other management accounting methods to evaluate the proposals and decisions which the council makes.

Using Skills & Resources of Staff:

- Training and development of general finance skills is required to enable a greater understanding of financial knowledge and budget management to be imparted through the Council.

- More use should be made of the intranet to hold policy and core documents and provide a training resource and information space for the Council.

Improved Project Management:

- Projects need to have realistic business cases – profiles of spend and milestones that can be tracked and monitored.

- Better assessment and management of risks, scaling and scoping projects into smaller components or programmes if appropriate, greater investigations of options appraisals and benefits identification and realisation.

- Introduction of consistent key improvement requirements across all services

- Undertake a programme of simple checks and audit of completed projects

- Undertake a periodic test-check of compliance with key principles and requirements.

Service Reviews

To implement and conduct a programme of VFM service reviews with the framework as set out in Section 7.

5.4. The attached action plan at Appendix 1 sets out the action to be taken in 2009/10 in respect of these improvement areas.

6.0. Governance Framework

STRATEGY & POLICY				GOVERNANCE
• Vision – Eco Island the Island's collective vision and sustainable community strategy				• Scrutiny Committee – to request and receive reports on service areas and achievements of the strategy • Audit Committee – receive reports from Audit Commission and action plans to resolve issues. • Cabinet – to request and receive reports on service areas as well as progress reports on VFM and efficiency – NI 179 VFM indicator • Directors Team to receive reports on VFM progress and efficiency as well as results of Service Reviews • Directors Team Modernisation Board to monitor progress on the delivery of the Modernisation Agenda • Star Chambers – for Capital & Revenue Projects • Procurement Board – to ensure compliance with the code and ensure VFM achieved • Directorate Service Boards • Mini Service Boards receiving of Performance, Risk and Financial information
• Corporate Plan – One Island references VFM Corporate Themes Corporate Priorities Corporate Outcomes				
• One Council – the modernising plan for the Council			**VFM is a priority & is cascaded** ⇦	
• Directorate Plans – key service objectives				
Service Plans	Team Plans	PDR		
• Corporate Strategies to support service delivery: Budget – MTFP – Savings – ICT – HR – Finance – Procurement – Asset Management – Capital – Project Management – Partnerships			**VFM is challenged & guides policy**	
• Service Reviews for each area confirm how services perform using the 3 stage process: – self evaluation confidence assessment – target setting costs/performance – benchmarking and action plan			⇨	

7.0 SERVICE REVIEWS FRAMEWORK

Background

7.1 The principal themes which have come to dominate current improvement programmes in local government are those of Value for Money (VFM), the demonstration of efficiency gains, and effective and creative use of resources.

In order to demonstrate its focus on VFM the Council is assessed annually to measure how it is delivering VFM through a process termed the "Use of Resources" that forms part of the external audit (Comprehensive Area Assessment – by the Audit Commission). The use of resources assessment focuses on financial management but links to the strategic management of the council. It looks at how financial management is integrated with strategy and corporate management supports council priorities and delivers VFM. The use of resources assessments will inform decisions about possible CPA categorisation.

The use of resource assessment required the Council to submit a self-assessment outlining performance in relation to the use of resources and it gained two out of four, with a corresponding score of two out of four for the VFM self assessment. A score of two means that the Council is performing adequately and is above the minimum requirements relative to the KLOEs

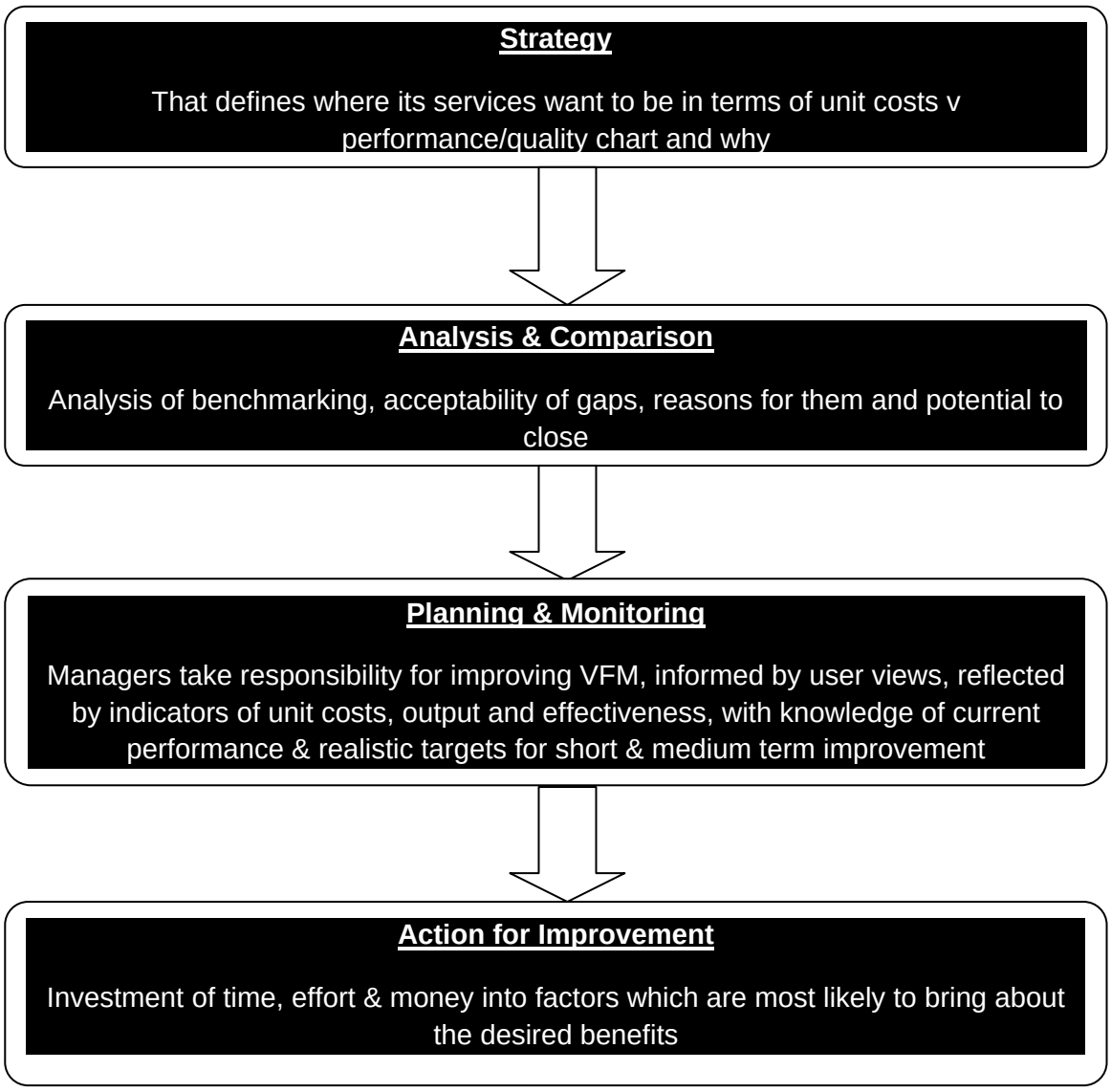
7.4 Those Council's that have scored highly in the Use of Resources and VFM in the past had the following characteristics as defined by IPF & Audit Commission:

UoR & VFM 2005	**UoR & VFM 2006**
• Understood the relationship between service performance (user impact) & associated costs • Used information on performance & costs to identify opportunities to improve performance • Understood their local context & benchmarked costs & performance • Followed through on reviews & demonstrated VFM improvements	• Emphasised & demonstrated the link between resource allocation & priorities • Realised comparison is not just about seeing who provides services at lowest costs • Demonstrate high level understand-ing & awareness about improving VFM across the organisation

Improving VFM

- Essential to meeting efficiency targets and the delivery better public services
- Is about demonstrating effective community outcomes as well as better processes and lower costs
- Requires a team effort with finance staff and non-finance staff

Characteristics of an excellent VFM organisation



7.5 The council has produced a VFM strategy that makes explicit reference to a three point plan to secure VFM improvements. Within the proposed VFM framework a key component of the future work needs to include the continuation and focus on reviews including VFM Reviews at the strategic level and Service Reviews:

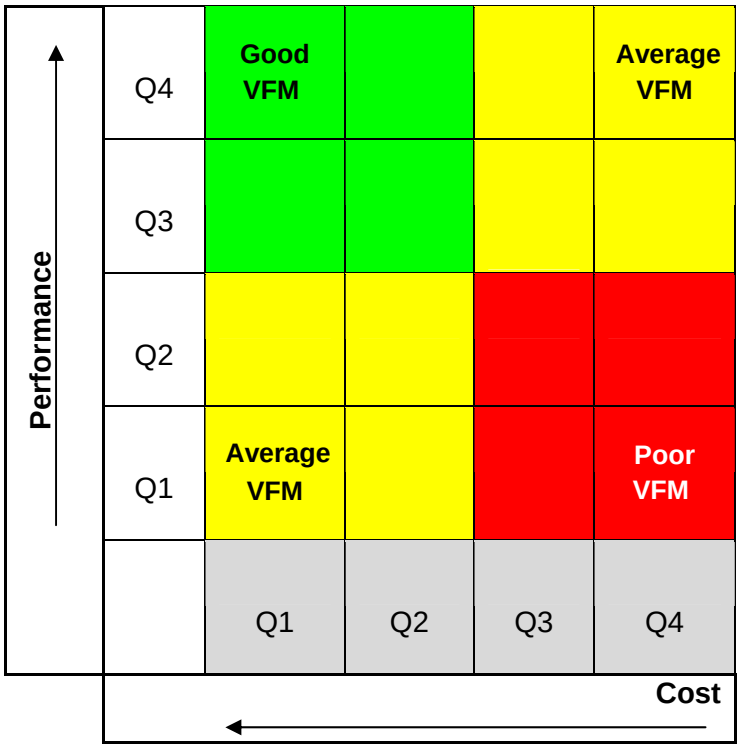
Strategic & Corporate Level – outcomes to deliver VFM should be considered and incorporated in all corporate plans, policies and strategies as they are developed and or revised.
Operational Level – VFM must be considered during the Service Planning and Service Plan review.
Efficiency & Quality Check – a basket of measures need to be developed to ensure efficiency savings do not impact upon service performance. The measures should encourage innovation in non-cashable savings and to monitor the impact of budget cuts/efficiency gains

7.6 The previous review mechanisms (Best Value Reviews) while including an element of VFM assessment, did not best serve the requirements of CPA Use of Resources and VFM KLOE. Previous Annual Audit letters have stated that the Isle of Wight Council should "develop a more strategic approach to assessing value for money, drawing together the performance information that is already available". Under the revised Comprehensive Area Assessment there is an even greater requirement to review services as the VFM element of the Use of Resources is now a common theme through all of the key lines of enquiry.

7.7. Measuring & Comparing ourselves:

The Value For Money Chart

Where are our Services on the matrix?



7.8. Understanding and mapping our services on a **Performance v Cost** matrix provides an opportunity to understand and define our relative position and identify opportunities for improvement and enhancement. Through effective benchmarking against appropriate councils (nearest neighbours, local or regional councils, excellent authorities) we should be able to define the appropriate improvement direction that our services need to take.

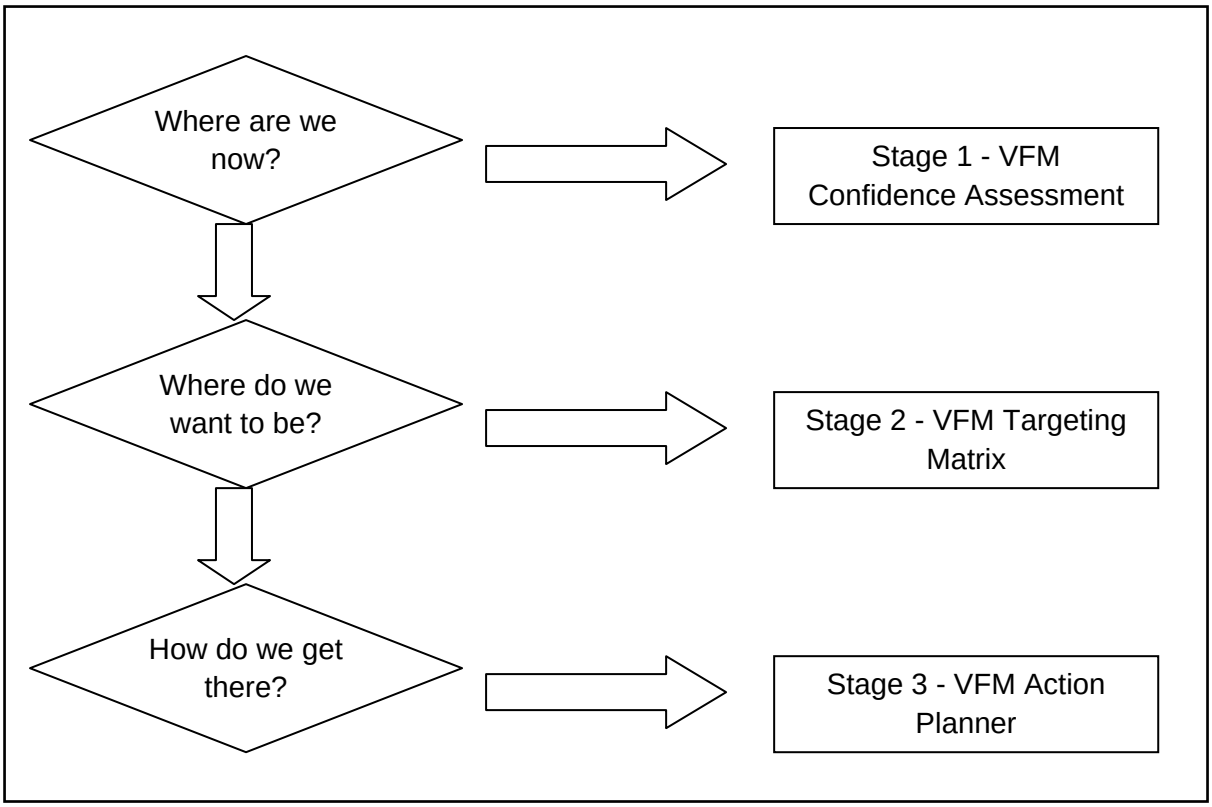
7.9. Using the matrix enables the Services and the council to ask the probing and searching questions:

- How much do services cost and what is the breakdown of costs?
- What are the unit costs of delivering services
- Is this appropriate and does it match our priorities?
- How does our performance and costs compare with other councils?

- How can we improve?
- Where do resources and priorities need to be focussed in the future?

7.10 However services need to understand are they comparing like for like – similar structures, services, policy, priorities, let alone the variation in geography and demography which can impact on the structure of services.

7.11 **The VFM Toolkit proposed by IPF/CIPFA**



<u>Stage One – the confidence assessment</u>

This provides a rough snapshot of Service VFM – examining what is already known about economy, efficiency & effectiveness compared with other similar organisations.

Reviewing each service by the components on the matrix allows an insight and judgements to be made on the relative top level performance of the service area. Once combined with other service areas a broad VFM picture and analysis can be undertaken – it will help define the VFM culture and highlight those services where additional work may be required.

VFM Confidence Assessment

VFM Factor	Scoring Guidance Low = 1-2 Medium = 3-4 High = 5-6	VFM Factor	Scoring Guidance Low = 1-2 Medium = 3-4 High = 5-6
Comparison	• Low confidence = bottom quartile performance • Medium = average performance achieved • High = top quartile performance	**External Environment**	• Low = impacts & linkage to objectives are not identified • Medium = evidence of incomplete linkage to external drivers and objectives • High = impact and linkages to objectives are clear and explicit - this information is used to drive service planning & direction
Benchmarking	• Low = No consistent framework available for benchmarking service • Medium = some benchmarking has taken place but it is not consistent and meaningful • High = regular benchmarking undertaken and the results used in developing service plans and in making decisions	**Integrated Performance & Risk Management**	• Low = significant flaws in performance management – poor measures – poor action planning – no linkage to corporate and service risk registers • Medium = incomplete performance management in place • High = integrated performance management in place. Gap analysis complete and pathways to excellence used to drive strategic service planning
Partnering & Collaboration options	• Low = no evidence of options appraisal for alternative service delivery including partnering & all other collaboration choices • Medium = partial options appraisal undertaken and not fully implemented • High = comprehensive options appraisal for service delivery complete and options implemented to secure optimal VFM	**Project Management**	• Low = corporate project management tool is not understood or used, project slippage (time or budget) is a regular occurrence • Medium = corporate project management tool is understood but not consistently applied, project slippage does occur • High = corporate project management tool is applied and project slippage is controlled and properly managed
Customer satisfaction	• Low confidence = consultation methodology poor and or % customer satisfaction less than 60%. No published service standards or customer charter • Medium = customer satisfaction greater than 60% but less than 80%. Service standards in place but improvements identified • High = customer satisfaction more than 80% and consultation methodology robust. Robust published service standards and customer charter	**Procurement**	• Low = whole life costs are not understood and competition is not used to select suppliers/award contracts (latest procurement code, contract standing orders are not understood and staff have not obtained licence to procure) • Medium = Whole life costs and competitive selection is understood but not consistently applied (procurement guidance is understood but not consistently applied, some staff have obtained licence to procure) • High = whole life costs and competition is understood and applied (procurement guidance is understood and applied, all staff have secured licence to procure)
Efficiency & Savings	• Low = efficiency savings action plans unrealistic, &, or failure to identify and achieve savings • Medium = some efficiency saving secured but service targets not met. Plans for future gains not always clear • High = service targets to meet annual efficiency savings met & future planned savings supported by SMART action plans	**Data Quality**	• Low = the service has poor arrangements for data quality and has qualified performance measures • Medium = the service knows about the data quality strategy, policy is applying best practice and has minor data quality issues • High = the service knows and is applying data quality principles and has no qualified or reserved performance measures
Asset Management	• Low = property review for the service has not been undertaken • Medium = property review has been undertaken and the opportunities for mobile working explored • High = property review has been completed and mobile working has been facilitated	**ICT**	• Low = the service has not fully explored the use of IT equipment in providing services and improving access • Medium = the service has explored the use of IT equipment in the provision of service and improving access • High = the service has fully embraced the opportunities presented by using IT to improve and enhance the provision and access to services

VFM Factor	Scoring Guidance Low = 1-2 Medium = 3-4 High = 5-6	VFM Factor	Scoring Guidance Low = 1-2 Medium = 3-4 High = 5-6
Impacts of External or Internal Review	• Low = external/internal reviews identified significant issues for review (internal audit, Audit commission, OFSTED/CSCI.. etc.) • Medium = although some impact of external/internal reviews, issues identified not significant • High = no impact of external/internal reviews, or, all relevant issues already reviewed and required actions incorporated into service action plans	**Use Resources**	• Low = significant >10% recurring or one-off over/under-spends. Loss of external resources a risk. No recent zero basing of budgets • Medium = although variations to budgets these are not significant < 10%. Evidence that the budget not fully zero-based. • High = Budgetary control is robust. Budget zero based & external resources not at risk
	•		•
HR Capacity	• Low = number of capacity issues identified and evidence of adverse impact on service delivery • Medium = capacity issues identified but not significantly affecting service delivery • High = no evidence of capacity issues. Capacity is matched to required service	**Materiality**	• Low = service gross spend + gross income/ council gross spend + gross income >2.5% • Medium = service gross spend + gross income/ council gross spend + gross income <2.5% >1.25% • High = service gross spend + gross income/ council gross spend + gross income <1.25%

VFM Confidence Assessment – scoring sheet	High = 5-6	Medium = 3-4	Low = 1-2

VFM Factor	Service 1	Service 2	Service 3	Service 4	Service 5	Total	Comments
Comparison							
Benchmarking							
Collaboration options							
Customer satisfaction							
Efficiency							
Asset Management							
External or internal reviews							
External Environment							
Integrated PMF and Risk							
Project Management							
Procurement							
Data Quality							
ICT							
Use of Resources							
Materiality							Non scoring items
HR Capacity							Non scoring items
Totals by service							

Stage Two – the targeting matrix

Identifies services key measures relating to their cost and performance and where they intend to be. The data reviews the financial and performance implications of achieving the targets and can feed into the Budget & Service Planning Cycle.

Success within this stage is dependent on appropriate target setting alongside appropriate benchmarking and other data.

STEP 2 VFM Goals – target matrix

Performance Indicators		Action Plan Targets			Implications & Comments	
		Current level	Targets for action plan	Stretch	Targets	Stretch Targets
Cost						
Performance						

Stage Three – the action planner

Involves learning from best in class and developing a forward looking action plan with agreed actions to achieve improvements.

LEARNING FROM "BEST IN CLASS"		
Case Study	**Commentary**	**Consideration for our authority**

ACTION PLAN FOR VFM			
Action	**Target**	**Responsibility**	**When**

7.12 **Prioritising Services for VFM reviews**

- VFM Service Reviews is something that needs to be undertaken. Having a robust process for the identification of areas in need of support is fundamental to the development of a sustained programme of VFM Service Reviews and the establishment and development of a performance management culture within the organisation.

- Using the first stage of the IPF model – the VFM Confidence Assessment, will provide the Council with a snapshot overview of each service, the relative scores can be reviewed and then a profile can be created of areas in most need for review (Lowest Scores first)

- The proposed process does not imply that low scoring services are not achieving VFM, rather it does suggest that there may be opportunities for improvement and change. The review process will help in being better able to demonstrate that the Council is seeking in all instances to achieve VFM through the use of a consistent methodology.

- In order to add greater flexibility to the programme and to enable pragmatism it is suggested that additional VFM Triggers be used on top of the VFM Confidence Assessment

Triggers for VFM Reviews

- analysis of the Audit Commission's VFM profiles;
- ongoing performance data monitoring indicating poor performance/financial management (need to improve) or excellent performance (opportunity to share best practice);
- data benchmarking;
- outcomes of a consultation exercise, this is an area of key concern for local people (e.g. perception, that the council does not deliver a service required by the community);
- inspection reports (assess the service as not delivering VFM);
- legislative changes, government initiatives, or opportunities for funding;
- key contracts are coming to an end;
- personnel changes such as a new Director or Head of Service; and
- Member / partner observations and concerns

If it was noted that there was an issue in one or more of the above areas then a VFM Review would be triggered

7.13 **The output and outcomes:**

- to establish a baseline for the current value for money position of all services;
- to identify and address any weaknesses in evidence for demonstrating value for money;
- to identify services where reviews are required into particular aspects of value for money and thus to design a future service review programme;

- to indicate where policy decisions may be required as to whether certain services are required at their current level, or at all; and
- over time to monitor progress with, and to be able to publicly demonstrate, improvement in the value for money of all services.

The questions in the self-assessment include:

- unit costs, compared to national and local averages;
- local factors that might affect cost comparisons;
- steps being taken to reduce costs;
- other significant inputs to the service (for example, charges);
- comparative performance and local factors that affect it;
- performance trends;
- steps being taken to improve performance;
- qualitative and quantitative outcomes; and a summary paragraph with a 'value for money' judgement

7.14 **Stage Three – the action planner**

Involves learning from best in class and developing a forward looking action plan with agreed actions to achieve improvements.

LEARNING FROM "BEST IN CLASS"		
Case Study	**Commentary**	**Consideration for our authority**

ACTION PLAN FOR VFM			
Action	**Target**	**Responsibility**	**When**