

REPORT TO THE MEETING OF THE EXECUTIVE 22 JULY 2009

PORTFOLIO: FINANCE & RESOURCES

**REPORT FROM HEAD OF FINANCE, AUDIT & PERFORMANCE
MANAGEMENT**

**SUBJECT: MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2009/10
UPDATE**

1 DECISION BEING RECOMMENDED

- 1.1 To note the current position on the MTFS and progress in bridging the budget gap for 2009/10, together with agreeing to the recruitment of the Environmental Enforcement Officer post.
- 1.2 To agree to a 2 year ICT contract extension with Sungard PS on the basis set out in paragraph 7 of the report.
- 1.3 To agree in principle to the organisational changes suggested, so that following consultation with staff in the early autumn, detailed changes can be brought forward for Member approval.

2 REASON/S FOR RECOMMENDATION

- 2.1 When Council agreed the budget for 2009/10 and the MTFS covering the period 2009/10 to 2013/14, a budget gap of £780,000 was identified and set as a target for savings. It was agreed that the Executive would be kept up to date on progress in addressing this gap and identifying savings.
- 2.2 During the budget process, a number of bids for additional funding were not progressed because of the financial pressures but it was agreed that these would be reviewed during 2009/10. These bids included the Environmental Enforcement Officer post.
- 2.3 The closure of the accounts for 2008/09 means that the MTFS can be updated with the financial results from last year. The MTFS will be continually updated by Officers during the budget process with updates provided to Members either by report into the Executive or the Member Awaydays, before it is finally approved in January 2010.
- 2.4 At the start of the financial year the financial challenge was to reduce a perceived gap of £780,000. It was recognised that this would be done through a combination of the financial results from 2008/09, changes in financial assumptions and estimates for 2009/10, and savings identified by detailed review of service budgets.

3 CURRENT POSITION ON MTFS

2008/09 Results

- 3.1 Following the closure of the accounts for 2008/09, which was reported to Council on 30 June, the MTFS has been reviewed. The balance carried forward from 2008/09 is £122,000 higher than expected, at £809,000. The Housing Revenue Account balance which transferred into the General Fund on 1 April 2009 was £240,000 higher than forecast.

2009/10 Financial assumptions

- 3.2 Concessionary Fares - The original estimates for 2009/10 were based on the estimates of likely cost for 2009/10 prior to joint arrangement with Essex County Council. Agreement was reached between all the Essex districts and County, which means that County take responsibility for reimbursing the operators and the Council's financial obligations are limited to the sums agreed. For 2009/10, the original estimate was £926,000 but this will be revised down to £824,000, a saving of £102,000.
- 3.3 Recycling - The original estimates did not factor in the final financial arrangements with ECC around recycling and the Inter Authority Agreement. Now that we have confirmation on the recycling income that will be received, the original estimate of net income of £264,000, can be increased to net income of £560,000 – an improvement of £296,000. This is based on a dry recycling rate of about 30% together with a compensation payment in lieu of recycling creditors for compostable materials. The issues around contamination mean that at this stage we cannot factor in additional income in future years from improvements in recycling rates, but this will continue to be monitored.
- 3.4 Income – overall income from Planning, Building Control, Land Charges and Cemeteries is slightly up against budget (8% equivalent to £12k). As this income does not come in evenly over the year it is difficult to forecast the end of year position so early on. At this stage, the judgement is that income will be close to budget so no adjustments are currently proposed. This will be reviewed through the budget process.
- 3.5 The MTFS assumes recovery of the above income streams at the following rate:-
- 2009/10 – zero
 - 2010/11 – 10%
 - 2011/12 – 20%
 - 2012/13 – 30%
 - 2013/14 - 40% - back up to 2007/08 levels

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- 3.6 These assumptions have been reviewed but no changes are proposed at this stage. If the economy and property markets recover more quickly, then these assumptions will be revised.
- 3.7 Parking – income is down by about £10k compared to the same time last year and both penalty charge notice and season tickets are below budget. At this stage, no adjustments have been made to assumptions as it is too soon to judge the effect of the increase in the daily rate or season tickets.
- 3.8 Investment Income – since the estimate for 2009/10 was set, there have been two further reductions in the base rate. The average return in 2008/09 was 5.3%, the estimate for 2009/10 was based on 2% returns for new investments and current rates are averaging about 0.9%. There will therefore need to be an adjustment of about £80,000 reduction in income.
- 3.9 Bulky Waste – this additional income stream from charges introduced in April 2009 has proved disappointing. It will therefore be necessary to make an adjustment to the estimate for 2009/10 and the MTFS.

Medium Term Financial Assumptions

- 3.10 The MTFS included a provision for the ICT contract renewal in 2011/12. The detailed work that officers have been doing over recent months in preparation have suggested that if the contract is either renewed with another contractor or extended for up to 2 years with the current contractor, there will be some savings because of the changes in technology since the last tender. The provision included in 2011/12 has been removed. Any reduction in costs will be part of the savings target for that year.
- 3.11 Government Funding from 2011/12 onwards when the current 3 year funding settlement runs out, and council tax rises have been left unchanged. The latter will be amended depending on Member decisions during the budget process for 2010/11.
- 3.12 Concern about the Pension Revaluation continues to be an issue. There are Government consultations currently out which deal with this. Amongst the proposals currently out for consultation is an increase in employee contributions for higher paid staff and extending the timeframes for contributions into the fund to make up any perceived shortfall. Further changes in the medium to long term are also promised. However, in the interim, there may be some additional cost from 2011/12 onwards .

4 SAVINGS

- 4.1 The following table summarises the profile of savings and the General Fund balances in the MTFS agreed in January 2009.

Financial Year	Annual Savings Target £000s	General Fund Balance carried forward
2009/10	780	1,763
2010/11	380	577
2011/12	880	281
2012/13	200	590
2013/14	200	1,376

- 4.2 The target for £780,000 for 2009/10 can be met by either reducing expenditure or increasing income. Over the last 4 months, Managers have reviewed their services and have now come up with a range of measures aimed at meeting this target and these are summarised below. Officers have also tried to identify the timing of getting the benefit as some will not impact fully until next year. The word "Benefit" is being used instead of "Savings" because some of the ideas are also around income generation or avoiding costs.

Contract Arrangements – Estimated Benefit 2009/10 - £38,000 ongoing

- 4.3 Reviews of various contracts and successful negotiations will result in cost reductions that will be on-going. It also appears to be beneficial to consider bringing some elements of the contract arrangements back in-house. As mentioned previously, work is underway on the renewal of the ICT contract, and some elements of the contract would be cheaper done in-house.
- 4.4 All the savings are expected to be ongoing throughout the life of the MTFS.

Council Tax Discounts – Estimated Benefit 2009/10 - £15,000 ongoing

- 4.5 The Revenues and Benefits team will be undertaking an extensive review of the single persons discounts currently being awarded. The estimated additional income is based on the experience in other authorities who have already undertaken similar reviews.

Efficiencies – Estimated Benefit 2009/10 - £10,500, £26,500 ongoing

- 4.6 Improvements to the way that the Council carries out certain activities will reduce costs. Examples include the joint leaflets for council tax and NNDR, changes to the arrangements for distributing paperwork to the parishes, introduction of a wireless network for the Council's computer systems and savings identified in a Value for Money review of Postal services.

External Funding – Estimated Benefit 2009/10 - £36,000

- 4.7 A review of the use of external funding has identified a number of Council budgets that can be reduced while the funding is being received, without affecting service delivery. These include Community Safety funded by LAA2 monies, Summer and Sports activities funded by the Big Lottery grant and a post in housing which is now being funded externally.

Income – Estimated Benefit 2009/10 - £4,000 ongoing

- 4.8 The Windmill has proved a great success for weddings which is generating additional income and the Council will now be providing storage facilities for Southend Council's computer back up tapes.

Capital Programme – Estimated Benefit 2009/10 - £44,000

- 4.9 In line with statutory requirements the Council has been making a revenue provision for capital investment at the minimum level. This is not required if we change our accounting treatment of capital receipts.

Procurement – Estimated Benefit 2009/10 - £128,000, £140,000 ongoing

- 4.10 The Council has always had a good track record in achieving excellent value for money from its procurement activity and continues to review how it procures goods and services.
- 4.11 The Council is using more cost efficient ways of providing training for its staff, including partnership working with the Kent Training Consortium and the introduction of on-line training which avoids the need for more expensive tutor led courses.
- 4.12 New printers and changes to mobile phone arrangements will lead to reduced ongoing costs.
- 4.13 The Council has a programme of repairs and maintenance works each year including special items. Last year, a target for savings against the original estimates was applied and this was met. A similar target of 3% will be applied for each year.
- 4.14 Officers are reviewing the arrangements for managing staff recruitment including advertising and processing applications.

Salaries – Estimated Benefit 2009/10 - £82,000, £181,000 ongoing

- 4.15 Proactive management of vacancies including freezing some posts have already generated reductions in costs. Further reviews of staffing arrangements are currently being completed. As a result, it has been possible to identify ongoing funding for the Environmental Enforcement Officer post. This post was one of the items proposed for the 2009/10 budget that could not

be included because of affordability as it had been a one year post funded by a one off grant.

Subscriptions – Estimated Benefit 2009/10 - £10,000, £36,000 ongoing

- 4.16 Following a review by the Portfolio Holder and Managers, a number of subscriptions will be cancelled. The Council has also served the required minimum 12 months' notice to leave the Local Government Association and East of England Regional Assembly. A final decision on this will be made later in the year but for the time being, the saving is included in the above figures.

Transactions – Estimated Benefit 2009/10 - £10,000, £34,000 ongoing

- 4.17 Revenues and Benefits are running campaigns to increase the take up of payment of benefits by bank transfer (BACS) instead of issuing cheques; savings will come from reductions in cheques, postage and printing.
- 4.18 Officers are investigating the feasibility of an automated payment system over the telephone. The reduction in volumes of calls would lead to a cost saving. In addition, an on-line booking system could be developed.
- 4.19 A project has been set up to look at moving to electronic invoicing which would reduce costs from postage, printing and processing time.

5 SUMMARY

	2009/10 -	Ongoing
Contract Arrangements	£38,000	£38,000
Council Tax Discounts	£15,000	£15,000
Efficiencies	£10,500	£26,500
External Funding	£36,000	£36,000
Income	£4,000	£4,000
Capital Programme	£44,000	£44,000
Procurement	£128,000	£140,000
Salaries	£82,000	£181,000
Subscriptions	£10,000	£36,000
Transactions	£10,000	£34,000
Total	£378,000	£555,000

6 CURRENT MTFS SUMMARY

- 6.1 Taking into account the changes discussed above and identified savings/income, the MTFS is currently showing savings and balances as below, but this will change as we go through the budget process for 2010/11 and any decisions around level of council tax rise will also impact on both targets and balances:-

Financial Year	Annual Savings Target £000s	General Fund Balance carried forward
2009/10	378	2,130
2010/11	555	1,043
2011/12	380	344
2012/13	380	363
2013/14	380	1,158
2014/15	380	2,446

7 ICT CONTRACT RENEWAL

- 7.1 The ICT contract runs until March 2011. In preparation, officers have been working on the options available to the Council – undertaking a new procurement process, a 2 year extension of the current contract, or in-house service delivery. The Society of Information Technology Management (SOCITM) has provided professional and technical advice and support during this process. Benchmarking of I.T. costs within Essex and nationally has also been reviewed.
- 7.2 The current ICT contractor, Sungard PS, has expressed an interest in a 2 year contract extension and, following an extended period of negotiation, has made a formal proposal which officers believe to be acceptable in terms of value for money and benefit to the Council. This proposal would see responsibility for software licensing, IT purchasing, and the equipment refresh fund taken back in house. This will avoid the ‘mark-ups’ applied by the contractor and the accumulation within the contract of a capital sum. There is also a proposal that a 5% efficiency saving will be built in year on year (from April 2010), that future contract variations will not automatically have additional support payments added to the cost unless a real incremental cost occurs to Sungard PS, and any improved arrangements that Sungard PS enter into with third parties will be subject to a “gain share” principle.
- 7.3 This proposal will necessitate the Council managing and administering software licensing and purchasing for which additional administrative resource is required. The Council will also have to make provision within the Capital

Programme for equipment refresh, although this is anticipated to be at a low level as a result of the recent upgrade of most equipment.

- 7.4 Taking these likely costs into account, the net projected saving to the Council of the proposed contract extension is around £215,000 p.a., or approximately 18%, from April 2011.
- 7.5 Sungard PS have also proposed savings of up to £19,000 for the period January 2010 – March 2010, and of up to £105,000 for April 2010 – March 2011.
- 7.6 The advantages to the Council of this approach include:-
- certainty of reduced costs for the MTFS until March 2013
 - increased flexibility to respond should a shared working proposal be developed with other authorities
 - avoidance of cost of a tender process (estimated at in excess of £100,000 plus officer time) in 2010/11
 - proposal willingly put forward by Sungard PS who are keen to develop the existing partnership with the Council
 - SOCITM advice is that from a financial perspective we have achieved as much as is feasible.
- 7.7 The risks of adopting this approach include –
- lack of a full market test of IT costs
 - reliance on Sungard PS to continue to deliver and improve their service.
- 7.8 In considering the benefits and risks of a contract extension, officers believe that the advantages outweigh the disadvantages particularly because of the certainty provided to the MTFS and the avoidance of tendering costs, because Sungard PS have put forward the proposals to develop the existing partnership and so are committed to the extension, and the flexibility that this position gives to the Council.

8 ORGANISATIONAL REVIEW

- 8.1 To meet the Access to Services agenda, respond to changes in work volume and start to deal with succession planning issues we are looking to revise our organisational structure and that should over time achieve more savings. The update of the MTFS has provided the framework for Chief Executive and the Senior Management team to look at the Council's organisational structure, the assumption being that we will continue to have to deliver more for less over a period, as the public's expectations of service quality and improvement continue to grow, against a background of tightening public expenditure. In

considering what structural changes should be contemplated, the focus has been on addressing the following 4 issues, which are seen as key to the future of the organisation. These are listed below.

- Progression of the access to services agenda and further developing capacity and improvement at the customer interface
 - Continuing to rebalance parts of the organisation to changing circumstances, such as that surrounding the ICT contract and changes in service provision.
 - Starting to address the upper management succession issues in a seamless way.
 - Recognising the need for any changes to be at worst cost neutral but at best, deliver budget savings and make a positive impact on the MTFS.
- 8.2 To further progress the access to services agenda, it is suggested that revisions to the organisational structure are progressed which bring together those parts of the organisation which deal with the public on a regular basis, either face to face, by telephone, or by email. Consolidation of those functions has already taken place between the Environmental Services and Community Services Divisions but the potential exists to further integrate into this combined unit aspects of planning, land charges, cemeteries and the like, together with reception, so that all the basic customer interface/interchange activities can be linked and brought together into a coherent whole, which would sit within the Information and Customer Services Division.
- 8.3 The intention would be to discuss this proposal with staff in the early autumn, review current work practices and procedures, and bring forward the detail of the organisational changes proposed by November, with implementation from April 2010 at the latest.
- 8.4 Similarly, in the light of the considerations around the ICT contract, it is felt that changes are required to that part of the organisation dealing with the contract, the supporting IT systems across the Council, the web and other communication channels, to ensure that we move forward in a seamless way with sufficient capacity in place. Again consultation with the relevant staff will be required, with details around the agreed structure brought back for approval in the autumn.
- 8.5 To address the higher management succession issues, a move away from the Corporate Director structure is envisaged, with the creation of a deputy Chief Executive post to replace the two Corporate Directors. Some refinement will be required at Head of Service level in terms of responsibilities but overall, should members agree to this approach, with implementation from April 2011, it would be possible to achieve some significant saving into the MTFS.

- 8.6 Overall, it is envisaged the organisational changes outlined above can help the Council deliver both on its service improvement agenda and financial agenda in terms of the MTFS.

9 RISK IMPLICATIONS

- 9.1 By identifying clearly where savings will be made, this mitigates the risk of not achieving the revised target.
- 9.2 There is the risk of further falls in income which may mean higher levels of savings are required, but this will be monitored up through the budget monitoring arrangements.

10 RESOURCE IMPLICATIONS

- 10.1 Delivering the savings or additional income identified in this report is essential to maintaining a balanced budget and ensuring that the Council is well placed to finance current and future spending plans.

I confirm that the above recommendation does not depart from Council policy and that appropriate consideration has been given to any budgetary and legal implications.

SMT Lead Officer Signature: _____

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Background Papers:-

None

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