

MAYOR & CABINET		
Report Title	Revenue Budget Savings Proposals 2007/08 – Strand 2	
Key Decision	Yes	Item No. 9
Ward	All	
Contributors	Executive Director for Resources	
Class	Part 1	Date: 8 November 2006

1 PURPOSE

- 1.1 The purpose of this report is to present officers' draft second strand budget savings proposals for 2007/08.

2 EXECUTIVE SUMMARY

- 2.1 This report sets out officers' draft second strand budget savings proposals for 2007/08. All of these proposed efficiencies are derived from the Efficiency Programme and will lead to changes in the arrangements for delivering these services. The Public Accounts Select Committee was given the opportunity to comment on these proposals at its meeting on 17th October 2006.
- 2.2 The proposals that comprise the second strand of the budget strategy, have been subject to internal challenge through a group of officers which include directorate heads of service and service managers and as such are viewed as being genuinely deliverable.

3 RECOMMENDATIONS

It is recommended that the Mayor:

- 3.1 considers the comments of the Public Accounts Select Committee on the second strand budget savings proposals for 2007/08 contained in this report; and
- 3.2 agrees the second strand budget savings proposals for 2007/08 (subject to the agreement of the full Council on 1st March 2007 and proper process and consultation, should this be required).

4 BACKGROUND & FINANCIAL CONTEXT

- 4.1 The Financial Survey for 2007/12, which was presented to Mayor & Cabinet on 19th July 2006, sets out the Council's medium term financial strategy. It shows that the revenue budget is soundly based, consistent with policy objectives and designed to deliver the Council's strategic objectives. The key assumptions for the revenue budget for 2007/12 are:
- The annual Council Tax increase for Lewisham's services will not exceed 2.5%.
 - The level of revenue support from the Government will be tighter than in the past.
 - The Council will face substantial cost pressures above inflation to maintain the existing level of service provision.
 - All services will be required to make annual efficiency gains of at least 2.5%.

- A multi-year approach to making efficiencies will be imperative.
- Provision will need to be made for high priority revenue growth to meet citizens' expectations for certain services.

4.2 The 2007/08 budget strategy introduces a multi-layer approach to securing efficiencies. This is a different and more flexible approach to previous years and encompasses the following four strands Overall, the scale of the efficiencies being sought is substantial at £15m for 2007/08, with a further £6m for 2008/09:

- Strand 1 – 2.5% Savings from all directorates
- Strand 2 – Budget Efficiencies
- Strand 3 – Thematic Service Reviews
- Strand 4 – Growth and Pressures

4.3 Total revenue savings of £5.440m were sought under Strand 1 of the 2007/08 budget strategy. At its meeting of 19th July 2006, the Mayor & Cabinet agreed first strand savings proposals of £3.438m for 2007/08. These were subsequently agreed by full Council on 20th September 2006. Members should note that two other proposals which total £0.175m¹, were deferred by Mayor & Cabinet at its meeting on 19th July 2006, to be re-considered in the Autumn. When the further review work of these two areas have been concluded, it is intended that they will be included in the next savings report to Mayor & Cabinet in December 2006.

4.4 The second strand aims to appraise and confirm efficiencies from a range of corporate and cross-cutting areas and make adjustments to the budget for 2007/08 . This strand also includes identifying opportunities for multi-year efficiencies which will assist later years budget strategies to be achieved. This report presents officers draft savings proposals for the second strand. Table 1 provides an overall summary of efficiency savings being proposed for this strand of the budget process.

4.5 The third strand of the 2007/08 budget strategy will be presented to the Public Accounts Select Committee on 21st November 2006 and then to Mayor & Cabinet on 13th December 2006. The third strand seeks to conclude a small number of thematic service reviews. The intention for this strand is to deliver savings in 2007/08 and later years. The fourth strand is to identify the scope for, and agree the level of, revenue growth and pressures. The fourth strand will report in detail in the new year and will be considered as part of the overall budget setting process for 2007/08.

5 APPROACH TO IDENTIFYING STRAND 2 BUDGET SAVINGS PROPOSALS

5.1 In identifying the budget savings proposals for the second strand, Terms of Reference were compiled for each of the areas being considered, with responsibility being given to a directorate head of service to lead and progress respective review areas. The Council's Executive Management Team considered the Terms of Reference at its meeting on 20th June 2006.

5.2 Set out in Table 1, is a summary of second strand efficiency savings proposal being considered as part of this report. Appendix 1 provides cost centre and lead officer information for these proposals:

¹ Children & Young People – Early Years Service of £165k and Regeneration – Street Leader Scheme of £10k

Table 1 – Strand 2 Efficiency Savings Proposals

REVIEW AREA	Efficiency Gains (£)
Information & Communication Technology (ICT)	£2.000m
Managed Service for Agency Staff	£1.000m
Children's Social Care	£0.670m
Telecommunications	£0.200m
TOTAL	£3.870m

5.3 In total, £3.870m of second strand efficiency savings proposals have been identified. The detail of these proposals have been set out in paragraph 6 of this report.

6 STRAND 2 EFFICIENCY SAVINGS PROPOSALS FOR 2007/08

EFFICIENCY GAINS

6.1 INFORMATION & COMMUNICATION TECHNOLOGY (ICT) CONTRACT Efficiency Gains £2m

- 6.1.1 The Council has had an outsourced provision of its ICT services for a number of years, and continues to be committed to this provision in order to ensure access to the human and technical resources needed to keep pace with rapidly developing requirements and technology.
- 6.1.2 In January 2005, the Executive Director for Resources commissioned work on a Best Value Review of ICT services, to provide appropriate recommendations for the way forward. The final recommendations detailed in that report were accepted by full Council, and subsequently formed the basis for the procurement strategy that was pursued. The report also recommended a fundamental restructuring and strengthening of the Council's clienting arrangements for the new contracts.
- 6.1.3 The procurement process proved to be competitive and resulted in considerable efficiency gains of £2m for 2007/08 being demonstrated in the new contract with Sungard Vivista. This saving is subject to a review on the Housing Revenue Account (HRA), which is currently being progressed.
- 6.1.4 This saving is mainly due to the fact that the former outsourced ICT contracts with Fujitsu and Steria were agreed at the height of the market. Since this time, the costs of such services have fallen and the Council now has a more established platform for providing ICT services, thereby getting better value for money.
- 6.1.5 The saving will be achieved after taking account of on going hardware support and maintenance contracts with 3rd parties for items such as network equipment and back up hardware and on going corporate license costs such as Microsoft. These costs will be met from existing budgets. Also, the cost of reorganising the former e-government unit based on the recommendations of the original Best Value Review have been covered with 2006/07 budgets. Furthermore, first strand savings for ICT have already identified for 2007/08 of £214k.

6.1.6 The once-off transitional costs of the new contract are to be fully covered in 2006/07. The new contract which became effective from 1st October 2006, is more inclusive, and there are also more demanding Service Level Agreements (SLAs) and a performance and payment regime that directly links performance and user satisfaction to the payments made to Sungard. The duration of the contract is for 3 years and the Council is expected to receive the benefit of stable prices during this period.

6.2 MANAGED SERVICE FOR AGENCY STAFF Efficiency Gains £1m

6.2.1 The managed service for agency staff involves one service provider acting as the point of contact for line-managers and taking responsibility for co-ordinating all of the Council's agency staff requirements.

6.2.2 As part of the 2007/08 budget strategy, the new recommended provider for agency staff is contracted to deliver efficiency gains of £1m for 2007/08 and a further £1m for each year of the contract, providing that the majority of the Council's estimated £22m to 25m spend on agency staff is channelled through the service. It is expected that the Agency Client Officer will eliminate the majority of non-compliance, through publicising measures of best practice and using the E-Procurement platform as an enabler to monitor the process. There will also need to be a strong directive from senior management in order to ensure that efficiency gain targets are met.

6.2.3 The new managed service arrangement will engage suppliers on a tiered system based on price and quality, ensuring that competitive margins and quality of service are delivered. It will also help to ensure agency commission rates and hourly rates paid to agency staff are kept in line with the wider London market, thereby securing value for money for the Council. Members should note that there is no presumed change in the volume and usage of agency directly resulting from the new managed service.

6.2.4 Non-cashable efficiency gains will also be delivered from a reduction in the number of invoices processed by the Council – from approximately 34,000 per annum to 52. It is not possible at this stage to calculate an efficiency figure from this reduction as the efficiencies will need to be determined once the new invoicing process is in place and the required resources to process invoices reduce. The managed service will also deliver streamlined sourcing processes leading to significant overall time savings for line-managers.

6.2.5 The service will be funded via a transactional fee paid each time a manager engages an agency worker. This involves the managed service adding an additional charge to the margin charged by the supplying agency. Managers will experience no change to the total charge they are currently paying. The managed service will charge managers the same total charge as they currently pay. The managed service will calculate the difference between the current charge and the new reduced charge, including the management fee, negotiated by the managed service. The saving will then be paid back to the Council in the form of a rebate, therefore, delivering genuine cashable efficiency gains. The Agency Client Officer will monitor this process and there will also be an 'Open Book Accounting Clause' in the contract.

- 6.2.6 Although it cannot be fully guaranteed, there is the likelihood that as the process becomes more embedded within Lewisham in future years, annual efficiencies will increase in future years.

6.3 CHILDREN'S SOCIAL CARE REVIEW **Efficiency Gains £0.670m**

- 6.3.1 The Children's Social Care Division underspent its 2005/06 budget by £5.3m in 2005/06. This service area is notoriously volatile, with a small number of clients potentially driving large increases in expenditure on placements. An officer review, chaired by the Director of Children's Social Care, reviewed this budget with the aspiration of reducing base budget provision from 2007/08.
- 6.3.2 The review aimed to identify the reasons for the underspend in 2005/06 and develop a hypothesis that explains the underspend. It also sought to predict the likely expenditure for 2006/07, whilst identifying preventative measures which will directly reduce the potential expenditure for future years.
- 6.3.3 For Lewisham, the Looked After Children (LAC) population decreased in 2005/06 from 570 children in March 2005 to 480 in March 2006. This was due to a number of factors, including the reduced numbers of unaccompanied minors presenting as 'in need', the implementation of more robust gate keeping with regard to older children, and making more use of alternatives to care and family support packages.
- 6.3.4 For the current financial year, the Children's Social Care budget is again expected to underspend by some £800k. This is based on a forecast monthly entrant rate of 3 per month which will result in Lewisham having a LAC population per 10,000 population of 86.2. For Lewisham, this equates to new entrants into the LAC population of 30 children in 2006/07.
- 6.3.5 For 2007/08, revenue savings of £775k have already been agreed for the first strand of the budget process. In managing the LAC population in 2007/08, the critical success factor for the Children's Social Care Division is the continued application of robust gate keeping within the appropriate parameters of safeguarding models, risk management and the extension of family support approaches and services.
- 6.3.6 A prudent approach has been taken in predicting the cost of the LAC population for this year and for 2007/08. Based on a service revenue budget of £21.430m, the predicted level of activity is expected to underspend by £670k for 2007/08. This is a genuine efficiency saving and in declaring it, the service would maintain an appropriate level of service. By establishing base budgets at the inner-London average, we are setting prudent budgets to a sustainable level for future years. However, given the volatility of this service area, it would seem sensible to establish a centrally held contingency to support any potential costs that deviate from the budget.

6.4 TELECOMMUNICATIONS REVIEW **Efficiency Gains £0.200m**

- 6.4.1 The review of telecommunications sought to investigate the scope to which the new ICT contract (Sungard Vivista) covers the supply and use of telecommunications in Lewisham. In the main, it sought to cover a range of areas including identifying an

efficient solution to minimising the plethora of land line telecommunication arrangements, thereby creating efficiencies and securing further efficiencies through the improved contract management of telecommunications.

- 6.4.2 A total of £200k will be deliverable from purchasing the lease on switchboard hardware for land line telephones. These costs have been covered in 2006/07 and will mean that from 2007/08, the current lease budget of £200k will no longer be required.
- 6.4.3 This review has provided the foundation for securing further efficiencies in future years. For instance, work is being developed to optimise the percentage of personal calls expenditure recovered by the Council and frameworks are being developed to ensure that the Council takes appropriate advantage of technological advances in telecommunications.

7 OTHER STRAND 2 REVIEWS

- 7.1 There are some additional second strand reviews where work is still progressing. Officers are continuing to establish the efficiencies that will be genuinely deliverable from these reviews. This work is expected to conclude in the coming month and will mean that the outcome of efficiencies in Early Years, Passenger Transport, E-Procurement and Copiers and Print can be included in the next savings report, due to be presented to the Public Accounts Select Committee on 21st November 2006 and then to Mayor & Cabinet on 13th December 2006.

8 SCRUTINY PROCESS

- 8.1 The Public Accounts Select Committee considered the second strand budget savings proposals at its meeting on 17th October 2006. There was some discussion about how each of the savings proposals would work in practice and what the implications would be following their implementation. The Chair summarised and said that there were no comments to be brought to the attention of the Mayor & Cabinet before decisions are taken on 8th November 2006.

9 FINANCIAL IMPLICATIONS

- 9.1 This report proposes 2007/08 second strand efficiency savings of £3.870m. If all the savings proposals contained within this report are agreed, this will bring the total savings identified to date to £7.308m. This represents a shortfall against the overall target of £15m for 2007/08 and will mean that the Executive Director for Resources will need to revisit the overall budget strategy for 2007/08 and beyond. It is intended that a full review be brought to Members once the 2007/08 Provisional Revenue Support Grant announcement is made in late November/early December.

10 LEGAL IMPLICATIONS

- 10.1 Balanced Budget – The Council is under a duty to set a balanced budget and must not knowingly budget for a deficit. The proposals in this paper identify the reductions that would help to meet this legal requirement in 2007/08.
- 10.2 Constitutional issues – The Local Government Act 2000 together with regulations made under it and statutory guidance relating to it, provides that it is the responsibility of the full Council to set the Council's budget. Once the budget has been set it is for the Mayor and Cabinet to make decisions in accordance with the statutory policy framework and the budgetary framework set by the Council. Regulations provide that

it is for the Executive to have overall responsibility for preparing the draft budget for submission to the full Council to consider.

- 10.3 The term budget for these purposes means “the budget requirement (as provided for in the Local Government Finance Act 1992), all the components of the budget such as the budgetary allocations to different services and projects, proposed taxation levels, contingency funds (Reserves and balances) and any plan or strategy for the control of the local authority’s borrowing or capital expenditure” (Chapter 2 statutory guidance).
- 10.4 Authorities are advised by that statutory guidance to adopt an inclusive approach to preparing the draft budget – to ensure that Councillors in general have the opportunity to be involved in the process. However it is clear that it is for the Mayor and Cabinet to take the lead in that process and that proposals to be considered should come from that quarter. The proposals in this paper are for reductions for next year (2007/08) and therefore will be effective if they are reflected in the budget to be fixed by the Council in due course.
- 10.5 Statutory duty and powers – The Council has a variety of statutory duties which it must perform by law. It cannot lawfully decide not to perform those duties. For other activities the Council has more discretion, where it carries out activities in pursuance of a power rather than a duty. However, even where a statutory duty exists there is often a degree of discretion about the level of service that is provided to fulfil that duty.
- 10.6 Reasonableness and proper process – Decisions about how to exercise discretion must be made reasonably, taking into account all relevant considerations and disregarding irrelevancies. These will be particular to the service reduction proposed. It is also essential that any decisions in relation to service reductions are taken only following proper process. Depending on the particular service this may be defined by statute, though not all legal requirements are set down in legislation. For example, again depending on the nature of the service reduction proposed there may be a requirement to consult before making a decision, keeping an open mind, and taking into account representations arising out of that consultation. The proposals contained in this report must therefore remain subject to appropriate consultation, particularly where the proposal is about a service being withdrawn or where the proposal is for an increase in charges, where necessary and proper process including sufficient notice if charges increased. Detailed legal advice will be needed in this respect on the particular proposals made before making a decision.
- 10.7 If in the light of the outcome of consultation the Council does not proceed with any of the proposals it will need to make compensating reductions to achieve a balanced budget.
- 10.8 Particular care needs to be taken in relation to voluntary sector funding where any specific budget reductions will need to be made by reference to criteria which have been communicated to the voluntary sector and following consultation with the group concerned. Voluntary sector organisations should be given the opportunity to make representations to the Council before a decision is made.
- 10.9 Human Rights Implications – The Human Rights Act incorporates the rights bestowed by the European Convention of Human Rights into domestic law. In reaching a decision on service reductions the Council will have to take into account the impact of the decision on these rights. Where a reduction would impact on those rights the need for appropriate consultation is even more critical.

11 HUMAN RESOURCE IMPLICATIONS

- 11.1 The efficiency savings proposals for Strand 2 are in the main achieved through making technical base budget adjustments. None of these proposals have a direct impact on staffing.

12 EQUALITIES IMPLICATIONS

- 12.1 The budget strategy is of primary importance as a means of delivering the Council's objectives and priorities. All of the Strand 2 efficiency savings proposals are assessed in terms of their impact on service delivery and equalities implications. The proposals do not have any negative equalities impact and one, developing a managed service for agency staff, has the potential to deliver a positive impact. The detail of the assessment is set out in the table below.

Review Area	Efficiency Gains	Equalities Impact	Comments
ICT	£2m	Low	The ICT review was subject to a thorough equalities impact assessment across all relevant equality strands. The recommendations of the equalities impact assessment have been accepted and incorporated into the supplier contract, particularly in meeting the needs of disabled staff.
Managed service for agency staff	£1m	Positive	This change will have a positive equalities impact. The Council will have a clearer picture about who is accessing jobs through the managed service and will be working with local training and development agencies to ensure a supply of local talent.
Children's Social Care	£0.670m	Low	There will be no impact on equalities groups as the service will not be affected. Any unexpected demand on the Looked After Children (LAC) budget will be covered as outlined in paragraph 6.3.6
Telecommunications	£0.200m	Low	The ICT equalities impact assessment also covered telecommunications. See above.

13 ENVIRONMENTAL IMPLICATIONS

13.1 There are no environmental implications resulting directly from this report.

14 CRIME AND DISORDER IMPLICATIONS

14.1 There are no crime and disorder implications resulting directly from this report.

BACKGROUND PAPERS

<u>Short Title of Document</u>	<u>Date</u>	<u>File Location</u>	<u>Contact Officer</u>
2007/12 Financial Survey	19 th July 2006	1 st Floor, Town Hall Corporate Resources	Selwyn Thompson
Revenue Budget Savings Proposals – Strand 1	19 th July 2006	1 st Floor, Town Hall Corporate Resources	Selwyn Thompson

For further information on this report please contact either:

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APPENDIX 1

REVIEW AREA	SAVINGS (£)	COST CENTRE	LEAD OFFICER
Information & Communication Technology (ICT)	2,000,000	ATKA / VPMI	Roger Fowles
Agency Managed Service	1,000,000	ASMB	Nick Johnson
Children's Social Care	670,000	Various (Across Division)	Alastair Pettigrew
Telecommunications	200,000	ATKA	Roger Fowles
Total Savings Strand 2	3,870,000		