



Contract and Financial Procedure Matters Report

SUMMARY

- 1.1 This report deals with the following items that require reporting to and approval by Council Cabinet under contract and financial procedure rules:
- Decisions on the method of financing capital expenditure in the 2005/6 final accounts and subsequently, by applying capital reserves in preference to direct revenue contributions to capital (Section 1).
 - Budget virements to allocate savings from changes to recruitment advertising and agency staff budgets across departmental and corporate budgets, and to commit some of those savings to internet advertising (Section 2).
 - The submission of the Gershon Annual Efficiency Statement to Government for 2006/7 (Section 3).
 - Incorporation of various additional grant income for Children's and Young Persons Services into the Council's approved budgets, and decisions on the proposed uses for that additional funding (Section 4).
 - Waiver of contract procedure rules to enable continuation of the contract with the Hadhari Project for one year (Section 5).
- 1.2 Subject to any issues raised at the meeting, I support the following recommendation.

RECOMMENDATION

- 2.1 To agree that the capital programme from 2005/6 onwards will be financed on the basis of a general policy that avoids the use of direct revenue contributions to fund any capital expenditure, so long as capital reserves are available and the use of those capital reserves is not constrained by any other policy, with the revenue funding so released being available as a substitute for those capital reserves.
- 2.2 To approve ongoing virements to 2006/7 revenue budgets arising from savings in recruitment and agency costs, on the basis set out in Section 2.
- 2.3 To confirm approval of the submitted 2006/7 Forward Looking Gershon Annual Efficiency Statement.

- 2.4 To approve revisions to existing 2006/7 revenue and capital budgets, consistent with the uses and conditions of the additional funding set out in Section 4 of the Supporting Information, subject to the management of Children's and Young Persons budget within approved levels and receipt of specific proposals on the uses of the Youth Opportunity Fund and Youth Capital Fund.
- 2.5 To agree in principle to award a further one year contract to the Hadhari Project, from 1 July 2006 to 30 June 2007, subject to confirmation of final terms and conditions in consultation with the Corporate Director of Resources and Corporate Director Corporate and Adult Social Services.



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SUPPORTING INFORMATION

1 Financing of the Capital Programme – Decisions for 2005/6 Final Accounts

- 1.1 The statutory timetable for closure of the Council's annual accounts has again been advanced by one month for the 2005/6 accounts. This means that any accounting policy decisions need to be given early consideration in June, and can no longer be the subject of consideration in the reports that consider the overall outturn position and its implications for the Council, which will continue to be taken to Cabinet in July. Furthermore, accountants need some notice of changes of policy so that accounts can be properly prepared in accordance with these policies. This report is therefore seeking Cabinet approval to a decision on the method of financing the capital programme, at variance with assumptions in current budget planning.
- 1.2 In June 2005 the Cabinet was alerted to a problem with the future funding of Local Public Service Agreements. This was that 50% of the LPSA reward funding available to the Council would be in the form of a capital grant that could not be used to support revenue expenditure. Existing LPSA funded projects are incurring mainly revenue spending and have been planned to be supported from LPSA reward funding in so far as they will continue. Cabinet was informed that the Corporate Director of Resources would bring back proposals to deal with this issue.
- 1.3 It has been established that the proper accounting treatment of some items currently in the Council's revenue budget only should be to treat those as capital expenditure funded in full by direct revenue contributions or other funding sources. Switching capital reserves to fund such capital expenditure would create an uncommitted revenue reserve capable of replacing the capital reserve, but without any restrictions attached to its use. This would enable the problem of restrictions on LPSA funding to be avoided, allowing the LPSA capital reward funding to be substituted, and could avoid potential problems with similar conditions applied to other grants.
- 1.4 It is proposed to adopt a general policy that from 2005/6 onwards:
 - (a) avoids the use of direct revenue contributions to fund any capital expenditure, by funding using capital reserves where these are available and where their use is not constrained by any other policy
 - (b) applies any revenue budget released by this policy in the first instance to replace any purpose for which the capital reserve was previously earmarked.

- 1.5 The scale of this switch between capital and revenue funding for 2005/6 will only be apparent when accounting entries are finalised. Over time, the policy is expected to be sufficient to overcome in full the restrictions on LPSA funding.

2 Savings in Recruitment and Agency Costs

- 2.1 The 2006/7 budget includes an unallocated corporate income budget of £100,000 for efficiency savings in recruitment and agency staff costs. This reflects the initiatives that the Council has been taking to effect savings in both of these areas. When the budget was being prepared, a more robust estimate of the likely scale of expected savings was unavailable and a basis for factoring in savings to departmental budgets had not been determined. Cabinet now needs approve updated savings estimates and to agree how these are to be reflected in reduced departmental budgets.
- 2.2 Various initiatives have been taken on advertising expenditure and the effect should be reflected in departmental spending from early in 2006/7. The savings will come about through:
- Negotiation of better contract discounts
 - A change from weekly to fortnightly composite advertising
 - Restrictions on newspaper adverts other than those placed with the Derby Evening Telegraph
 - Introduction of word count limits
 - Tighter formatting of text of adverts
 - Redesign of corporate format and standard text
 - A general move away from print to internet advertising, subject to an investment to facilitate this
- 2.3 The Council's actual spending on staff advertising in 2005/6 was £630,000, a slight reduction on 2004/5 levels. This excludes the cost of advertising against ring fenced budgets including those funded entirely from the Dedicated Schools Grant and other schools budgets, and expenditure by Derby Homes, Derwent NDC, the Community Safety Partnership and some other partner organisations using the Council's accounting systems. Budgets pooled with the NHS are included, on the basis that pooling arrangements should not stand in the way of delivery of cashable efficiency savings, but those pooling arrangements may need to be modified marginally.
- 2.4 Based on the measures now being taken, it is considered that an ongoing gross saving of 34% or £215,000 can be achieved relative to current annual spending plans. Chief Officers have agreed that this can be allocated as a pro-rata virement to existing departmental budgets, once the reallocation of wider budgets prompted by the Council's departmental reorganisation is finalised, and the allocation within departments would be on a basis agreed by each Chief Officer. Additional ongoing central expenditure of £50,000 is needed to at least maintain the quality of applications, mainly to secure access to internet advertising plus some other incidental expenditure in 2006/7 only.
- 2.5 Efficiencies in agency staff costs arise from new contract arrangements with Comensura from 1 April 2006, which acts as a broker in negotiating placements of agency staff and passes on a proportion of savings against benchmark rates to the Council. Savings in 2006/7 from this arrangement are now estimated at £100,000

per annum, and the proposal from Chief Officers is that 50% of this should be retained by departmental budgets, and that 50% should be treated as an ongoing contribution to corporate budget savings. Actual savings will be apparent from the accounting arrangements put in place, and a budget virement put into effect accordingly.

- 2.6 In addition, the existing post of Head of Procurement needs to be built fully into base budgets by a virement to offset the unfunded cost of the post against attributable savings that the post generates, consistent with decisions taken when the post was established in 2005. £40,000 can be earmarked from the recruitment and advertising savings as being directly attributable to this post, given input into the measures in 2.2.
- 2.7 The net effect of the changes is therefore to create a corporate contingency budget of £75,000 and to fund existing approved budget commitments of £140,000. In addition, the changes leave service departments with estimated savings that are expected to be £50,000 greater than the service income budgets created. The ongoing budget adjustments being proposed from 2006/7 are summarised below:

	£000
Savings Available:	
- Recruitment	215
- Agency	100
Total Savings	315
Less	
Existing Budget Commitments	
- Corporate Savings Budgeted	100
- Head of Procurement	40
Gross Saving Over Existing Budget	175
Less	
- Reinvest in Internet Advertising	50
Net Saving Over Existing Budget	125
of which	
- Corporate Contingency	75
- Available to Service Budgets	50

- 2.8 At this point, the corporate contingency budget will be treated as being committed against helping to meet the unfunded pressures gap in the three year budget plan approved in March 2006.

3 Gershon Annual Efficiency Statement 2006/7 – Planned Savings

- 3.1 Local authorities are required to submit an Annual Efficiency Statement, AES, to demonstrate progress towards meeting Gershon efficiency targets. This forms part of the CPA Use of Resources assessment in terms of demonstrating value for money.
- 3.2 The 2006/07 Forward Looking (Planned) Efficiency Statement was submitted on 18 April, to meet Government deadlines, as agreed with the Council Leader. Details are contained in **Appendix 2**. Total efficiencies of £4.946m are forecast, which is above the ODPM target of £4.935m. Of this total, Derby plans to achieve £4.033m in

cashable savings, which is significantly above the ODPM target of £2.468m, and most of these reflect proposals contained in the 2006/7 approved budget.

- 3.3 The Government is also measuring an overall cumulative Gershon target, allowing the inclusion of efficiencies gained during 2004/05 to be included in overall performance. The cumulative position for Derby remains above the cumulative target, whether or not this year is included, and is summarised below.

	Amended Target £m	Reported £m	Difference £m
2004/2005 actual (Backward Look)	0	4.28	+4.28
2005/2006 Forward Looking Plan	4.94	5.44	+0.50
2006/2007 Forward Looking Plan	4.94	4.95	+0.01
Cumulative	9.88	14.66	+4.78

- 3.4 The next stage in the Gershon reporting process is to compile the backward looking 2005/06 AES, which will catalogue the actual savings made in the previous financial year, and will be subject to audit review.

4. Additional Funding Allocations – Children’s Services

- 4.1 The Cabinet report accompanying the Council’s 2006/7 budget clarified that where material new grant income is received that was not provided for in the detailed budget, then Cabinet authorisation for its use is required.
- 4.2 Since the budget report, the DfES has made available additional funds for the Education and Children’s Services in a number of decisions. All are revenue funds with the exception of the Youth Capital Fund. The new sources of funds are set out below:

Transformation Fund

This funding is to support workforce development in early years provision, and in particular the private and voluntary sector. The Council has been allocated £314,871 in 2006/07 and £416,189 in 2007/08. The main purposes of the grant are to provide recruitment incentives to private and voluntary sector settings to employ graduate level leaders for the first time, to support the training and development of non-graduate staff across all these settings, and to train more staff across the early years workforce as a whole to work with disabled children and those with special educational needs. The government’s aim is for all full day care settings to have graduate level professional leadership by 2015. The funding is ring fenced and cannot be pooled within the Local Area Agreement.

Youth Opportunity Fund

This was originally announced as a £54,000 allocation for 2006/07 and 2007/08, and this amount was included in the Council’s approved budget. As a result of the Chancellor’s pre-budget report, this was increased, and the 2006/07 allocation has now been confirmed as £150,403 in 2006/07. The use of this funding must be determined by young people to provide activities and facilities. At least £15,000 must be used to support disadvantaged young people to develop the skills and experiences to administer the funds. The funding should be used in conjunction with

the Youth Capital Fund, and is ring-fenced outside the Local Area Agreement. It is suggested that detailed proposals for use of funding should come back to Cabinet.

School Intervention Grant

The Council has been allocated £64,600 in each of 2006/07 and 2007/08 to enable authorities to “foster new and constructive support arrangements between strong and weak schools or other partners.” This links to the provisions in the Education and Inspections Bill which require local authorities to take “faster and more decisive action” to turn round schools in special measures or requiring significant improvement. The grant is not ring fenced and is part of the Standards Fund.

Flexible 14-19 Partnership Funding

The Council has been allocated £74,000 in 2006/07 and £71,000 in 2007/08 to meet the costs of 14-19 partnerships not met from other existing sources of funding, in close consultation with the Learning and Skills Council (LSC) and the partnerships themselves. The extra costs arise because of new entitlements to specialised Diplomas from 2008 and the consequent need to co-ordinate provision. The grant is a specific formula grant and is not ring-fenced.

Musical instruments

The Council has been allocated £5,000 in 2006/07 from a new musical instruments purchase and repair fund.

Youth Capital fund

The originally announced allocation of £99,000 in each of 2006/07 and 2007/08 has already been approved as part of the Council's capital programme. There has now been an increase in the allocation for 2006/07 to £130,086. Up to 40% of funding from 2006/07 can be rolled forward into 2007/08 if necessary. The funding should be used in conjunction with the Youth Opportunity Fund. It is suggested that detailed proposals for use of funding should come back to Cabinet.

- 4.3 Most of the funding is targeted at specific uses, and it is proposed to conditionally incorporate additional expenditure into approved budgets for use consistent with these purposes. The conditions are that:

- There is some choice available over the precise uses of the Youth Opportunity Fund and Youth Capital Fund and it is proposed that Cabinet should consider further their specific uses in a subsequent report.
- The incorporation of the School Intervention Grant and Flexible 14-19 Partnership Funding in support of new expenditure should also be subject to ensuring that the overall Children's and Young Persons Department revenue budgets is managed within approved totals, as this funding is not ring fenced.

5. Hadhari Project – Waiver of Contract Procedure Rules

- 5.1 The Council has a three year contract with Hadhari Project to provide a culturally appropriate day service, including a hot midday meal, for older people from the African Caribbean community. This contract expires on 30 June 2006. An assessment of the potential competition within the market place indicates that there are currently no alternative providers with the capacity to meet the department's requirements, which are in a position to deliver a culturally appropriate service.

Further time is required to develop the market to respond to potential future tendering opportunities and to clarify the department's commissioning intentions, in the light of the current review of day care services.

- 5.2 A waiver of the Contract Procedure Rules tendering requirement is therefore sought to enter a further contract with Hadhari project to continue to provide these services for a further year until 30 June 2007. The value of the proposed contract will be £30,052, which is provided for within existing budgets. Cabinet approval is requested to award the contract on similar terms and conditions to the existing contract, subject to satisfactory negotiations with the Hadhari Project and in consultation with the Corporate Director of Resources and the Corporate Director of Corporate and Adult Social Services.

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – 2006/07 Forward Looking Annual Efficiency Statement

IMPLICATIONS

Financial

1. All financial implications are explained in the Supporting Information.

Legal

2. None

Personnel

3. None

Equalities impact

4. None

Corporate priorities

5. Recommendations are consistent with with the Council's corporate priorities.