

Taunton Deane Borough Council

Executive – 13 April 2011

Transformation Projects- Funding Update Report

Report of the Client and Performance Manager

(This matter is the responsibility of Executive Councillor Terry Hall)

1. Executive Summary

The report explains the funding arrangements through procurement savings for the financing of the Southwest One Transformation Projects.

The first call on procurement savings is to repay the cost of the Southwest One Transformation Projects. This includes repaying £772k borrowing from reserves, used to part finance these projects.

Procurement savings are being delivered later than originally anticipated.

This report highlights the variance in the anticipated timing of repayment of these reserves from procurement savings and seeks support for the recommendation to defer repayment of the remaining £496k of the reserves.

This report was considered by Corporate Scrutiny on 24 March 2011 who endorsed the recommendations. Some of the figures have changed slightly from the report that went to Corporate Scrutiny.

2. Background

- 2.1 The Southwest One partnership was created to deliver five key Transformation Projects in addition to the operational back-office services element of the contract. The delivery of these projects is integral to Southwest One's ability to deliver savings and move the back office services of the three partner authorities onto a shared service platform. These Transformation Projects are the SAP BOP (Back Office Processing) system, SAP CRM (Customer Relationship Management) system, PEM (People Excellence Model), Locality Based Service Delivery proof of concept and the Procurement Transformation.
- 2.2 The funding for these projects is being generated from the savings being delivered through the Procurement Transformation project.
- 2.3 The original modelling exercise undertaken by IBM in 2007 indicated that procurement savings in excess of £13m could be delivered over the 10-year period of the Southwest One contract. This figure was reduced to £10m in order to ensure that we were being sufficiently cautious in the modelling of likely savings. An estimated year-by-year savings profile was then identified in 2007 for the delivery of this £10m over the ten year period of the Southwest One contract.

- 2.4 The level of savings is not contractually guaranteed by Southwest One, as their ability to deliver savings will be materially affected by the actions / inactions of TDBC services and, most significantly, by changes in the level of our spend in future years.
- 2.5 The Southwest One contract does however provide a financial incentive for Southwest One to maximise the implementation of savings opportunities through a 'gain-share' arrangement. (This arrangement only comes into affect once the combined identified and agreed savings of TDBC and SCC reaches £75m).
- 2.6 The progress of the procurement transformation project and the delivery of savings is a key corporate project. As such quarterly progress reports are being submitted to and monitored by the Corporate Management Team and Corporate Scrutiny.

3. Funding arrangements for the Transformation Projects

- 3.1 The total cost of the Transformation Projects over the ten years of the contract will be £3.65m. (This total includes an additional £150k costs, which were not included in the report to Corporate Scrutiny on 24 March 2011. The £150k relates to additional project costs, which have been incurred since we signed the original contract).
- 3.2 The £3.65m total cost is comprised of capital costs totalling £2m and revenue costs totalling £1.65m. £700k of the revenue costs required up front funding and the remaining £950k is to be spread over the lifetime of the Southwest One contract and funded by ongoing procurement savings.
- 3.3 The up front funding requirements for the Transformation Projects were agreed by the Executive on 14 November 2007 (agenda item 7 refers). These provided for the £2m capital requirement to be funded through prudential borrowing, which are to be repaid within 5 years from procurement savings. The up front £700k revenue costs were to be funded from reserves, as detailed below. The intention was to repay the reserves in full by 31 March 2011 from procurement savings.

General Fund Reserves £200k
Housing Revenue Reserves £200k
Self Insurance Fund £300k

- 3.4 The £300k was not in fact taken from the Self Insurance Fund. Instead, at the end of 2008/09, £372k was borrowed from the Core Council Review Reserve. This was in addition to the £200k already borrowed from the General Fund Reserve and the £200k from the Housing Revenue Reserve i.e. the total borrowed from reserves was £772k. This was agreed by the Corporate Governance committee on 30 June 2009, agenda item 7 refers. (The additional £72k was required to fund revenue costs, which were not able to be funded at that point by ongoing procurement savings).

3.5 The original 2007 savings model anticipated that by 31 March 2011 £1.76m in procurement savings would have been delivered. Based on this forecast, the Council planned for the borrowings from reserves to be repaid in full during 2010/11.

4. Procurement savings delivered

4.1 When each new procurement initiative is agreed and implemented we remove the anticipated annual savings from the relevant budgets. To date we have removed anticipated savings totalling £944k. (£933k was reported to Corporate Scrutiny on 24 March 2011. The difference of £11k relates to additional anticipated savings that have been identified since 24 March 2011, which have been removed from budgets).

4.2 The original model anticipated our receiving savings totalling £1.76m by 31 March 2011. This clearly leaves a shortfall of £816k (£1.76m - £944k).

4.3 Of the £944k savings removed from budgets, £668k has been used to meet revenue costs of the Transformation Projects. The remaining £276k is available to repay the borrowings from reserves.

4.4 The delay in the delivery of the savings has been known for some time. Additionally, the changed economic climate may have a significant impact on the delivery timescale and value of the savings we can achieve in future. The Strategic Procurement Team are therefore in the process of re-profiling our spend in order to produce a revised savings forecast. This exercise will be undertaken in conjunction with the Budget Review Programme and the results of this exercise are expected in late May 2011.

4.5 A summary of the Transformation Project costs, funding arrangements and anticipated savings is contained at Appendix A to this report.

5. Operational contract savings

5.1 The operational services element of the Southwest One contract is also delivering savings to the Council through an annual, cumulative reduction of 2.5% in the amount we pay for the delivery of the in-scope services. Over the lifetime of the contract, based upon 2007/08 prices, this will deliver savings totalling approximately £6.4m.

5.2 To date this annual reduction in cost has delivered approximately £1.3m in savings, based upon 2007/08 prices. These savings have already been used to reduce our overall budget requirements for previous years and are not available to repay reserves.

6. Repayment Proposals

6.1 £200k of the £276k available from procurement savings to repay reserves has been used to repay in full the amount borrowed from the Housing Revenue Reserve. This was agreed as part of the 2011/12 budget setting by Full Council on 22 February

2011. It is recommended that the balance of £76k be repaid to the General Fund Reserve.

- 6.2 This will leave repayments totalling £496k due to the General Fund and Core Council Review Reserves. It is recommended that these repayments be rescheduled so that £300k will be repaid during 2011/12 and the balance of £196K during 2012/13. This is realistic and corresponds with the level of savings achievable from the current agreed and implemented savings initiatives. Should the position significantly improve we can look to repay the reserves more quickly.
- 6.3 The repayment arrangements for the capital borrowing (i.e. 5 years) remain unchanged.
- 6.4 These proposals have been considered and endorsed by the Corporate Scrutiny Committee on 24 March 2011, although since that date there have been minor changes to the figures, as explained above.

7. Finance Comments

- 7.1 The expected savings the procurement project can produce needs to be reviewed to accommodate the significant changes in local government finances and to support budgetary planning over the next 5 years. This exercise has been factored into the budget review project which is currently underway. It is expected that a re-profiled savings forecast, agreed with Southwest One and CMT that shows expected savings over the budget period, including any costs such as gain-share, will be available late May / early June 2011.
- 7.2 The Council's Section 151 Officer has seen this report and is satisfied the recommendation is prudent and leaves the Council's reserves in an acceptable position.

8. Legal Comments

- 8.1 There are no legal implications in this report.

9. Links to Corporate Aims

- 9.1 This report has no direct links to Corporate Aims.

10. Environmental and Community Safety Implications

- 10.1 This report has no environmental and community safety implications.

11. Equalities Impact

- 11.1 Equalities impact has been considered. It is concluded that there are no equalities impacts associated with the return of these reserves.

12. Risk Management

12.1 Specific risk management processes are in place between the Authority and Southwest One to manage risk within the partnership.

13. Partnership Implications

13.1 The delivery of procurement savings is the responsibility of Southwest One Strategic Procurement Service. The Southwest One partnership is one of the Authority's key partnerships.

14. Recommendations

14.1 That the Executive agree to;

- Use £200k of the £276k available to repay reserves to repay in full the borrowings from the Housing Revenue Reserve, which has in fact already been agreed as part of the 2011/12 budget setting process;
- Use the balance of £76k to help part repay the borrowings from the General Fund Reserve; and
- Reschedule the repayment of the outstanding amount, totalling £496k, due to the General Fund and Core Council Review Reserves so that £300k will be repaid during 2011/12 and the balance of £196k during 2012/13.

Contact: Officer Name Richard Sealy, Client & Performance Manager
 Direct Dial No 01823 358690
 e-mail address r.sealy@tauntondeane.gov.uk

Transformation Projects Funding Summary

<u>Transformation project costs</u>	
Capital costs	£2.0m
Revenue costs	£1.65m
TOTAL COSTS	£3.65m

<u>Funding arrangements</u>	
Capital – funded by prudential borrowing repayable in 5 years	£2.0m
Revenue – borrowed from reserves (£200k from General Fund Reserve) (200k from Housing Revenue Reserve) (£372K from Core Council Review Reserve)	£772k
Revenue – being funded directly from ongoing procurement savings	£873k
TOTAL FUNDING	£3.65m

<u>Variance between anticipated & actual procurement savings</u>	
Anticipated procurement savings @ 31st Mar 2011 based on the original model	£1.76m
Amounts actually removed from budgets based on anticipated savings from implemented procurement initiatives	£944k
SHORTFALL	£816k

<u>Allocation of the £944k savings</u>	
Revenue costs funded directly from ongoing procurement savings	£668k
Available to repay reserves	£276k
TOTAL	£944k