

DALE & VALLEY HOMES BOARD

28 OCTOBER 2008

Report of the Director of Resources  
**MEDIUM TERM FINANCIAL STRATEGY**

**purpose**

To seek approval from the Board for the second element of the company's Medium Term Financial Strategy: the company's approach to targeting efficiency improvements.

**background**

- 1 The first part of the company's medium term financial strategy, setting out an explicit target level of reserves for the company, was approved by the Board at its 20 May 2008 meeting. This is the second "arm" of the strategy: to set out the company's approach to efficiency improvements over the term of the Business Plan. A further report detailing value for money improvements achieved to date and reporting on the results of the 2008 Housemark benchmarking exercise will be reported to the Board later this year.
- 2 This element of the strategy has two principal aims:
  - To ensure the company's finances are maintained on a sound basis in the face of actual and anticipated below inflation increases in the management fee.  
ie controlling overall expenditure levels.
  - To maximise the value to customers from the company's financial resources.  
ie ensuring that the company spends its resources to the best advantage.
- 3 A five year projection of the company's financial prospects was presented to the Board at its meeting on 25 March 2008, in support of the proposed 2008-09 budget. This included conservative assumptions about the efficiency savings the company might expect to achieve over the period of the Business Plan. As previously reported, this was not intended to represent the company's strategy for targeting efficiency savings.
- 4 A revised projection is attached as Annex 3. This has been updated to take account of the actual financial outturn for 2007-08 and further work that has been carried out to identify efficiency savings. It also reflects the proposed approach to targeting efficiencies set out in the following sections of this report. It is important to note that the figures in the table include an assumed inflation rate of 2.5% ( so where a cost is shown as static across the five years, this actually represents a 2.5% annual saving in real terms). It is also important to note that, in the current volatile economic climate, estimating inflation levels is particularly problematic.

- 5 The revised projection shows an accumulation of surpluses across the Business Plan period greatly in excess of those targeted in the first part of the Medium Term Finance strategy. This is to illustrate the level of additional resources that will be generated for redeployment to meet customer priorities. It is not intended to suggest that the Board will actually wish to build up reserves of this size. By the end of the Business Plan period overall annual expenditure is projected to have been held at some £6.3m - the same level as in 2007-08 in cash terms. After allowing for the assumed inflation rate this amounts to a real terms 13% efficiency saving over the 5 years of the Business Plan.
- 6 We have already established an approach to achieving efficiencies in managing the financial resources the company manages on behalf of the Council: the decent homes programme. This is set out in our procurement and partnership strategies. The principle which the board has adopted is the establishment of partnering arrangements through rigorous procurement and selection followed by establishment of partnership structures and processes to reduce the costs of the supply chain. The outcome of this work is reported to the Investment Committee, the Board and the Council regularly through reports on progress against the decent homes programme.

#### **staff costs**

- 7 The projection for staff costs shows overall costs from 2008-09 rising in line with inflation, and shows no explicit efficiency saving. This does **not** mean that there is no expectation of efficiency improvements in this area. The treatment in the projection is based on an assumption that where staff time is used more efficiently, there will be a redirection of time towards customer priorities rather than a reduction in the overall establishment. We are currently improving our arrangements for capturing this information, through the company's newly developed "Performance Management Framework". As part of the new performance monitoring arrangements established under this framework, managers and the Board receive "highlight" reports. These identify areas of performance that exceed target so they can be investigated and resources used redeployed if appropriate.
- 8 This treatment is supported by the results of previous benchmarking which have indicated that the company's staffing levels are low compared to other ALMOs. Further consideration will be given to this through analysis of the latest annual HouseMark benchmarking exercise.
- 9 Recent examples of staff cost efficiency improvements include changes to opening hours at the Woodhouse Close office which have enabled us to increase the number of home visits to customers (a customer preference). It is proposed to set an initial annual target of 3% of total staff costs for this type of efficiency improvement. This target is considered prudent and will be reviewed in the light of experience in the first year of the Business Plan, 2008-09.

### **premises, office & it costs**

- 10 The projection shows premises, office and IT costs rising in line with assumed inflation over the period. Actual costs in this area will be affected by the Board's strategies for accommodation and ICT. It is intended to bring a proposed ICT strategy to the Board for consideration in November. This will include proposals for the Board to consider additional investment in ICT. This element of the Medium Term Financial projection will be reviewed in the light of the Board's decisions.

### **professional fees**

- 11 As a matter of prudence, no savings have been built into the projected cost of professional fees. In practice, increased efficiency in the use of staff resources may result in a reduction in this area, as staff develop expertise currently "bought in" from outside. Maintaining an appropriate balance between directly employed staff and "bought in" resources, however, remains an important budget strategy given the relatively small size of the company.

### **service level agreements (slas)**

- 12 The Board has approved an approach to reviewing SLAs which concentrates on addressing those services with the greatest costs and the greatest impact on customers. It has also approved a decision making tool to support consideration of whether services should be provided directly by the company's employees or outsourced (whether to the Council or other external organisations).
- 13 Priority has been given to the major service area provided by the council: the repairs service, through the procurement exercise leading to the appointment of Gentoo as responsive repairs and Voids partners. These costs and savings are included in the "contract payments" section of the Medium Term Financial projection. The Gas Servicing and Repairs service has also been reviewed and is subject to a separate report to Board.
- 14 The Board considered a review of the Tenancy Enforcement SLA at its meeting in July and approved the recommendation of bringing the service in-house. A saving of 5% in staff costs was identified as part of the review, due to different salary overhead levels between the Company and the Council.
- 15 In total services provided to the company at its inception by the council cost some £3,800k. To date agreements accounting for £3,363k (89% of the original total) have been reviewed leading to projected savings of £391k (12%) as they begin to take full effect in 2009-10.
- 16 The projection for the costs of remaining service level agreements over the period of the Business plan shows a target annual year on year cash reduction of 3%. In real terms this equates to 5.5%. (NB the transfer of Tenancy Enforcement from an SLA to an in house service has not been reflected in these figures pending the outcome of discussions with the Council). Although we do not currently have firm cost information for many of the remaining services (see below) we believe there is a strong prima facie case that significant further efficiency improvements are possible in this area.

- 17 The costs charged by the Council for many of the remaining services are based on historical calculations made before the company was established. The Council has had difficulty in providing the company with the sort of detailed costing information for these services to allow a robust assessment of value for money. From discussions with other ALMOs we know that this situation is not exceptional. The situation has been exacerbated by the redirection of the Councils management resources to support local government reorganisation in the County.
- 18 Negotiations with the Council have led, however, to an agreement that SLA charge increases between 2007-08 and 2008-09 will be restricted to the same level as the increase in the Management Fee (1%)
- 19 In my 29 October 2007 report to the Board on SLA progress, I reported that the impact of local government review would need to be taken into account in the review of remaining service level agreements. A general issue had been identified relating to most or all of the back office services provided by the Council. This was the matter of resilience of the service.
- 20 Generally when small organisations outsource back office services one of the key advantages is the resilience of the service provided, ie it does not depend on a small number of individual staff at the provider, but rather the provider can pool resources to ensure continuance of service. This is much more difficult for the council as a relatively small, multifunctional organisation itself. In a number of cases the SLA service is dependent upon one or two individual members of council staff which has led some difficulties during periods of absence or high alternative work loads. Durham County Council, as a very large authority will be in a different position. It may be that services that have proved problematical at a local level will prove more resilient if provided by a larger, county-wide organisation.
- 21 We therefore believe it would be unwise to make decisions about the value for money of Council provided services in advance of information on the scale quality and cost of services that the County will be able to provide. Our approach for the remainder of 2008-09 will therefore be to work with Wear Valley District Council to ensure that the services we receive are properly documented through improved SLAs and that delivery immediately post 31 March 2009 is secured.

### **contract payments**

- 22 Within the heading "contract payments" the projection includes a line for "planned works" It is intended that this will be a target for the redeployment of efficiency savings made elsewhere. This broad head is intended to include planned works, valued by customers, which cannot currently be afforded from the decent homes programme or elsewhere. These include environmental works.
- 23 The Board will recall that we were able to redeploy savings in the 2008-09 budget to increase the budget in this area to £250k. The intention is that prioritisation of works in this area will be closely targeted to meet customers' priorities. For the purpose of the projection, the amount of resource invested in this area has been kept constant at £250k across the period of the Business Plan. It is expected that the Board will wish to consider redeploying significant amounts of funding to works of this nature, as the savings projected in other areas are realised.

- 24 Efficiency savings arising from the responsive repairs and voids contracts have already been alluded to above. The projection, based on Gentoo's successful tender, includes an 8.5% cost reduction in cash terms (£451k) and is a major contributor to the overall projected efficiency improvement of the company.
- 25 The other heads in this category (gas servicing and repairs and council house security) are projected to remain constant in cash terms, with an implicit efficiency improved equivalent to the assumed rate of inflation.

### **business plan**

- 26 The 2008-13 Business Plan includes an action to develop a medium term financial strategy.

### **equalities and diversity implication**

- 27 There are no direct equality and diversity implications to this proposal. The opportunity to redeploy resources through efficiencies in other areas will, however, enable the company to address equality and diversity issues that are identified.

### **consultation**

- 28 Discussions have taken place with the Council over the approach to reviewing service level agreements set out above, and the agreement over the below inflation increase in SLA charges. Customer representatives were consulted on the principles underlying the projection and supported the redeployment of resources to planned works when the Medium Term Financial Strategy was first considered earlier in the year.

### **recommendations**

- 1 It is recommended that:
- The Board endorses the overall approach to efficiency improvement set out above.
  - The Board endorses the targets for efficiency improvement in specific areas as follows:
    - ❖ Efficiency improvements leading to a redeployment of a minimum of 3% of total staff cost per annum;
    - ❖ Year on year cash reductions in the cost of SLAs of a minimum of 3%.
    - ❖ Cash savings in the cost of responsive repairs and voids of a minimum of 8.5% over the period of the Business Plan.

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### **Officer responsible for the report**

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## Financial Prospects to 2008-13

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	£000s	£000s	£000s	£000s	£000s	£000s
<b>INCOME</b>						
Management Fee	5,737	5,794	5,852	5,911	5,970	6,030
Technical services charges	502	674	627	627	590	274
Other Income	461	394	404	414	424	435
<b>Total Income</b>	<b>6,700</b>	<b>6,862</b>	<b>6,883</b>	<b>6,952</b>	<b>6,984</b>	<b>6,739</b>
<b>EXPENDITURE</b>						
<b>staff &amp; related costs</b>						
Pay (inc Temporary Staff)	1,583	1,860	1,871	1,917	1,965	2,014
other staff related	148	122	125	128	131	135
<b>total staff &amp; related costs</b>	<b>1,731</b>	<b>1,982</b>	<b>1,996</b>	<b>2,045</b>	<b>2,096</b>	<b>2,149</b>
<b>Premises, Office &amp; IT costs</b>	<b>302</b>	<b>241</b>	<b>247</b>	<b>253</b>	<b>260</b>	<b>266</b>
<b>Professional Fees</b>	<b>223</b>	<b>197</b>	<b>202</b>	<b>207</b>	<b>212</b>	<b>217</b>
<b>SLAs</b>	<b>611</b>	<b>610</b>	<b>592</b>	<b>574</b>	<b>556</b>	<b>540</b>
<b>Contract payments</b>						
Planned works	122	250	250	250	250	250
Council House Security	41	50	50	50	50	50
Repairs & Voids Contract	2,438	2,400	2,151	1,999	1,945	1,987
Gas servicing & repairs	541	557	557	557	557	557
<b>total contract payments</b>	<b>3,142</b>	<b>3,257</b>	<b>3,008</b>	<b>2,856</b>	<b>2,802</b>	<b>2,844</b>
<b>Other costs</b>	<b>343</b>	<b>326</b>	<b>326</b>	<b>326</b>	<b>326</b>	<b>326</b>
<b>TOTAL EXPENDITURE</b>	<b>6,352</b>	<b>6,613</b>	<b>6,371</b>	<b>6,261</b>	<b>6,252</b>	<b>6,342</b>
<b>SURPLUS/(DEFICIT)</b>	<b>348</b>	<b>249</b>	<b>512</b>	<b>691</b>	<b>732</b>	<b>397</b>