

SCRUTINY COMMISSION - 27 JANUARY 2016

MEDIUM TERM FINANCIAL STRATEGY 2016/17 – 2019/20 **CORPORATE RESOURCES & CORPORATE ITEMS**

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose

1. The purpose of this report is to:
 - a) provide information on the proposed 2016/17 to 2019/20 Medium Term Financial Strategy (MTFS) as it relates to the Corporate Resources Department and Corporate Items; and
 - b) ask the Commission to consider any issues as part of the consultation process and any response it may wish to make.

Policy Framework and Previous Decisions

2. The County Council agreed the current MTFS in February 2015. This has been the subject of a comprehensive review and revision in light of the current economic circumstances. The draft MTFS for 2016/17 – 2019/20 was considered by the Cabinet on 12th January 2016.

Background

3. Reports such as this are being presented to the relevant Overview and Scrutiny Committees. The views of Overview and Scrutiny Committees will be reported to this meeting (as covered under item 11 on the agenda). The Cabinet will consider the results of the scrutiny process on 5 February 2016 before recommending an MTFS including a budget and capital programme for 2016/17 to the County Council on the 17 February 2016.

Financial Strategy

4. The MTFS is set out in the report to the meeting of the Cabinet on 12th January 2016, a copy of which has been circulated to all members of the County Council. This report highlights the implications for the Corporate Resources Department.

Service Context

5. Corporate Resources needs to deliver significant savings over the next 4 years, paradoxically whilst internal demands on support services increase (change and savings throughout the Council being demand drivers on support services).

6. A business strategy has been developed to underpin the delivery of these increasingly challenging savings, creating a streamlined, concentrated and coordinated support service function including the following key elements to deliver savings:
- **Customers** – working in partnership and joining up where possible to manage demand and reduce costs, simplifying and focusing on core business;
 - **Commercialism** – being commercially astute in all our business dealings; generating additional sources of revenue from Traded Services;
 - **Compliance** – ensuring robust accountability for public money (with high levels of transparency) and ensuring effective decision making using robust business intelligence;
 - Underpinned by **Continuous Improvement** throughout the department.
7. Transformation of support services continues with:
- (a) A restructure of senior management recently undertaken and to be followed by a number of staffing restructures;
 - (b) A Council wide digital services agenda to increase self-service and maximise technology;
 - (c) A Commercial Services agenda to maximise income and operating profits from trading services to offset some of the reduced revenue grant funding provided by government.
8. External income from trading services is becoming a more critical factor as seen by the changes of funding for the Department. In 2010/11 74% of the Department's costs were funded by grants and Council Tax compared to 42% in 2016/17.

Proposed Revenue Budget

9. The table below summarises the proposed 2016/17 revenue budget and provisional budgets for the next three years. The proposed 2016/17 revenue budget is shown in detail in Appendix A.

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Updated original budget	33,924	31,635	29,620	27,265
Budget Transfers and Adjustments	871	0	0	0
Sub Total	34,795	31,635	29,620	27,235
Add proposed growth (Appendix B)	865	-10	30	0
Less proposed savings (Appendix B)	-4,025	-2,005	-2,385	0
Proposed/Provisional budget (Appendix A)	31,635	29,620	27,265	27,265

10. Detailed budgets for 2016/17 have been compiled on the basis of no pay or price inflation, a central contingency will be held which will be allocated to services as necessary. The central contingency also includes provision for an increase in the employer's contribution to the Local Government Pension Scheme in 2016/17 and the following three years based upon the triennial actuarial revaluation of the pension fund.

11. The proposed net budget for 2016/17 totals £31.6m and is set out below:

	£000
Employees	42,380
Running Costs	33,007
Internal Income	-17,842
Gross Costs	57,545
External Income	-25,910
Net Budget	31,635

Other Changes and Transfers

12. A number of budget transfers (net £0.9m) were affected through the 2015/16 financial year that are now adjusted for in the updated original budget:
- (a) a transfer from the centrally held inflation contingency to cover the pay award and other unavoidable inflationary increases on external supplies, primarily utility costs, building maintenance expenditure and corporate contracts (£1.2m);
 - (b) a transfer of the Governor's Service (£65,000) to Children and Family Services (CFS) Department;
 - (c) £0.2m of Frameworki and Capita system maintenance costs transferred to CFS;
 - (d) £0.1m of Business Intelligence budget transferred to the Chief Executives department;
 - (e) £50,000 Commissioning support transferred in from CFS.
13. Growth and savings have been categorised in the appendices under the following classification;
- * item unchanged from previous MTFS
 - ** item included in the previous MTFS, but amendments have been made
 - No stars - new item
14. This star rating is included in the descriptions set out for growth and savings below.

Growth Items

15. Details of proposed growth are set out in Appendix B and total a net increase of £0.9m. These are detailed in the following paragraphs.
16. **** G26 Revenue consequences of Corporate ICT capital programmes - £175,000 in 2016/17 rising to £275,000 by 2018/19.**
- The draft capital programme includes provision for the replacement of ICT and telephony infrastructure and licences. This revenue growth relates to support and licensing costs of the upgraded and expanded infrastructure.
- Also included is investment in Virtual Desk Infrastructure (VDI) licence costs. VDI is an investment within the County Hall Master Plan (CHMP) project enabling greater flexible and mobile working which generates accommodation space and rental income from partners.

17. G27 Strategic Property – resources to manage and develop the Asset Investment Fund - £300,000 ongoing growth with one off additional funding of £80,000 in 2016/17
In total there is £30m of capital investments proposed in property assets within the Corporate Asset Investment Fund over the next 4 years and the Strategic Property function requires additional resource to initiate, plan, develop and maintain these substantial investments.
18. G28 Effective Commissioning - £115,000 from 2016/17.
Following a council wide diagnostic and work undertaken by the Effective Commissioning Enabler, the business requirement is to deliver an increase in MTFS savings through better commissioning and improved contract and supplier management.
19. G29 Corporate Records Management Service - £60,000 from 2016/17.
A recent project converted manual records held in various physical locations into a more accessible managed system. Additional resources are required to maintain and update records, particularly legal or social care records.
20. G30 Human Resources and Management of Temporary Agency Contract - £90,000 from 2016/17.
Additional budget is required within the Human Resources (HR) section to fund two posts, one relating to an increase in HR workload (particularly higher risk HR enquiries) and the other to manage the temporary agency contract. The latter is an existing post that was previously funded from a rebate from the overall contract cost and held centrally, whereas the new contract is likely to be constructed differently resulting in no rebate for Corporate Resources but instead lower temporary / agency rates for all departments utilising this type of resource across the Council who should experience additional budget savings.
21. G31 Local Government Pension Scheme (LGPS) following scheme changes - £45,000 from 2016/17.
Additional resource is required in the East Midlands Shared Services team to enable average pension payments to be calculated following previous National changes to the Local Government Pension Scheme (LGPS) and enhanced reporting arrangements.

Corporate Resources Savings

22. Details of proposed savings are set out in Appendix C and total £8.4m over 4 years. These are detailed in the following paragraphs.

Transformation Savings

23. There is an implicit assumption for the majority of the savings being proposed for Corporate Resources that the organisation will reduce in both size and number of activities. Whilst the majority of these savings are classed as efficiency there will be an impact internally upon the County Council. Expected implications include:
 - (a) More requirements for managers and staff, to embrace self-service;

- (b) There will be less capacity to support transformation. These requests will have to be met from one-off resources, primarily the transformation earmarked fund;
- (c) Departments may be less responsive to requests for support, with a need to prioritise;
- (d) Central support will be more standard in nature;
- (e) Greater financial dependency on traded services, i.e. as Corporate Resources shrinks and their relative financial contribution grows;
- (f) The County Council will need to consider new ways to mitigate against a potential increase in risks.

24. The specific saving proposals are detailed below.

25. * CR1 Senior Management & Business Support - £140,000 in 2016/17 rising to £310,000 by 2018/19.

A review of the Senior Management in the Department has been undertaken resulting in a reduction of one Assistant Director and a reorganisation of accountabilities to meet the 2016/17 saving. A further £170k saving is targeted from 2018/19 which was expanded in the previous MTFS to reflect savings expected from a wider review of business support.

26. ** CR2 Review of Strategic Finance & Property - £370,000 in 2016/17 rising to £1m by 2018/19.

The main source of savings will be delivered through staffing reductions, across all of the main teams and levels of staff (£775,000). The majority of staff savings will come from Accounting, partially enabled by the implementation of new reporting tools and maximising financial self-service within Managers. The majority of 2016/17 savings will be achieved through non recruitment of vacancies held during the previous year. Future savings will require a wider review and staffing restructure with the likelihood of a reduction in financial resource to support lower risk budgets and some projects in the same responsive way as currently.

Further savings will be identified from a review of Internal Audit and in later years a review of Strategic Property.

27. ** CR3 Review of People, Procurement and Transformation; £610,000 in 2016/17 rising to £1.35m by 2018/19.

The main source of savings will be delivered through staffing reductions.

The Transformation Unit has recently undertaken a review and is significantly reducing the number of Business Analysts and other project resource (totalling £450,000), following a consolidation of all change related resource working across the Council and previously funded within departmental budgets.

Learning and Development (L&D) are contributing £130,000 of savings from a combination of staff savings realised after the implementation of the Learning Management System (LMS) and a reduction in lower priority L&D expenditure. £24,000 of savings are being achieved from a reduction in underutilised budgets within Emergency Management and Business Continuity.

Further savings are being identified to achieve the increasing savings targets for People, Procurement and Transformation in the later years of the MTFS.

28. ** CR4 Communications Unit Review - £140,000 from 2016/17
These savings will be achieved from staffing and vacancies which have been held in anticipation of the savings requirement.
29. ** CR5 Strategic Information Technology (SIT) - £290,000 in 2016/17 rising to £670,000 by 2018/19
Following a fundamental review of SIT the majority of savings are expected to be staff reductions. This will be from reductions in capacity for the following functions: Management, Architecture and Solution Design, Information governance/security, Online and data management and Communications.

30. ** CR6 Operational ICT Review - £705,000 in 2016/17 rising to £1.67m by 2018/19.
The largest element of savings will be achieved through staff reductions (£850,000), although this could change depending upon the success of other schemes. These will be achieved through a range of initiatives, including: consolidation of teams, automation of tasks and standardisation of equipment/systems.

Contract reductions are a significant contributor to the overall total (£530,000). This will be found across a range of external contracts, through a mixture of renegotiation, system/equipment replacement and rationalisation of use.

Improvements in Operational ICT's trading activities are expected to make an increased contribution (£285,000) which will be achieved from a combination of new customers and reducing support costs.

31. ** CR7 Operational Property review; £570,000 in 2016/17 rising to £945,000 by 2019/20
Renegotiation of various facilities management and maintenance contracts are the main contributors towards property savings (including cleaning, grounds maintenance and property maintenance). Efficiencies will also be achieved from reduced waste and postage costs. Savings from site closures (£155k) relating to a range of service changes will deliver savings over the course of the MTFS however these savings are dependent upon the site being disposed of rather than usage simply reduces.

32. ** CR8 Operational Property - Increased income from property rentals and trading property services £245k in 2016/17 rising to £685k in 2019/20

The majority of additional income will be achieved from the industrial properties and farms portfolio. Additional investment is proposed through the capital programme to improve the occupancy levels of the estate.

Increased trading contribution from the various property services is also proposed, with academies and other partners expected to be the main source of additional income.

33. ** CR9 Improvements to Properties and Assets; £505k in 2016/17 rising to £785k by 2018/19.
Savings are proposed from a more energy efficient property estate. The contract to implement the initial capital work is currently being undertaken, with the largest benefits expected to be gained from installation of solar panels and a biomass boiler at County Hall. In addition a range of lower cost and behavioural change measures have been identified to enable savings. This will allow a rolling implementation programme of a wide range of invest to save projects, for the entire corporate estate.
34. Further savings relate to the County Hall Master plan project. This transformation project is investing and implementing new ways of occupying the existing County Hall campus to reduce property running costs, particularly by vacating high energy use areas and increasing space available for rental to external parties.

Departmental Saving

35. ** C10 Efficiency savings from sharing services with Nottingham City Council - £200k saving from in 2017/18. Since its launch the East Midlands Shared Service (EMSS) has delivered c£1.6m of efficiency savings of which the County Council's share is £0.8m. Whilst the intention remains that the remaining MTFs savings will be delivered, stabilisation of the service has taken longer than expected so savings were delayed until 2017/18. Savings plans have been identified and savings are expected from a combination of staff efficiencies, improved processes and increased income.
36. * CR11 Vacancy management for supported employment - £25k in 2016/17 rising to £50k by 2017/18.
As retirements take place over the next few years the intention is not to replace staff who leave or reduce their working hours. There are currently 28 FTE in this area, including team leaders and supported employees.* CR12 Country Parks & Forestry - cessation of the free tree planting scheme; £45k from 2016/17
This saving relates to a cessation of the free tree scheme that was initially reduced in previous years by £35,000
37. ** CR13 Review of the Customer Service Centre and Online Team - £70,000 saving in 2016/17 rising to £200,000 in 2018/19
The initial £70,000 of savings in 2016/17 has been achieved through the re-alignment of roles to offset vacancies in the Online Services Team recently transferred from Strategic ICT.

Encouraging more online transactions through the Council wide Digital Services work stream and a planned end to end review of Customer Service Centre processes supported by the Transformation Unit will identify the required savings in later years.
38. ** CR14 Contingency & Corporate Projects; £180,000 reduction in 2016/17 changing to a £125,000 reduction by 2019/20.
The various savings proposals outlined in the paragraphs above have different degrees of risk associated with them. In previous year's, early and over delivery of savings enabled the Department to set a contingency to mitigate against under delivery or delayed savings (and used on smaller invest to save projects if not needed). The level of this budget has been reduced in line with relative confidence in each of the years.

39. * CR15 End support for community ICT; £70,000 in 2016/17.
It is proposed to withdraw internal and third party contract support for Community ICT that is currently provided without charge. This support covers Leicestershire Villages and a number of partnership sites.

40. ** CR16 Traded Income from School Foods, Bursars and Catering - £60,000 in 2015/16 rising to £180,000 by 2018/19.
This savings line relates to income from Catering and the School Food and Bursar Services. School Food is the largest contributor of trading income and further expansion is sought through increased use-age and service points in existing schools and proactively pursuing new business in other schools.

This increased income is a conservative target set in the previous MTFS and actual increases are expected beyond this level to contribute to the £2m additional overall Commercial Traded Services target held separately.

Corporate & Central Savings

41. It is proposed to undertake some corporate transformational reviews to address the £19m gap in the MTFS. Once business cases have been developed savings will be confirmed and included in the MTFS. The reviews and targets that will involve Corporate Resources are:

- Digital Council/Business Support £2m - The digital council programme is potentially the largest and most complex of the emerging opportunities for further savings. It aims to reduce the 'cost to serve' by challenging the design of service delivery processes through increasing the use of technology and ensuring that services are fulfilled by staff using mobile / self-service process and new work styles;
- Office, Commercial and Industrial Units £1m – generating additional income from property investments;
- Commercial Income £2m - a business plan is being developed to significantly increase income generation.

42. CI1 Financial Arrangements – growth in ESPO Income - £100,000 in 2016/17 rising to £400,000 by 2019/20
ESPO dividends are forecast to increase by £0.1m per annum during the period of the MTFS. The forecast is based on the latest ESPO business plans which aim to increase the profitability of ESPO services.

Other Funding

43. Corporate Resources receives a significant amount of trading income from external sources, including retained schools. For 2016/17 this trading income is expected to be in excess of £22m. Schools and academies are the largest customer group accounting for 2/3rd of this income. Generating income from traded services is both a threat (as income could reduce due to cost pressures being faced by public sector partners and the academy conversion process has increased competition) and also an opportunity as other partners seek to outsource.

44. Earmarked funds are used to supplement the base budget where available resources are not sufficient to meet demand. Over the course of the MTFS the main reason for holding earmarked funds is expected to support the transformation programme and other departmental initiatives. Significant activities that are financed by the earmarked funds, which have been identified to date, are: the funding of additional Transformation Unit resource, project expenditure (e.g. County Hall Masterplan), ICT development work, ICT renewals and property asset management projects. Additional use of earmarked funds may be added during the year, if projects are approved for implementation that cannot be met through the base budget.

Capital Programme

Corporate Resources Programme

45. The draft Capital Programme is summarised in the following table and the detailed programme is set out in Appendix D. The programme is discretionary, hence is funded from general capital receipts and revenue funding, with a contribution from earmarked funds.

Project	2016/17 £000	2017/18 £000	2017/18 £000	2018/19 £000	Total £000
ICT Services	2,205	675	450	800	4,130
Industrial Properties & County Farms	425	300	300	300	1,325
Property replacement of aged / leased vehicles	100	0	0	0	100
Total	2,730	975	750	1,100	5,555

46. The ICT Services programme continues to invest in the ICT infrastructure needed to sustain Council activity going forward in a stable and efficiency manner as well as enabling the "digital council" agenda:

- The on-going replacement, capacity growth and essential upgrading of ICT infrastructure across the corporate estate (total £2m over 4 years). The main items of expenditure over the MTFS period are expected to be; increased capacity and renewal of the Storage Area Network (SAN); upgrade and replacement of servers with a focus on improved resilience; telephony replacement and upgrades; applications testing and service desk management tool replacement.
- There is also investment in the data and Business Intelligence Infrastructure of £250,000 over the next 2 years.
- Replacement of the intranet costing £335,000. The current intranet has been in place since 2007/8 and now has a platform that is unsupported as well as users having difficulties navigating and searching for information. The replacement intranet will enable improved communications and improve productivity.
- Expansion of the Virtual Desk Infrastructure (VDI) to non-County Hall sites enabling flexible and mobile working for staff and achievement of ICT efficiencies (£1.1m)

- Refresh of the corporate wide area network whose contract expires 2018/19 (£450,000 from 2018/19 to 2019/20). This project is funded from the ICT Renewals earmarked fund, built up from annual contributions.

47. The Industrial Properties and County Farms scheme consists of:

- County Farms investment (£100,000 per annum) for continued general upgrade of facilities at all sites in order to meet statutory and contractual requirements;
- Industrial Properties investment (£200,000 per annum) will allow improvements to the existing estate resulting in improved occupancy levels and reduced maintenance costs. These schemes are funded by income earned through the portfolio of industrial properties. There is one off funding of £125,000 in 2016/17 for specific maintenance identified in 2015/16;
- There is £100,000 allocated to replace aged and leased Property vehicles.

Corporate Programme

48. The draft Capital Programme is summarised in the following table and the detailed programme is set out in Appendix D. The programme is discretionary, hence is funded from general capital receipts and revenue funding.

Project	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Corporate Asset Investment Fund	9,315	17,500	2,280	1,000	30,095
Energy & Water Strategy	500	500	500	300	1,800
County Hall Maintenance	500	500	500		1,500
Countesthorpe Drive – reprovision of nursery facilities	500				500
Locality Office Accommodation	250	900			1,150
County Hall Master Plan	1,260				1,260
Total	12,325	19,400	3,280	1,300	36,305

49. The Corporate Asset Investment Fund has been established, with oversight from the Asset Investment Fund Board, to add and develop the County Council's portfolio of property and land assets including County Farms and commercial properties with a view to:

- Meet the aims of economic development;
- Improving the quality and quantity of land and property available;
- Ensuring the sustainability of the County Farms portfolio by replacing land sold.

50. It will have the incidental benefit of generating an income stream which will be available to offset service reductions.

51. Investments currently being funded through the Asset Invest Fund include :

- Development of the Harborough Accelerator Zone (HAZ) into industrial and office workspace costing £7.9m in development costs over 2016/17 and 2017/18 and expected to create much needed grow-on space in Market Harborough; capital receipts for sale of surplus land; a capital asset and generate an ongoing rental

income stream. A joint bid with Harborough District Council for grant funding has been submitted;

- The Coalville Workspace project is a £7.8m investment starting in 2016/17 and due to be completed in 2018/19. This investment is subject to part funding from a Growth Deal 2 (GD2) grant bid of £3.7m;
- The Rural Workspace Project, investing £5.2m over the next 3 years, is also subject to grant funding with an expected Growth Deal 3 grant bid of £3.2m to contribute;
- Loughborough University Science Enterprise Park (LUSEP) is a partnership venture to invest in “grow-on” space costing £5.1m over the next 2 years and generating rental income;
- A further £1m in each of the next 4 years has also been included in the budget for investments that are a good fit for the portfolio and likely to materialise on a speculative basis;

Investment in each of these projects / schemes above is subject to an individual business case and scrutiny by the Asset Investment Fund Board.

52. There will be a re-provision of nursery facilities at Countesthorpe Drive which is estimated at this time as £500,000 but is subject to more rigorous feasibility and planning. A capital receipt is expected from this project.
53. An investment of £1.15m is required in locality office accommodation in Loughborough as the lease arrangements are up for renewal at Pennine House and the existing accommodation needs extensive remodelling, refurbishment and energy efficiency investment if the lease is to be renewed. Alternative accommodation is being considered which would also require investment to meet the locality needs.
54. The County Hall Master Plan (CHMP) project continues from previous years to create new ways of occupying the existing County Hall campus to reduce costs and bring in rental income from released space. The project so far has moved the Registrars service into the Anstey Frith building; there has been the creation of an out-of-hours working space and income of £400,000 per annum has been generated from leasing released space. The outstanding schemes within the project are to create a new data centre and implement Virtual Desk Infrastructure at County Hall to promote more flexible working to both create accommodation efficiencies and provide a more productive and balanced way of working for staff.
55. In addition to the CHMP there are key Maintenance projects (£500,000 per annum for the next 3 years) that have been identified as required at the County Hall site and are too large to accommodate in the annual maintenance programme. The main elements planned are; renewal of the heating system; window replacements in the basement and Rutland building; and re-roofing and waterproofing of specific areas.
56. The Energy Strategy programme is a series of invest to save measures to deliver revenue savings and carbon reduction in line with the Environment Strategy. The types of improvements being implemented include: renewable energy generation, behavioural change, energy efficiency improvements to heating and lighting and improvements to energy consumption measurement, monitoring and reporting. A review of the Council

Water Strategy is also planned to ensure an efficient use and infrastructure of this commodity. £1.8m over the next 4 years has been set aside and each investment will be assessed individually before progressing.

Background Papers

Cabinet - 12 January 2016 - Medium Term Financial Strategy 2016/17 to 2019/20

Circulation under Local Issues Alert Procedure

None.

Officers to Contact:

Brian Roberts, Director of Corporate Resources, Corporate Resources Department
Tel: 0116 305 7830
E-mail: brian.roberts@leics.gov.uk

Chris Tambini, Director of Finance, Corporate Resources Department
Tel: 0116 305 6199
E-mail: chris.tambini@leics.gov.uk

Sara Smith, Finance Business Partner, Corporate Resources Department
Tel: 0116 305 7869
E-mail: sara.smith@leics.gov.uk

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Appendix D – Capital Programme 2016/17 – 2019/20

Equality and Human Rights Implications

57. Public authorities are required by law to have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation;
- Advance equality of opportunity between people who share protected characteristics and those who do not; and
- Foster good relations between people who share protected characteristics and those who do not.

58. Many aspects of the County Council's MTFs may impact upon service users who have a protected characteristic under equalities legislation. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Assessments are being undertaken in light of the potential impact of proposals and the timing of the proposed changes. Those assessments will be revised as the proposals are developed.

59. Proposals in relation to savings arising out of a reduction in posts will be subject to the County Council Organisational Change policy which requires an Equality Impact Assessment to be undertaken as part of the Action Plan.