



SCRUTINY COMMISSION - 25 JANUARY 2017

MEDIUM TERM FINANCIAL STRATEGY 2017/18–2020/21
CORPORATE RESOURCES

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. The purpose of this report is to:
 - a) Provide information on the proposed 2017/18 to 2020/21 Medium Term Financial Strategy (MTFS) as it relates to the Corporate Resources Department;
 - b) Ask members of the Committee to consider any issues as part of the consultation process, and make any recommendations to the Scrutiny Commission and the Cabinet accordingly.

Policy Framework and Previous Decisions

2. The County Council agreed the current MTFS in February 2016. This was the subject of a comprehensive review and revision in light of the current economic circumstances. The draft MTFS for 2017/18–2020/21 was considered by the Cabinet on 13 December 2016.

Background

3. The MTFS is set out in the report to Cabinet on 13 December 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.
4. Reports such as this one are being presented to the relevant Overview and Scrutiny Committees. The Cabinet will consider the results of the scrutiny process on 10 February 2017 before recommending a MTFS, including a budget and capital programme for 2017/18 to the County Council on the 22 February 2017.

Service Transformation

5. Corporate Resources has a gross spend of £78.2m and provides a range of enabling functions and support services, whilst generating £45.7m of income from a range of sources.
6. The department, in line with the rest of the organisation, has undergone significant transformation over recent years through restructuring services and seeking continuous improvement with a focus on efficiency and customer service. The department's 4-year strategy and delivery plan build on these strengths focusing on managing demands;

identifying and delivering savings; becoming more commercial and exploiting digital services.

Proposed Revenue Budget

7. The table below summarises the proposed 2017/18 revenue budget and provisional budgets for the next three years. The proposed 2017/18 revenue budget is shown in detail in Appendix A.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Original prior year budget	31,635	32,483	30,183	29,423
Budget Transfers and Adjustments	2,623	0	0	0
Sub total	34,258	32,483	30,183	29,423
Add proposed growth (Appendix B)	535	230	-20	0
Less proposed savings (Appendix C)	-2,310	-2,530	-740	-20
Proposed/Provisional net budget	32,483	30,183	29,423	29,403

8. Detailed service budgets 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.
9. The central contingency also includes provision for an annual 1% increase in the employers' contribution to the Local Government Pension Scheme based upon the 2016 triennial actuarial revaluation of the pension fund.
10. The total gross proposed budget for 2017/18 is £78.2m with contributions from grants, ear marked reserves, internal recharges and trading income projected of £45.7m. The proposed net budget for 2017/18 totals £32.5m and is distributed as follows:

Net Budget 2017/18	
Strategic Finance & Property, Assurance and EMSS	£8.2m
Corporate Services - People, Information & Technology and Transformation	£14.6m
Customer and Property Services	£11.9m
Commercial Services	-£2.2m
Department Total	£32.5m

Other Changes and Transfers

11. A number of budget transfers (totalling a net increase of £2.6m) were made throughout the 2016/17 financial year and are now adjusted for in the updated original budget. These transfers include:
- £0.2m of funding transferred from the central inflation contingency for rising building and ICT costs;
 - £1.2m for pay (including increments relating to the National Living Wage) and pension inflation transferred from the central inflation contingency;

- c) £0.55m transferred for the transactional finance teams transferred from the Community Care Finance section in the Adults and Communities department (A&C)
- d) £0.2m to centralise all the printing “click charge” budgets to maximise printing efficiencies
- e) £0.26m to offset for the change in recharges to Leicestershire Highways Operations now this has ceased trading as a separate entity.
- f) £0.2m relating to ESPO rebate that was budgeted in the Commissioning Unit but has now been accounted for centrally

12. 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.

13. This star rating is included in the descriptions set out for growth and savings below.

14. Savings have also been classified as Transformation or Departmental and highlighted as “Eff” or “SR” dependent on whether the saving is seen as an efficiency or a service reduction or a mixture of both. “Inc” denotes those savings that are funding related or to generate more income.

Growth

15. Corporate Resources have always kept their growth bids to a minimum, recognising the demand pressures in frontline services, however increased resources are now becoming necessary to both meet internal demands as the organisation continues to transform and require advice and professional input from support services; and to fund asset and trading investments that will generate ongoing revenues mitigating further service savings.

16. The total budget growth requested is £0.7m over 4 years of which £0.5m relates to 2017/18. A summary and detail of the growth bids are outlined in Appendix B and the narrative below:

17. ** G20 ICT infrastructure costs and consequences of capital spend – £265,000 2017/18 and G21 Intranet ongoing maintenance - £105,000 2017/18

The Information and Technology programme continues to invest in the ICT infrastructure needed to sustain Council activity going forward in a stable and efficient manner as well as enabling the “digital council” agenda. This includes replacement, capacity growth and upgrade across the corporate estate which result in increased revenue costs of :

- £70,000 for additional resources (2 x grade 9 support services) following the implementation of the Integrated Adult System. 1 post relates to an increase in the frequency of upgrades and the amount of “hot fixes” required. The other post relates to increased functionality implemented in A&C for provider and customer portals

- £65,000 for increases relating to pricing for hardware; Egress licences; and Airwatch MDM licences resulting from suppliers passing on exchange rate fluctuations. Additional ICT equipment has also been required for partners who are co-locating at County Hall but although there is a growth pressure in ICT this will be offset by rental income received
- £130,000 full year effect of revenue costs relating to the 2015/16 capital investments of replacing the unified communication / telephony system, security upgrades including LAN encryption and Airwatch licences following upgrade to firewalls
- £105,000 ongoing revenue costs for licence costs and a resource to maintain the updated intranet system

18. ** G22 – Strategic Property Asset resources to manage and develop property assets – £250,000 from 2018/19

Strategic Property have responsibility for over £360m of investments property, land, buildings and other assets overseeing 725 freehold and leasehold properties (including schools).

To execute these responsibilities, costs are incurred in disposing properties no longer required plus initial investment costs (feasibility and other initial investigations) in acquiring new assets. The spend for these activities has been running at an average of £400,000 pa compared to a base budget of £150,000 with the difference being funded by time limited resources until 2017/18.

19. G23 - Information and Records Management and Data Compliance Regulations – £90,000 ongoing from 2017/18 plus one off costs of £40,000 in 2017/18 and £20,000 in 2018/19

Increased information management resources are required to ensure that the Council meets its statutory obligations with regard to requests for information and Data Protection laws; and to minimise information breaches and the associated reputational risk. The resources are required specifically in response to :

- Freedom of Information requests (FOI) – the volume of FOI's has not changed significantly but those received are increasingly complex and more time consuming to prepare responses and co-ordinate across departments
- Subject Access Requests (SAR) are a statutory requirement to provide information within a timeframe. Not only is demand increasing but the statutory timescale is reducing from 40 to 30 days.
- A fixed term post is required for 2 years to progress the Council's compliance with the new EU General Data Protection Regulation. This regulation comes into force on the 25th May 2018 and this growth is to fund the programme of work to move us towards compliance with the new regulations.

20. G24 – Cyber breach Insurance – £35,000 2017/18

This growth is required following increasing activity and complexity of threats and demonstrated by the significant breach recently experienced by another County Council.

Savings

21. The proposed savings for Corporate Resources total £2.3m for 2017/18 rising to £4.8m in 2018/19 and £5.6m from 2019/20.
22. The focus of the savings remains the same as the previous MTFs but there has been some re-categorisation of savings to align with a senior manager restructure and new accountabilities. The summary of these savings are in Appendix C followed by more details for each saving below:

Transformation Savings

23. ** CR1 Eff / Inc Increasing Commercial Services contribution - £0.5m 2017/18 increasing to £1.25m in 2018/19 and £2m by 2020

Trading services within the department have been brought together under the marketing brand of Leicestershire Traded Services (LTS) and comprises a number of services including Facilities Management, Print, Catering and School Food, Leicestershire Education Authority Management Information System (LEAMIS), Beaumanor Hall and business services. At the start of 2016 a new role of Head of Service was recruited who has taken forward the commercial agenda to date creating the LTS brand and marketing strategy; upskilling managers; and undertaking a forensic review of all services; all to maximise opportunities and increase contribution.

The indicative target set last year for Commercial Services was to increase operating contribution by £2m by 2019/20 as well as covering the increased costs of the Head of Service and all other incremental resources required to deliver trading. This target has now been profiled as £0.5m in 2017/18 increasing to £1.25m and achieving a minimum of £2m by 2019/20 to be achieved from a combination of increased sales, and reduced costs (through greater productivity)..

Successes to date include achieving new school contracts; investing in print equipment to expand the range and customers; renovation of out buildings at Beaumanor Hall and Park to create more residential space (already fully booked for next year); staff restructures and overhead reductions amongst many more.

As with any commercial enterprise there are a number of risks relating to competition with the risk of losing existing business as well as gaining it. Supplier costs could increase (especially relating to the change in the value of sterling and implications for imports) and

some of the service costs are sensitive to changes in staff pay / terms and conditions. Equally this tough economic climate may create opportunities for growth if other service providers exit the market.

These risks will be mitigated through tight cost control, the right service and pricing; a quality customer experience (underpinned by account management with our key customers); a professional brand and tender bids.

Departmental Savings

24. ** CR2 Eff Business Support Review - £65,000 2017/18 increasing to £170,000 from 2018/19

The aim is to deliver business support in the most cost effective and customer focused way through the centralisation of various departmental business support tasks and roles. To date an amalgamation of the business support roles from Secretariat, Complaints, the Transformation Unit and Communications has taken place to achieve £65,000 of annual savings. Savings from 2018/19 are being identified through discussions occurring now with Heads of Service to identify those business support staff and tasks that could be delivered from a centralised service with synergies also gained from new ways of working. A wider corporate review of business support is being considered.

25. ** CR3 Eff Review of Strategic Finance & Assurance - £80,000 2017/18 increasing to £405,000 from 2018/19

The Strategic Finance and Assurance function provide financial management and planning for c£700m of gross annual revenue expenditure and a 4 year capital programme of £200m.

Strategic Finance was restructured as part of a Modernising Finance project several years ago and since then there has been a number of changes resulting in Finance working flexibly to meet increased demands from organisational transformation, joint partnership working and the Combined Authority agenda.

Savings to date have been made from improving productivity and redistributing workloads following retirements and leavers and this will also achieve the £80,000 saving in 2017/18. A further £270,000 of savings in 2018/19 will be achieved from a review of Finance and increased income generation or reduced staff underpinned by new ways of working through automating processes; staff training; increasing self-service where-ever possible and improving financial systems.

Internal Audit has a target of £55,000 of savings to achieve from 2018/19 and the majority of this will be achieved by taking on additional work including Leicester City's Audit function.

26. * CR4 Eff Review of Human Resources and Organisational Design (HR & OD) - £435,000 2017/18 increasing to £735,000 from 2018/19

The savings targets for HR & OD of £435,000 in 2017/18 and a further £300,000 in 2018/19 are the same targets as set as part of the wider “People, Procurement and Transformation Reviews” outlined in last year’s MTFS minus the Transformation element which was delivered and completed last year.

The decision was taken to undertake a fundamental review of the function with the objectives of creating a clear vision for the service, modernising the offering, revising the target operating model, and future proofing it (as far as possible). There were also clear objectives about service integration (both within the function, and with other support services), building on the current commercial offering, and finding better ways in which to manage demand.

A HR action plan has been launched which will go beyond the required target in 2017/18, and save c £560,000 through a mix of staffing and operational and (mainly L&D) budget reductions reducing the pressure on the 2018/19 savings.

27. ** CR5 Eff Information and Technology (I&T) Review - £535,000 2017/18 increasing to £1.2m from 2018/19

During 2016/17 ICT was integrated into a single function, with the aim of providing a cost-effective and reliable technology infrastructure to support front line service delivery through innovation and targeted investment. Following the creation of a single I&T function, the previously separate Strategic ICT and Operational ICT savings have also been amalgamated.

This pooling of resources is intended to provide a seamless end to end service for the Council and partners / customers enabling improvements in service delivery and synergy of savings. A new target operating model has been created for I&T with a HR Action plan launched in 2016/17 to make £217,000 of staff savings from a reduction in management and ICT specialists. The rest of 2017/18 savings will be achieved from a combination of supplier contracts, overheads and new ways of working. These have been identified and included in individual manager budgets.

28. * CR6 – Customer Service Centre (CSC) - £130,000 from 2018/19

The Customer Service Centre is the first point of contact for customers of Adult Social Care, Highways and Transport enquiries, Waste Management, Regulatory services and School Admissions answering half a million customer contacts every year across a range of channels. The last year saw increasing contact demand (especially emails) with short term pressures arising from Highways and Adult Social Care projects.

A number of initiatives are both running and planned to automate and redesign processes and systems within a “Systems Thinking” methodology. The CSC is part of a multi-agency project to create a single access point across Leicestershire, Leicester and Rutland for Health and Social Care for which Cabinet approved £211,000 in July 2016 for the first phase of this project.

These programmes of work will identify the savings required for 2018/19 through integration synergies, an end to end review of processes and improved customer insight to manage demand.

29. ** CR7 Eff Operational Property Review (contracts and costs) - £270,000 2017/18 increasing to £400,000 in 2018/19

Operational Property has a savings target of £270,000 in 2017/18 and these savings have all been identified and embedded in individual budget models. The savings are a combination of site closures and devolved libraries; reduced helpdesk staff costs (already achieved through vacancies); a reduction in waste costs; and a review of framework contracts. There are further savings of £130,000 targeted from 2018/19. It should also be noted that a number of the Operational Property services are part of the Leicestershire Traded Services (LTS) trading unit and are also subject to additional cost savings and income targets through the commercial increased contribution target.

30. ** CR8 – Energy & Water Efficiencies - £225,000 2017/18 increasing to £320,000 by 2020/21

In 2014, the Council agreed an Energy Strategy to specifically reduce energy consumption and costs across council buildings. This is being achieved through an ongoing programme of upgrading the technology in and around the Council's building estate including upgrading lighting to LED, upgrading boilers and installing new heating controls. New lighting with sensors can drastically reduce the electricity used in office spaces and day care centres.

An energy company is helping the council to meet its renewable energy targets by installing solar panels on some council buildings as well as a biomass boiler at County Hall. Further reduction in energy costs is expected from the replacement of Rutland building windows and distribution heating in the main County Hall building. A water strategy is also being compiled to look at initiatives to save water and further reduce costs.

31. * CR9 Eff EMSS Efficiency savings - £200,000 2017/18

East Midlands Shared Services (EMSS) is a shared service enterprise between Leicestershire County Council and Nottingham City Council to provide HR and Transactional Finance support services to the public sector. The Financial Services Centre (FSC) processes 230,000 of invoices a year worth £1.6bn and the Employee Service Centre (ESC) processes 750,000 of payroll payments worth an annual £588m.

To date £1.6m of savings have been achieved leaving a savings balance of £0.4m to be achieved by the EMSS joint venture to meet the £2m target savings set (£1m per Authority), and equating to further savings to LCC of £200,000 in 2017/18. In addition to these savings, EMSS are also absorbing their own pay increases and NI changes.

Future savings are to be achieved through increased levels of standardisation and automation; developing technology and systems and a more commercial approach.

Savings have been identified for the Employee Service Centre but a more fundamental transformation linked to the major systems change is required in the Financial Service Centre.

This service is sensitive on an operational level to customer demands generated from changes across both Councils to staffing, contracts and the number of providers and invoice volumes and on a more strategic level is dependent on partner willingness to continue sharing services including the selection and alignment of technology with individual organisations.

Savings Under Development

32. The MTFS as a whole for Leicestershire County Council is balanced in 2017/18 and shows shortfalls of £2.8m in 2018/19 rising to £23.9m in 2020/21. To help bridge the gap a number of initiatives are under development to generate further savings. Once business cases have been completed savings will be confirmed and included in a future MTFS.
33. There is likely to be involvement from support services for most of the emerging savings but the main initiatives requiring the most involvement or lead by Corporate Resources include :
 - Increased revenues from Asset Investment
 - Integrated ICT systems
 - Review of Structures and Delivery Models
 - Commercialism
 - Commissioning and Procurement
 - People and Performance Management
 - Digital Services
 - Property initiatives

External Influences and Risks

34. Support services are more responsive and agile than ever making them sensitive to internal demand pressures. Services like Transformation, Strategic Finance, HR, ICT, Property and Commissioning come under increased pressure for advice and support from departments undergoing change. Similarly other services like EMSS, Pensions, Learning and Development, Insurance, Operational ICT and accommodation costs are directly linked to departmental growth, savings and other changes. These demands will need to be managed whilst continuing to maintain and improve services.
35. Increasing contribution is a challenge for traded services in a competitive climate where the private sector can compete more favourably on price (with different staff terms and conditions than the Council offers). Conversely this may also be an opportunity for LCC

as other authorities and companies decide to outsource services thereby creating a trading opportunity. Further investments in trading and projects may be required on an invest to save basis but only where there is a robust business case.

36. Strategic decisions will be required on the future of key applications including Oracle and Frameworki and the implementation of these will require significant resources and may result in savings in areas such as Finance having to be re-phased to future years. Business cases will be developed as required.

Other Funding Sources

37. Corporate Resources receives a significant amount of trading income from external sources, including retained schools. For 2017/18 this trading income is expected to be £25m with Schools and Academies being the largest customer group accounting for 2/3rd of this income. Rental income from the Council's Farms and Industrial property estates is budgeted to achieve £3m in 2017/18.
38. 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.
39. There are budgeted contributions from partners for shared services including the Resilience Partnership and East Midlands Shared Service Centre and funding of £1.2m is expected from government departments and other Local Authority clients for the Centre of Excellence whose activity is scaled within its funding envelope.
40. 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, ICT development work, ICT renewals and property asset management projects.

Capital Programme

41. The Corporate Resources capital programme totals £8m over the next four years including £2.9m in 2017/18 and described in more detail in the following paragraphs and Appendix D.
42. ICT infrastructure and system replacements : £685,000 in 2017/18

The ICT Services programme continues to invest in the ICT infrastructure needed to sustain Council activity going forward in a stable and efficient manner as well as enabling the "digital council" agenda. This includes replacement, capacity growth and upgrade across the corporate estate including for 2017/18 :

- £325,000 Local Area Network (LAN) routine replacement of active LAN equipment (switches and encryption) across the County Hall and remote sites to ensure satisfactory performance and continued supplier support.
 - £360,000 comprising “Hyper V” virtualised Microsoft Servers; data back-up solution; and replacement of other core infrastructure (such as SIP links, Celestix and Gigastor) to ensure continued support and satisfactory performance.
43. Future year ICT capital costs are to replace the Wide Area Network at an estimated cost of £450,000 when the current management contract ends in July 2018 and the Storage Area Network (SAN) will need upgraded at an estimated cost of £500,000, which due to its modular nature can be on a phased basis. ICT capital costs are also included in future years for other infrastructure and systems that need replacing such as for firewalls and the Customer Service Centre.
44. As noted in the sections above, strategic decisions and significant resources will also be required on the future of key applications including Oracle and Frameworki. Business cases will be developed as required.
45. Property (Major Maintenance & Improvements) : £2.2m in 2017/18

The property capital programme currently consists of :

- £500,000 in each of 2017/18 and 2018/19 for County Hall major end of life replacements (as advised in previous Medium Term Financial Strategies) including Rutland Windows and Penn Lloyd heating distribution replacement
- £700,000 for the refurbishment of office accommodation in Loughborough for locality based teams
- £400,000 for the future strategy of Snibston & Country Park in North West Leicestershire in 2017/18 (£1.4m total capital expenditure with £1m capital receipt expected)
- £150,000 for a revenue generating Café and Education Centre at the Beacon Hill Country Park in Charnwood
- £250,000 in 2017/18 (£900,000 over the four years of the MTFs) respectively for general repairs, maintenance and improvements to the existing Industrial Properties and County Farms estates which will result in improved occupancy levels, achievement of earnings and reduced reactive maintenance costs

Future Developments

46. Where capital projects are not yet fully developed or plans agreed these have been included under the heading of 'Future Developments' under the department's programme in Appendix D. It is intended that as these schemes are developed during the year and where there is a financial justification, or an investment required to maintain delivery of the service, they are included in the capital programme. £9.7m is being held corporately to fund future capital schemes on a prioritisation basis.
47. The potential programmes and schemes that may require capital investment in the future include:
- Information & Technology enabling projects and major systems replacement;
 - The Leicestershire, Leicester and Rutland Health & Social Care Single Point of Access project (LLR POA)
 - Commercial investments which will generate a positive ongoing revenue benefit
 - A Workplace Strategy which follows on from the previous County Hall Master Plan and other Accommodation Review successes.

Background Papers

- Cabinet : 13 December 2016 – Medium Term Financial Strategy 2017/18 to 2020/21

Circulation under local issues alert procedure

None.

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Appendices

Appendix A – Revenue Budget 2017/18
 Appendix B – Growth
 Appendix C – Savings
 Appendix D – Capital Programme 2017/18 – 2020/21

Equality and Human Rights Implications

48. 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.
49. Many aspects of the County Council's MTFS may affect 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. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any proposed changes. Those assessments will be revised as the proposals are developed to ensure decision makers have information to understand the effect of any service change, policy or practice on people who have a protected characteristic.
50. 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.

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