



SCRUTINY COMMISSION

31st JANUARY 2022

MEDIUM TERM FINANCIAL STRATEGY 2022/23–2025/26

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. The purpose of this report is to:
 - a) Provide information on the proposed 2022/23 to 2025/26 Medium Term Financial Strategy (MTFS) as it relates to the Corporate Resources Department;
 - b) Ask members of the Scrutiny Commission to consider any issues as part of the consultation process and make any recommendations to the Cabinet accordingly.

Policy Framework and Previous Decisions

2. The County Council agreed the current MTFS in February 2021. This has been the subject of a comprehensive review and revision in light of the current economic circumstances. The draft MTFS for 2022/23–2025/26 was considered by the Cabinet on 14th December 2021.

Background

3. The MTFS is set out in the report to Cabinet on 14th December 2021, 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 11th February 2022 before recommending a MTFS, including a budget and capital programme for 2022/23 to the County Council on 23rd February 2022.

Service Overview

5. The Corporate Resources (CR) department provides front line, traded and support services to enable the organisation to be efficient and effective through the Digital and Information Technology, People, Ways of Working and Commercial agendas.

6. The CR department has undergone significant change through the Fit for the Future programme support functions including Finance, HR, Procurement, ICT and East Midlands Shared Services (EMSS).
7. Additionally, programmes such as the Corporate Asset Investment Fund, alongside developing work streams around the Ways of Working programme and Wider Commercialism, have the potential to fundamentally transform the way the Corporate Services function operates and drives efficiencies.

Proposed Revenue Budget

8. **Table 1** below summarises the proposed 2022/23 revenue budget and provisional budgets for the next three years. The proposed 2022/23 revenue budget is shown in detail in Appendix A.

Table 1 – Revenue Budget 2022/23 to 2025/26

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Original prior year budget	34,089	34,304	32,024	31,814
Budget transfers and adjustments	-730	0	0	0
Updated budget after transfers & adj	33,359	34,304	32,024	31,814
Add proposed growth (Error! Reference source not found.)	1,855	-5	0	0
Less proposed savings (Appendix B)	-910	-2,275	-210	-1,475
Proposed/Provisional budget	34,304	32,024	31,814	30,339

9. 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.
10. The total proposed expenditure is £94.7m with a gross budget for 2022/23 of £70m after accounting for internal income, recharges and contributions from earmarked funds of £24.7m. Trading income and other grants are projected at £35.7m resulting in a proposed net budget for 2022/23 of £34.3m. This is allocated as per the following table:

CR Net Budget 2022/23	£m
Information Technology, Communications & Digital and Customer Service	15.2
Corporate Services and Operational Property	14.2
Finance, Strategic Property and Commissioning	9.8
East Midlands Shared Services	2.0
Corporate Asset Investment Fund (net contribution)	-6.5
Commercialism (net contribution)	-0.5
Department Total	34.3

Other Changes and Transfers

11. A number of budget transfers totalling a net reduction of £0.7m, were made during the 2021/22 financial year. These transfers include:
- a) +£0.4m budget cost increase for inflation transferred from the central inflation contingency for inflationary price increases relating primarily to ICT and Insurance.
 - b) +£0.5m budgets transferred from other departments into CR relating to the centralisation of mobile phones, ICT peripherals and photocopier charges as part of the Ways of Working programme.
 - c) (£1.6m) budget transfer from central items to CR of indirect CAIF investment income (pooled property and private debt interest) to align with other CAIF Investment Income (from directly held property).
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 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. The total amount of growth requested for £1.855m for 2022/23 which remains in total static over the four years. This is summarised in the table below and outlined in more detail in the next section:

References **Corporate Resources Growth**

2022/23 2023/24 2024/25 2025/26
 £000 £000 £000 £000

Demand & cost increases

*	G25	Customer Service Centre - support service levels (temporary growth removed)	-100	-200	-200	-200
**	G26	ICT license subscriptions and support costs & increased email security	325	325	325	325
	G27	Additional Procurement & Finance support for the Capital Programme	145	145	145	145
	G28	ICT service desk and project support resources to meet increased demands	110	110	110	110
	G29	Health, safety & wellbeing - increased demands and legislative changes to fire safety regulations	75	100	100	100
	G30	Pressures arising from additional External Audit requirements	50	50	50	50
	G31	Increased demand for Communications Team	0	70	70	70
	G32	Commercial Services - reduce target	1,150	1,150	1,150	1,150
	G33	Investment in Tree Nurseries	100	100	100	100
TOTAL			1,855	1,850	1,850	1,850

Demand and Cost Increases

16. * G25 Customer Service Centre – support service levels (removal of temporary growth) - £0.1m in 2022/23 increasing to £0.2m in 2023/24

The Customer Service Centre (CSC) is the first point of contact for customers of Adult Social Care, Highways and Transport enquiries, Waste Management, Regulatory Services and School Admissions; answering a half a million customer contacts every year across a range of channels.

Additional temporary resources of £0.3m were provided for 2020/21 to meet additional demand due to the extension to the Blue Badge scheme; and the delay in realising efficiencies and savings from technological improvements to working practices. The additional budget is expected to be reduced by £0.1m each subsequent year of the MTFS and although efficiencies are being planned, the CSC remains under some pressure to deliver service in challenging conditions.

17. ** G26 ICT license subscription & support costs and increased email security - £0.3m in 2022/23

Existing growth provisions within the MTFS for licence subscriptions are driven by contractual increases in licence fees above expected inflation. Specifically, the three-year contract renewal for Microsoft licences will commence in July 2022, with price

increases of up to 20% hitting many public sector organisations. This growth of £285k also continues to be fuelled by the increasing demands placed on our technological infrastructure.

The proposed increase to the MTFS figure of £40k relates to a new growth bid to improve and enhance email security. Investment in an increased set of security functionalities from existing products will enhance the ability of the ICT function to control spam and other non-business email, simultaneously helping to mitigate the risk of encountering the most common forms of cyber-attack facing LCC i.e. malware or ransomware through phishing.

18. G27 Additional Procurement and Finance support for the Capital Programme £145k from 2022/23

There is an increasing requirement for capital investment across the organisation with the total requirements for the next four years currently projected to exceed £500m.

To enable the necessary tight controls required around this expenditure, additional resources are required of Grade 14 and Grade 13 Commercial specialists and a Grade 13 Capital Accountant.

Partial funding has been provided by removal of vacant posts.

19. G28 ICT Service Desk and project support resources to meet increased demands £110k from 2022/23

The ICT Service desk requires two additional members of staff to meet the increased demands resulting from more remote working and expanded use of digital tools. Specifically, these resources will ensure that technological support to members can continue to be delivered effectively at meetings, whilst maintaining optimum resource availability for normal operations to prevent query backlogs and poor service quality.

A project officer role is also required to increase project support and to realign the balance of project officers and project managers within the ICT projects team ensuring maximum efficiency and effectiveness within the resources available is delivered, and that the risk of delays and slippage is reduced on key IT projects.

20. G29 Health, safety & wellbeing – increased demands and legislative changes to fire safety regulations £75k in 2022/23 rising to £100k in 2023/24

This growth is required to fund the legislative changes to fire safety regulations to ensure buildings remain both safe and compliant and also to fund a Wellbeing Advisor that has been funded previously from reserves. The demand for wellbeing services has increased following covid 19 and all the associated implications and change arising for staff from the pandemic.

21. G30 Pressures arising from additional External Audit requirements £50k from 2022/23

In line with the national trend, external auditors have increased the amount of rigour undertaken within their audits which has resulted in increased costs charged by the external auditor and increased internal pressure on teams to provide the evidence.

LCC has seen a 40% increase in the external audit costs over the last five years although this remains the lowest cost of all the county council audits.

Following the pandemic and remote working, communications for managers and staff have increased and these remain a critical part of ensuring staff remain connected and are able to perform their jobs with the right context.

22. G31 Increased demand for the Communications team £70k from 2023/24

These resources are currently already in place and are being funded for this year and 2022/23 from the Contain grant.

23. G32 Commercial Services reduced contribution target £1.15m from 2022/23

Between 2016 and 2020 Leicestershire Traded Services (LTS) had a target to increase the contribution that it makes to Leicestershire County Council by an additional net £2m through a combination of increased sales, increased prices and reducing costs.

The service has faced additional cost pressures from the increase in National Living Wage (NLW), and significant difficulty in delivering ambitious income growth targets in the context of a global pandemic. Covid-19 and associated government restrictions have hindered recovery and continues to have a significant impact on some LTS services, particularly some events and hospitality services which remained closed until summer 2021 and are still recovering.

The school food service has previously contributed the largest amount of contribution and this has been the most impacted by increased staff costs, staff vacancies and increased food prices, which has had £0.7m adverse impact.

Taking account of the points above, the stretch targets are thought to now be unachievable in the short term under the current circumstances. This growth bid reinstates the LTS budgets to a more realistic level for which savings improvement of up to £0.64m is planned for over the next four years and are included in the Savings section.

24. G33 Investment in Tree Nurseries £100k from 2022/23

The need for increased tree cover is, both globally and nationally, well documented as a major action to mitigate climate change. This £100k growth is to make investments in tree nurseries in Leicestershire, as per the Tree Management Strategy and Tree Action Plan

Savings

25. The MTFs proposed savings for Corporate Resources total £0.9m for 2022/23 rising to £4.9m by 2025/26. The savings are summarised in the table below and outlined in more detail in the next section.

References		<u>Corporate Resources Savings</u>		2022/23	2023/24	2024/25	2025/26
				£000	£000	£000	£000
**	CR1	Eff/Inc	Ways of Working - Use of office space	0	-845	-670	-1,380
**	CR2	Eff/Inc	Increasing Commercial Services contribution	0	-200	-375	-640
*	CR3	Eff	Environment improvements - energy & water	-50	-50	-50	-50
**	CR4	Inc	Increase returns from Corporate Asset Investment Fund	-600	-1,500	-1,600	-1,600
**	CR5	Inc	Place to Live - Accommodation income	-40	-80	-120	-120
	CR6	Eff	Customer & Digital Programme	-70	-180	-180	-680
	CR7	Eff	Operational Finance process improvement	0	-100	-100	-100
	CR8	Eff	Transformation Unit efficiencies	-50	-130	-200	-200
	CR9	Eff	Insurance – integration with Internal Audit and review of cover	-75	-75	-75	-75
	CR10	Eff	Reduced Business Travel	-25	-25	-25	-25
TOTAL				-910	-3,185	-3,395	-4,870

26. **CR1 Eff/Inc - Ways of Working – Use of office space: -£0.8m in 2023/24 rising to -£1.4m by 2025/26

The Ways of Working programme is a multi-disciplinary taskforce working collaboratively to drive out new, more flexible ways of working. With representatives across IT, Property, Transformation, HR/OD and Communications, focus has been not only on how we use our physical workplace (desks and buildings) but also on culture and infrastructure changes that will maximise the potential benefits of embedding new ways of working within the Council.

A refreshed business case was produced in November 2021 with savings expected to be generated from reductions in property rental costs, service charges and running costs as premises are exited; rationalised or sold as part of the original workplace strategy, as well as increased income generation through further rental income for the County Hall campus.

There are also a number of other benefits which may derive efficiency savings resulting in cost reduction which are unknown at present but likely to include:

- Increased productivity
- Reduction in carbon
- Reduced operating costs
- Improved recruitment and retention

27. **CR2 Eff /Inc - Increasing Commercial Services contribution: -£0.2m in 2023/24 rising to -£0.6m by 2025/26

Commercial services are delivered under the umbrella Leicestershire Traded Services (LTS) and include the provision of various traded services including school food, catering, property and facilities.

Between 2016 and 2020 Leicestershire Traded Services (LTS) had a target to increase the contribution that it makes to Leicestershire County Council by an additional net £2m through a combination of increased sales, increased prices and reducing costs. Significant pressures outlined in the growth section above have impacted the ability to deliver the previous stretch targets under the current circumstances.

Following on from this last year's operating model changes and commercial agreement reviews further work is underway to deep dive into the financial, commercial and operational models to identify additional actions that can be taken to mitigate the current economic pressures, identify further efficiencies, and improve our service offering.

LTS continues to face significant staffing pressures due to wider economic impacts being seen by the Catering and Hospitality industry on top of additional short-term pressures from sickness due to Omicron. We anticipate the staffing pressures to continue for a couple of years and continue to develop ways to mitigate or reduce the impacts.

To partially mitigate against the adverse financial climate, some progress has been made and this includes the rationalisation of teams within Operational property, and Leisure and Hospitality which have been undertaken to deliver sustainable cost savings. Further consideration of the staffing structures and services offered by LTS continues to both increase contribution and minimise risk. Increased income is expected from Country Parks arising from increased visitor numbers and an investment in parking infrastructure.

28. *CR3 Eff - Environment improvements - energy & water: -£50k from 2022/23

These are the next phase of savings identified as part of The Strategic Property Energy Strategy 2020-2030 to drive reductions in annual energy consumption, savings on energy bills and investment in the provision of renewable energy.

These savings will arise from investments already made in greener sources of energy across the LCC property estate as well as achieving returns from the SCORE+ (Schools Collaboration on Reducing Energy) partnership.

29. *CR4 Eff - Increased Returns from Corporate Asset Investment Fund (CAIF): -£0.6m from 2022/23 rising to -£1.6m by 2025/26

Asset investment opportunities are appraised and taken forward, subject to the business case and approval by the Corporate Asset Investment Fund Advisory Board. These investments will generate an additional ongoing revenue stream (for example, rental income from farms or industrial units) or future capital receipts in excess of what is required for the initial investment.

The previous target of £3m p.a. of additional revenue income by 2021/22 is now achieved and further opportunities are in the pipeline balancing the use of income to support the overall revenue position for the authority with the requirement for capital funding.

Across all of the portfolio the latest forecast for 2021/22 is ahead of £5.9m target projecting a £6.2m return.

The planned investments are expected to increase the previous MTFS targets in 2023/24 and 2024/25 by £0.9m and £1.0m respectively and is to be met by the existing direct property portfolio, pooled property funds and other financial investments

30. *CR5 Inc - Place to Live – Accommodation income: -£40k in 2022/23 rising to -£120k by 2024/25

The Council has put aside £10m in the ASC capital programme to fund developments linked to Social Care Investment Programme objectives. As an upper tier authority with no Housing function the Council has contracted Nottingham Communities Housing Association (NCHA) to act as a landlord on its behalf. NCHA leases the housing that the Council develops and rents them to vulnerable tenants nominated by the Council. This saving represents the rental income from this arrangement, recognising the capital investment.

31. CR6 Eff - Customer and digital programme - £70k in 2022/23 rising to -£680k by 2025/26

The Customer and Digital programme will enable departments to realise savings through delivery of digital solutions. Examples of initiatives identified so far include Integrative Voice Response (IVR) enhancements, structured Contact Us forms for enquiries and online encouragement for waste permits and Report It functionality for Street Lighting and Public Rights of way. Opportunities for improving the school transport customer experience has been identified as a priority and will be considered as part of a wider system replacement project.

32. CR7 Eff - Operational Finance process improvement - £100k from 2023/24

The Operational Finance programme was set up to maximise best practice and improve processes and interactions following the Fit for the Future programme implementation of Oracle Fusion with the focus being around 5 core themes of:

- Procure to Pay
- Order to Cash
- Reporting
- Support Model
- Business Process Interactions

The aim is to ensure that the technology is fully exploited, and efficiencies will be generated by reduced processing times, reduced error, improved controls and a review of target operating models.

33. CR8 Eff - Transformation Unit Efficiencies - £50k in 2022/23 rising to £200k by 2025/26

The 2022/23 savings have already been achieved following a review and restructure of the Transformation Unit (TU) operations and structure in 2021. The resulting service plan provides for ongoing efficiencies through improved ways of working – primarily focused on reducing management costs and improving the connections to departmental decision making.

Future year's savings will be achieved through continuous improvement activity and vacancy management.

34. CR9 Eff - Insurance – Integration with Internal Audit and review of cover £75k from 2022/23

Across a tough market, a review of the insurance cover was undertaken with the Council's broker. Although some premiums experienced an increase a reduction was enabled in other elements of cover (in line with other Council's level of liability) as well as an increase in self insurance resulting in £45k of savings. The other £30k saving has been delivered through the merger of the management of the Audit and Insurance functions under a single manager enabling some saving on staff costs.

35. CR10 Eff - Reduced Business Travel £25k from 2022/23

Travel expenses within the department have seen a significant reduction since pre covid 19 times and this reduced level of business travel is expected to continue as digital tools have been put in place for remote meetings and working and this has become a sustained way of working.

The total amount of savings to be achieved from business travel across the department are significantly more than these savings but are already included in savings lines such as Commercial and Ways of Working.

Savings Under Development

36. The financial climate for the Council, along with other Local Authorities remains challenging and to bridge the significant funding shortfall projected in future years; each department is required to identify additional savings. The following has been identified as potential opportunities to take forward following further evaluation and planning.

37. Salary Sacrifice Shared Cost Additional Voluntary Contributions (AVC)

The department has been approached by a third party about introducing Salary Sacrifice Shared Cost AVC. This approach would provide an NI saving to employers, which is available to the County Council.

38. Vacant Properties

Alongside the property estate rationalisation being progressed as part of the Ways of Working Programme, Strategic Property and Operational Property will continue to assess the Council's fluid portfolio of existing and emerging vacant properties and land with a view to determining the most practical and economically advantageous option for using, leasing, renovating and returning to use, or disposing of such assets in each instance..

39. Additional CAIF savings

Further schemes could potentially be developed, subject to wider economic, financial return and planning considerations, which would provide increased income from the CAIF

40. Insurance Claims

Claims can be received by the authority several decades after the event, making estimation of the liabilities incurred in any year extremely difficult. External analysis will be commissioned to ascertain if the annual provisions can be reduced.

Corporate Resources Capital Programme

41. Table 2 below summarises the proposed capital programme. A further breakdown is provided in Appendix C. The proposed capital programme totals £12.3m over the next four years including £5.1m in 2022/23 and is described in more detail in the following paragraphs.

Table 2 Summary Draft Capital Programme 2022/23 to 2025/26

	2022/23	2023/24	2024/25	2025/26	Total
ICT	1,200	0	100	2,390	3,690
Ways of Working	3,364	1,669	1,262	1,293	7,588
Property Services	150	130	0	0	280
Climate Change - Environmental Improvements	345	410	0	0	755
	5,059	2,209	1,362	3,683	12,313

42. ICT: £1.2m in 2022/23 amounting to £3.7m over the MTFS period

Investment in technology and digital capability throughout the organisation is a priority to increase efficient and modern ways of working in addition to maintaining security and robust systems and infrastructure. This investment includes replacement, capacity growth and upgrade across the corporate estate for 2022/23 including:

- £1.0m investment in IT data backup to help protect against new Cyber Threats
- £0.2m for the replacement of the Hyper-Converged Infrastructure (HCI) which was installed in 2017/18 and is approaching 5 years old (the typical age when core IT infrastructure components should be considered for replacement). The HCI infrastructure is a critical to the provision of IT systems access for the authority.

43. Ways of Working programme: £3.4m in 2022/23 amounting to £7.6m over the MTFS period

This programme is to redesign the ways in which the Council delivers its services freeing up property space to generate rental and reducing associated costs.

The investment is based on changing office infrastructure costing £1.1m in 2022/23 (1.3m across the MTFS); PC's and Laptops costing £1.6m 2022/23 (£4.9m across the MTFS) property costs costing £0.7m 2022/23 (£1.3m across the MTFS).

The resulting annual savings from this investment of £1.4m by 2025/26 are outlined in CR1. Additional savings are expected to materialise in other departments via increased efficiency and reduced travel costs.

44. Property major maintenance and improvements: £0.2m in 2022/23 amounting to £0.3m over the MTFS period

For 2022/23 significant elements of the programme includes:

- £0.2m (£0.3m across the MTFS) for the replacement of County Hall lifts.

45. Climate Change - environmental Improvements: £0.4m in 2022/23 amounting to £0.8m over the MTFS period.

For 2021/22 this includes:

- £0.3m (£0.7m across the MTFS) to support SCORE+, the Schools energy efficiency scheme.
- £0.0m (£0.1m across the MTFS) for additional investment in Electric Vehicle Car Charging Points. The additional charging points will be targeted at public locations managed by the Council, such as Bosworth Battlefield and Beacon Hill, dependant on feasibility studies.

Future Developments

46. Capital projects that have not yet been fully developed or plans agreed have been excluded from proposed bids and will be treated as 'Future Developments'. 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.

47. The potential programmes and schemes that may require capital investment in the future include:

- ICT Investment: There is a need for significant investment in the ICT infrastructure including remote access, network connectivity, data centres and data storage, telephony and system back up. Further work is required to assess options.
- Country Parks: A number of initiative are being scoped to generate additional income from country parks including: development of former rangers buildings to be used as a café and community/work space at Market Bosworth country park; implementation of ANPR ticketless car parking at various country parks; resurfacing

Ashby Woulds heritage trail; and refurbishment of Broombriggs Farm cottage for short hold tenancy/holiday rental.

- Climate change: Continued development of Energy asset upgrades to corporate buildings to reduce running costs, and deliver on corporate energy strategy, environmental strategy and climate targets. In addition installation of solar panels to at Stud Farm to supply electricity via a Power Purchase Agreement (PPA) to the tenant farmer. Income from the PPA would accrue to the energy projects revenue budget, with payback anticipated within 15 years.

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 MTFFS 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.

Background Papers

Cabinet: 14th December 2021 – Medium Term Financial Strategy 2022/23 to 2025/26

Circulation under local issues alert procedure

None.

Officers to Contact

Chris Tambini, Director of Corporate Resources

Tel: 0116 305 6199

E-mail: chris.tambini@leics.gov.uk

Declan Keegan, Assistant Director of Finance & Strategic Property

Tel: 0116 305 7668

E-mail: Declan.Keegan@leics.gov.uk

Sara Bricknell, Finance Business Partner

Tel: 0116 305 7869

E-mail: sara.bricknell@leics.gov.uk

Appendices

Appendix A – Revenue Budget 2022/23

Appendix B – Growth and Savings 2022/23 – 2025/26

Appendix C – Capital Programme 2022/23 – 2025/26