



SCRUTINY COMMISSION - 29 JANUARY 2014

MEDIUM TERM FINANCIAL STRATEGY 2014/15 – 2017/18 - CORPORATE RESOURCES AND CORPORATE ITEMS

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose

1. The purpose of this report is to:
 - a) provide information on the proposed 2014/15 to 2017/18 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 2013. This has been the subject of a comprehensive review and revision in light of the current economic circumstances. The draft MTFS for 2014/15 – 2017/18 was considered by the Cabinet on 15 January 2014.

Background

3. Reports such as this have been presented to the relevant Overview and Scrutiny Committees. The Cabinet will consider the results of the scrutiny process before recommending a MTFS including a budget and capital programme for 2014/15 to the County Council on the 19 February 2014.

Financial Strategy

4. The MTFS is set out in the report to Cabinet on 15 January, 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 Transformation

5. The savings proposals outlined in the MTFS for Corporate Resources can be delivered under the existing operating model. Whilst this provides assurance that the savings can be delivered it may not be the best approach to providing support services for the County Council in the longer term.
6. A new Target Operating Model (TOM) for the County Council is being developed to enable the transformation and delivery of services through the significant financial

challenges being faced. This envisages:-

- A focus on prevention and early intervention to reduce demand for services
 - A focus on the customer/service user
 - Integration that reflects both an emphasis on the services provided by County Council, rather than by each department, and the integration and co-ordination of services across partner organisations
 - More community involvement in the delivery of appropriate services
 - A streamlined, concentrated and coordinated support service function
7. Whilst all of the features of the new TOM will be relevant to the way that Corporate Resources operates in the future its adoption also provides an opportunity to review how support services across the County Council are to be delivered. The intention is to starting with the question “what sort of support services will the organisation need in the future?” Transformation will lead to designing a new streamlined, concentrated and coordinated support service function to enable the County Council to cope with the reduced support service capacity.
8. The transformation of support services will require:
- A review of the current organisation of support functions, both within the central departments and across the County Council.
 - Developing the existing manager self-service model.
 - Strengthening support for commissioning and partnering.
 - Changing the level and type of support where services have reduced or changed focus.
 - Maintenance of support for the wider organisational transformation

Proposed Revenue Budget

9. The table below summarises the proposed 2014/15 revenue budget and provisional budgets for the next three years. The proposed 2014/15 revenue budget is shown in detail in Appendix A.

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Updated original budget	33,282	32,859	30,557	29,142
Other changes	250	250	250	250
Budget Transfers and Adjustments	1,222	3	0	0
Sub Total	34,754	33,112	30,807	29,392
Add proposed growth (Appendix B)	0	0	0	0
Less proposed savings (Appendix B)	-1,895	-2,555	-1,665	-1,200
Proposed/Provisional budget (Appendix A)	32,859	30,557	29,142	28,192

10. Detailed budgets for 2014/15 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 budget also includes provision for an increase in the employer’s contribution to the Local Government Pension Scheme in 2014/15 and the following three years based upon the triennial actuarial revaluation of the pension fund.
11. The proposed net budget for 2014/15 totals £32.9m and is set out below:

	£000
Employees	38,375
Running Costs	27,647
Gross Costs	66,022
Income	-33,163
Net Budget	32,859

Other Changes and Transfers

12. A number of budget transfers (£1.2m) were affected through the 2013/14 financial year that are now adjusted for in the updated original budget. These occur as a result of budget transfers enacted during the year arising from:
- a transfer from the centrally held inflation contingency to cover unavoidable increases on external supplies, primarily insurance premiums, utility costs, building maintenance expenditure and corporate contracts (£0.6m);
 - the nationally agreed staff pay award for 2013/14 (£0.3m)
 - transfers into the Finance service of funding for posts that had been previously been held by the Children and Families service (Early Intervention Grant) and Corporately (local government funding changes) (£0.2m)
 - Centralisation of existing Trade Union expenditure into a centrally held budget (£0.2m)
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.

Corporate Growth Items

15. Details of proposed growth are set out in Appendix B and total a reduction of £0.3m. These are detailed in the following paragraphs.
16. ** G18 Revenue consequences of Corporate ICT capital programme; £30,000 in 2014/15 rising to £60,000 in 2015/16, to £90,000 in 2016/17 and to £120,000 in 2017/18.
 The draft capital programme includes provision for the replacement of ICT infrastructure and licences. This revenue growth relates to support and licensing costs of the upgraded and expanded infrastructure.

17. * G19 Removal of time-limited contribution to Central Maintenance Fund; reduction of £500,000 in 2014/15.
In the 2013/14 MTFS a one off increase in the fund was made to provide for the replacement of several larger items of facilities equipment that have reached the end of their serviceable life. This negative growth line is the removal of the temporary funding.
18. G20 Contribution to Central Maintenance Fund for replacement of major items; £250,000 in 2014/15.
A permanent increase in the fund is proposed to allow the replacement of larger items of facilities equipment that have reached the end of their serviceable life. The actual items replaced will be determined based upon relative priority once costs and impact are known. This is a change in approach from that adopted in the previous MTFS (see paragraph 17) to allow better planning, and recognises the age of the County Hall facilities.
19. G21 School place planning strategy; time limited contribution of £500,000 in 2014/15.
One-off funding of £0.5m is provided to establish a dedicated cross departmental team to research, plan and co-ordinate the CYPS capital programme. The team is required to manage the significant increase in in capital grant announced by the Department for Education. The capital grant, to fund new school places, will total £51.5m for the two years 2015/16 to 2016/17 compared with £3.4m for 2014/15.
20. ** G22 Reduction in previous growth for elections; reduction of £135,000 in 2014/15.
To ensure sufficient funding is available for the cost of elections, growth was included in the MTFS to allow an earmarked fund of £1,000,000 to be built up every four years. The initial fund was built over three years; hence the contribution could be reduced (£85,000) in future years. A further reduction (£50,000) has been applied, as the cost of holding separate County Council elections is lower than originally estimated.

Savings

21. Details of proposed savings are set out in Appendix B and total £7.3m. These are detailed in the following paragraphs.

Efficiency Savings

22. 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:
- More required of managers, who will need to continually develop in order to manage with less support.
 - There will be less capacity in the base budget for supporting change. These requests will have to be met from one-off resources.
 - Central departments will be less responsive to support requests, with need of prioritisation.
 - Central support will be more standard in nature, including accommodation and ICT systems.
 - Greater financial dependency on traded services, i.e. as Corporate Resources shrinks and their relative financial contribution grows.

- The County Council will need to consider new ways to mitigate a potential increase in risks.

23. The specific saving proposals are detailed below.

24. ** S81 Review of Strategic Finance, Property & Procurement; £350,000 in 2014/15 rising to £570,000 in 2015/16, to £910,000 in 2016/17 and to £1,110,000 in 2017/18.
The main source of savings will be delivered through staffing reductions, across all of the main teams and levels of staff (£840,000). Due to its size relative to the other functions accountancy represents the majority of staff savings, this will be partially enabled by the implementation of a new reporting tool.

Additional income will contribute to the section's savings (£230,000). The majority is expected to arise from the ESPO surplus, which will need to be delivered consistently in future years. Internal Audit's trading with academies is also planned to grow.

The balance of savings (£40,000) is expected to be delivered through a review of the classes and levels of insurance taken. This review will consider the balance of insurance premium paid and the risk of claims. This review will be supported by an actuarial assessment of future claims expectations.

25. ** S82 Operational ICT review; £410,000 in 2014/15 rising to £1,000,000 in 2015/16, to £1,440,000 in 2016/17 and to £1,650,000 in 2017/18.

The largest element of savings will be achieved through contract reductions (£720,000). This will be found across a range of external contracts, through a mixture of renegotiation, system/equipment replacement and rationalisation of use. Although deliverability is dependent upon external parties and replacement of existing equipment/systems approximately half of these savings have already been secured.

Staff savings are a significant contributor to the overall total (£540,000). These will be achieved through a range of initiatives, including: consolidation of teams; automation of tasks and standardisation of equipment/systems.

Improvements in Operational ICT's trading activities are expected to make an increased contribution (£240,000) from a combination of new customers and reducing support costs. This will be dependent upon securing contracts with schools outside of Leicestershire.

The final proposal for the Operational ICT savings is through reduced expenditure on PC hardware (£150,000). This will be enabled by a transition to thin client architecture which has an increased lifespan.

26. ** S83 Operational Property review; £800,000 in 2014/15 rising to £1,500,000 in 2015/16, to £1,750,000 in 2016/17 and to £1,840,000 in 2017/18.

The saving proposed for Operational Property (£840,000) relates to reduced contract expenditure. The facilities and maintenance contracts are the main contributors, with cost reductions delivered through renegotiation supported by smaller savings from specification reductions and reduced waste and postage costs.

Additional income is a significant contributor to the savings in this area (£390,000.) The majority will be achieved from the industrial properties and farms portfolio. Additional investment is proposed to increase both the size and occupancy levels of the estate.

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

Better use of the Eastern Annex is proposed to deliver savings (£150,000). This is a combination of reviewing how the County Council currently uses the building and exploring the potential for renting out some of the warehouse space.

A range of initiatives are proposed to deliver staff savings (£460,000), with approximately one third of the savings already secured.

27. S84 Senior Management & Business Support; £140,000 in 2016/17.
A reduction in the senior management and associated support is proposed.
28. S85 School Food Support Service; £200,000 in 2014/15 rising to £280,000 in 2015/16, to £330,000 in 2016/17 and to £350,000 in 2017/18.
An increase in the contribution from the service is being targeted from a combination of increased sales and a reduction in costs.
29. ** S86 Review of People and Transformation; £40,000 in 2014/15 rising to £440,000 in 2015/16, and to £880,000 in 2017/18.
The main source of savings will be delivered through staffing reductions (£720,000). Saving in management and staff will be targeted from HR, Learning and Development (L&D) and the Change Management Unit.
- Additional income will contribute to the section's savings (£100,000). This is from a combination of expanding the existing Health and Safety trading with academies and trading of L&D services to the social care sector.
- The final portion of savings (£60,000) is expected to be delivered through a reduction in lower priority L&D expenditure.
30. ** S87 Strategic Information Technology & Comms Review; £30,000 in 2014/15 rising to £80,000 in 2015/16, to £420,000 in 2016/17 and to £620,000 in 2017/18.
The main area of savings is expected to be staff reductions (£510,000). 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.
- The main contribution from non-staff savings (£110,000) is expected to come from additional income from design and media relations work plus reduced spend on marketing campaigns, through a more corporate approach to prioritisation.
31. ** S88 Efficiency savings from sharing services with Nottingham City Council; £190,000 in 2014/15 rising to £390,000 in 2015/16.
Savings are expected to be delivered principally from staff reductions. Delivery is currently ahead of plan for the current year and future savings will be implemented as the service continues to stabilise.
32. ** S89 Carbon / Energy savings; £200,000 in 2015/16 rising to £300,000 in 2016/17.
Savings are proposed from a more energy efficient property estate. An energy strategy is currently being developed which will include a range of energy efficiency measures and renewable generation on an invest to save basis.

33. ** S90 Contingency; £165,000 reduction in 2014/15 changing to a £115,000 reduction by 2017/18.

The various savings proposals outlined in the paragraphs above have different degrees of risk associated with them. The Department continues to set a higher savings target than required. This will provide a contingency if some of the proposed changes are not fully achieved or delayed.

Service Reductions

34. S91 Country Parks & Forestry - reduction of maintenance on parks and free tree planting schemes; £40,000 in 2014/15 rising to £50,000 in 2015/16, and to £80,000 in 2017/18.

This forestry element of this saving relates to a 40% reduction in the budget for the free tree scheme (£20,000). The Country Parks proposal is for the existing number of sites to be maintained with fewer resources.

35. S92 End support for community ICT; £70,000 in 2015/16.

It is proposed to withdraw internal and 3rd party contract support for Community ICT that is currently provided without charge. This support covers Leicestershire Villages, Leicestershire Parishes and a number of partnership sites.

Other Funding

36. Corporate Resources receives a significant amount of income from external sources, including retained schools. For 2014/15 this trading income is expected to be in excess of £26m or 40% of the gross departmental budget. Schools and academies are the largest customer group accounting for £17m of the income. The certainty of this income has reduced due to cost pressures being faced by public sector partners and the academy conversion process that has increased competition. Despite this trading performance has been better than initially anticipated, however competition may increase further as the private sector looks for additional growth.
37. 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. Significant activities that are financed by the earmarked funds, which have been identified to date, are: Framework development, SSIS decommissioning, ICT development work, the central department's efficiency projects, ICT renewals and property asset management projects. Additional use of earmarked funds may be added during the year if further support requirements are identified that exceed what is available through the base budget.

Capital Programme

Corporate Resources Programme

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

Project	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
ICT Services	2,137	1,450	500	500
Property	405	0	0	0
County Farms	150	150	150	150
Total	2,692	1,600	650	650

39. The ICT Services programme includes the following schemes: the on-going replacement and development of the ICT infrastructure across the corporate estate (£500,000 from 2014/15); refresh of the corporate wide area network whose contract expires in summer 2014 (£840,000 in 2014/15); online services project to improve the customer experience and internal efficiency (£500,000 in 2014/15); replacement of the electronic document and records management system (£130,000 in 2014/15); procurement of tools to enable improved use of data internally and with partners (£120,000 in 2014/15); and re-provisioning of the ICT data centre, which does not meet modern standards in several areas (£50,000 in 2014/15 and £950,000 in 2015/16), (note: depending upon the solution chosen this project may only require revenue funding.)
40. The Property programme covers two schemes, as follows: replacement of the obsolete Property Management Information System (£255,000 in 2014/15) and demolition of vacant buildings to improve saleability of two sites (£150,000 in 2014/15).

Corporate Programme

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

Project	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Refurbishment of former Fire HQ	778	0	0	0
Energy Strategy	1,780	930	1,290	0
Corporate Asset Investment Fund	1,000	4,000	5,000	5,000
Total	3,558	4,930	6,290	5,000

42. The refurbishment of former Fire HQ project is a continuation of the scheme from 2013/14 and entails the refurbishment / redevelopment works to re-fit the building for County Council requirements.
43. The Energy Strategy programme will be a series of invest to save measures to deliver revenue savings and carbon reduction in line with the Environment Strategy. The types of improvements that will be implemented include: renewable energy generation, behavioural change, energy efficiency improvements to heating and lighting and improvements to energy consumption measurement, monitoring and reporting.
44. It is proposed that a Corporate Asset Investment Fund be established which would be used to add to the County Council's portfolio of property and land assets including County Farms and commercial properties with a view to:
- Ensuring that there is a more diverse range of properties available to meet the aims of economic development

- Increasing the size of the portfolio
- Improving the quality of land and property available and
- Ensuring the sustainability of the County Farms portfolio by replacing land sold to generate capital receipts.

45. It would have the incidental benefit of generating a surplus which could be used to support the County Council's functions.

46. Governance arrangements for the fund are being developed.

Recommendation

47. The Commission is asked to consider the report and any response it may wish to make.

Equal Opportunities Implications

48. Many aspects of the County Council's MTFS budget are directed towards the needs of disadvantaged people. Where proposed savings are likely to have an adverse impact on service users protected under equalities legislation, Equality Impact Assessments must be undertaken at a formative stage of developing proposals prior to all final decisions being made. Assessments are being undertaken in light of the potential impact of proposals and the timing of the proposed changes.

Background Papers

Cabinet 15 January 2014 - Medium Term Financial Strategy 2014/15 to 2017/18

Circulation under local issues alert procedure

None.

Appendices

Appendix A – Revenue Budget 2014/15

Appendix B – Growth and Savings 2014/15 – 2017/18

Appendix C – Capital Programme 2014/15 – 2017/18

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, Assistant Director, Strategic Finance, Property and Procurement, Corporate Resources Department

Tel: 0116 305 6199

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

Declan Keegan, Finance Manager, Corporate Resources Department

Tel: 0116 305 7668

E-mail: declan.keegan@leics.gov.uk

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