

Money Matters - Recommendations and Budget Adjustment Proposals arising from Zero Based Budget Reviews

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Recommendations and Budget Adjustment Proposals arising from Zero Based Budget Reviews

1. Executive Summary

As part of the February 2016 budget strategy and budget setting process a Zero Based Budget Review (ZBBR) exercise was commenced, with a view to identifying any further efficiency savings and/or budget realignments within service and corporate budgets.

The ZBBR work has been led by Commissioning with close liaison with finance and service colleagues. The work plan has been overseen by the ZBBR Board, which consists of members of Management Team.

It was agreed that the exercise should be undertaken to ensure that scrutiny of budgets across the council is maintained and efficiency savings continue to be identified and taken wherever possible, being mindful not to duplicate review and savings exercises already underway in many service areas.

In addition to identifying further efficiencies and budget realignments within service budgets, the reviews have also looked at how services compare with lower quartile benchmark costs and whether alternative service delivery models, within the context of the overall current operating model, could result in lower cost services.

As a result of the ZBBR work undertaken, a total of **£6.320m** has been identified as proposed budget reductions for 2017/18.

This report provides the detail of the ZBBRs undertaken and the recommendations and proposals arising from each review. Cabinet are requested to note the proposals, which will form part of the overall Medium Term Financial strategy and budget proposals that will come forward for Full Council approval in February 2017.

2. Recommendations

The Cabinet is recommended to note the following proposals in relation to the council's budget for 2017/18:

1. Corporate budgets – remove the £1.295m revenue contribution to City Deal and capitalise the payment. This will incur additional borrowing costs in the order of £0.080m pa which will be netted off the revenue saving. In addition the corporate fees and subscriptions budget can be reduced by £0.030m;
2. Design and Construction – reduction in the overall net budget for the service by £0.322m, from a combination of a staffing restructure saving £0.243m, additional income and reductions in non staffing costs of £0.107m and the introduction of a fee for repair and maintenance work of £0.357m, offset by a reduction in Prop scheme income of £0.204m and a reduction in the corporate fee charged to capital of £0.181m;
3. Trading Standards – increase the income budget for the service by £0.033m, by the direct employment of an Accredited Financial Investigator;

4. Health, Safety and Resilience – reduce the net budget overall by £0.182m, from a reduction in the non-staffing budgets by £0.025m to reflect recurring underspends, and increase the income budget by net £0.157m to reflect a new health and safety related service for schools;
5. Legal and Democratic services – reduce the overall net budget by £0.344m. This is made up of a combination of recurring underspends and a reduction in external legal costs totalling £0.656m, offset by a pressure on the Coroners budget and other legal cost increases totalling £0.312m;
6. Operational income and recharges review - a total of £1.890m budget reductions have been identified from a review of the operational income and recharges budgets. Of this total £0.305m is in relation to additional income from streetworks activities and £1.585m relates to the recalculation of overhead charges resulting in revenue budget reductions of £1.585m.
7. Estates – a net saving of £0.304m can be achieved from the Estates budget from a combination of recurring underspends and increases in income.
8. Traded services and School Improvement – this review focussed on the disaggregation of the various services and determination of their individual contributions to corporate overheads. The review concluded that overall the service contributes c £6.5m towards corporate overheads, with the school's catering service contributing c£4.8m of that total (based on 2015/16 outturn). Based on current year monitoring the base budget for the service can be reduced by £2m overall, to reflect additional income generation, primarily from the school catering service.

3. Background

The zero based budget review (ZBBR) work commenced as a Commissioning led activity early in the new year of 2016. The work has been governed and overseen by a ZBBR Board, consisting of members of Management Team.

The purpose of the ZBBRs has been to undertake a detailed and thorough review of services with a view to:

- understanding and challenging all aspects of spend (operational and staffing) to identify any potential budget reductions arising from further service efficiencies and/or budget realignments;
- undertaking appropriate benchmarking and unit cost comparisons to identify any areas of potential 'high spend' for investigation;
- reviewing current operating models and where appropriate investigating alternative service delivery models.

It was agreed that the reviews should be undertaken to ensure that services and budgets are kept under scrutiny, and efficiency savings continue to be identified and taken wherever possible, being mindful not to duplicate the reviews and savings exercises already underway in many service areas.

As part of the reviews, benchmarking with other similar authorities has been undertaken, alongside research into alternative service delivery models to identify any further potential cost savings, within the context of the council's current operating model.

4. Completed Reviews – Conclusions and Recommendations

a) Corporate Budgets

This review analysed a number of elements which make up the council's 'costs of being business'. Most of the costs are fixed, for example pension liabilities and treasury management/MRP (debt) payments, however the ability to capitalise the £1.295m revenue contribution currently made towards the City Deal has been identified as a potential revenue budget reduction that can be made. This (fixed sum) payment is due annually until 2023/24. The capitalisation of this amount would incur additional borrowing costs in the order of £0.080m which will be netted off the revenue saving. The corporate subscriptions and fees budget can also be reduced by £0.030m, based on previous years' outturn underspend positions.

Please see Appendix 1 for details.

b) Design and Construction

This review was the first service based ZBBR undertaken and focussed on the non-highways aspects of the service. It involved a detailed 'unpicking' of each element of service, including a line by line analysis and realignment of each budget element, detailed analysis of staff time spent across all service areas, a review of current and future capital programmes to determine the appropriate level of fee income and a

review of the 'Prop' scheme to ensure full cost recovery.

The review concluded that a revised staffing structure should be implemented, incorporating fewer manager posts, more permanent posts than at present to reduce the reliance on agency, and a change to the mix of grades. The review also concluded that the service should charge a fee for Repair and Maintenance work and realign income budgets to more accurately reflect actual deliverable income.

The combination of these changes resulted in overall net budget savings for the service for 2017/18 of £0.322m, and confirmation that the service overall makes a positive contribution to corporate overheads of c. £1.9m per annum. The net savings of £0.322m are derived from a combination of cost reductions, offset by some additional pressures. The staffing restructure for the service results in savings of £0.243m, additional net savings are derived from additional income and reductions in non-staffing costs of £0.107m and the introduction of a fee for repair and maintenance work of £0.357m. The savings are offset by reductions in income in relation to the Prop scheme of £0.204m and a reduction in the corporate fee charged to capital of £0.181m.

Directly comparable benchmarking of this service was difficult however a review of different service delivery models, for example, 'buying in' some elements of the service were not considered to be cost effective and would reduce the significant positive contribution made by this service to corporate overheads.

Please see Appendix 1 for the details of this review.

c) Trading Standards

This review focussed on the opportunities that the service can develop in order to reduce its overall net costs. The review concluded that although the service has higher than lower quartile benchmark comparator gross costs (when closed landfill and scientific services are included in the analysis), the service achieves higher quartile income levels, resulting in an overall lower quartile net position for the service. The service has significantly reduced its headcount in recent years whilst maintaining a flexible approach to service delivery and maintaining high levels of income generation. The service is part of regional and national network groups and maintains a regular review of its operational efficiency and methods of service delivery.

As part of the ZBBR an opportunity to generate additional income was identified from the direct employment of an Accredited Financial Investigator (AFI), and an additional net income budget of £0.033m can be included in the service budget for 2017/18. This is made up of additional income of £0.075m, offset by additional staffing costs of £0.042m. It is proposed to employ the AFI initially on a temporary 2 year basis to assess the achievement of the anticipated income levels.

Please see Appendix 2 for the details of this review.

d) Health, Safety and Resilience

This review identified a relatively small amount of recurring underspends, which enable the reduction of non-staffing budgets in the service by £0.025m, together with

a more significant increase in the service's income budget by a net overall total of £0.157m due to a new health and safety management and advice service for schools. The income from the new scheme is anticipated to generate £0.350m, offset by staff costs of £0.193m.

Again, this service is difficult to directly benchmark against however the review concluded that the current operating model is cost effective due to the significant income that the service generates from providing services to external parties, combined with recent reductions in headcount and a flexible approach to service delivery.

Please see Appendix 3 for the details of this review.

e) Legal and Democratic Services

The review of legal and democratic services has identified an overall reduction to the net budget of £0.344m. This is made up of a combination of recurring underspends offset by some cost pressure increases. Recurring underspends for areas of the non-staffing budget such as agency and official visitors have been identified totalling £0.306m. In addition, the budget for external legal costs can be reduced by £0.350m to reflect the new structure for the service which has less reliance on external staff. Offsetting these savings is a pressure on the Coroners budget of £0.163m. In recent years the Coroners service has not been able to contain costs within the base budget. This reflects the current operating model for the Coroners service which is currently under review and a new operating model for the future may result in lower costs beyond 1st April 2017. In addition there are pressures on the general legal services budget £0.149m.

Direct benchmarking of this service is difficult however a review of the unit costs of the various aspects of the service suggest that the service is not excessive in terms of the costs of provision and recent restructures have taken significant resource out of democratic services in particular.

Please see Appendix 4 for details of this review.

f) Operational Income and Recharges

A total of £1.890m budget reductions have been identified from a review of operational income and recharges. Of this total, £0.305m additional income can be achieved from streetworks activities, arising from a combination of the newly introduced permit scheme and higher than anticipated fees for general streetworks inspections and licences. In addition a review of the overhead calculation and resulting charge to revenue will achieve an additional revenue budget reduction of £1.585m, arising from a reapportionment of the overhead charges between revenue and capital. This is due to an increase in the amount of operational work now funded from the capital programme and less operational work funded from the revenue budget, which enables the recharge budget within revenue to be reduced.

Please see Appendix 5 for details of this review.

g) Estates

This service is responsible for delivering a significant saving in respect of the

corporate Property Rationalisation and it is acknowledged that there is a degree of risk around the timeframes for delivering the running cost savings, however the service does generate significant income through charging of fees for services and the review focussed on the degree to which additional income could be built into the base. Upon investigation the degree of risk in terms of the timing of various activities such as the ability to sell or hand back surplus properties, the timeframes for maintaining assets no longer in service use, lead to the conclusion that it would not be prudent to build any further income targets or cost reductions into the budget for 2017/18. However, the service will continue to review its performance and expects to be able to reduce its costs from 2020 when the majority of the activity in relation to the Property Strategy has been completed.

A number of relatively small recurring underspends and some additional income has been recommended as budget savings to the net value of £0.304m. This comprises of £0.035m of recurring savings in the non-pay budgets, £0.018m increase to the LCDL income budget, £0.201m increase to the capital recharge budget, and £0.050m additional income from charging for surveyor time in relation to property sales.

Again, directly comparable benchmarking of this service was difficult however a review of different service delivery models, for example, 'buying in' some elements of the service were not considered to be cost effective and would reduce the significant positive contribution made by this service to corporate overheads. There may be opportunities to review and change the current operating model as part of wider organisational changes.

Please see Appendix 6 for details of this review.

h) Traded Services and School Improvement

This review focussed on the disaggregation and detailed analysis of the various individual services which form part of Traded Services and School Improvement services, in order to understand the contribution each service makes to corporate overheads. The review concluded that (based on the 2015/16 outturn) all of the individual services, with the exception of the Outdoor Education service, do make a positive contribution to corporate overheads, and overall the total contribution was c£6.5m. The service which contributed the most to this position was School Catering, which has seen a significant increase in turnover. In 2015/16 the service generated c£4.8m towards corporate overheads. The position of the Outdoor Education service will improve as a result of the budget decision made in February 2016 to close the Whitehough outdoor education facility, which was not recovering its operational costs.

The review also considered the benchmarked position of the services, and concluded that Lancashire's costs for education (non-schools) and children's social care services are significantly below the average of our benchmark neighbours. Additional investment in a number of children's services is currently being made.

Following the conclusion of the review, an analysis of the current year monitoring position for the service has concluded that the service overall will generate a £2m surplus from additional income recovery, primarily in relation to the School Catering

service. The recommendation therefore is to reduce the overall base budget for the service by £2m by increasing the service income target.

j) Other Services

A number of other high level assessments were also undertaken and concluded that at this present time no further efficiencies could be identified beyond the savings already being delivered through numerous existing service re-design exercises in the context of the council's current operating model. These services include Wellbeing Prevention and Early Help, Transport, Health, Equity and Partnerships, Patient Safety and Safeguarding, Waste, Countryside, Libraries, Museums, Culture and Registrars services, Scientific Services, Core Systems, Asset Management, Facilities Management, Communications, Customer Access, Commissioning, Programme Office, Finance, HR, Procurement, Audit and Business Intelligence.

3. Next Steps

Following on from the ZBBR work, the proposed next steps are to undertake a review of all services to determine what further savings could be made based on lowest quartile cost services. This will include a review of current policy and service standards across all services, and consideration of alternative service delivery models. This work will be undertaken as part of the council's review of its overall service delivery model. The work will also incorporate an assessment of the impact of moving to lowest quartile cost services on the council's ability to maintain minimum levels of statutory service provision.

Zero Base Budget Review (ZBBR) – Design and Construction (Buildings)

February 2016

1.1 Background

This review considered the Design and Construction (Buildings) element of the Design and Construction service. It involved the rigorous financial challenge of the cost and contribution of the service to the council through the detailed analyses of the service budget, taking account of all expenditure and income. There was a particular challenge of income generation and cost recovery against the budget, taking account of staff resources and the reported under recovery of income.

The current business model for the service is based on in-house delivery of design, programme and project management with construction and maintenance works delivered through contracts and framework agreements. Income is generated through the recovery of fees for both internal and external projects. The business model for each work stream was reviewed to challenge its appropriateness for the Authority.

The ZBBR demonstrated that the Design and Construction (Buildings) business model is sound and makes a significant contribution to the County Council overhead, without excessive or uneconomical re-charges to capital. It has established that there are significant benefits to the authority in delivering this service through in-house resources. The total value of work delivered through the services annually is £50 – £70m.

The review resulted in the implementation of a new staffing structure and the identification of a total of £0.322m net budget savings to be realised in full in 2017/18. The net savings of £0.322m are derived from a combination of cost reductions, offset by some additional pressures. The staffing restructure for the service results in savings of £0.243m, additional net savings are derived from additional income and reductions in non-staffing costs of £0.107m and the introduction of a fee for repair and maintenance work of £0.357m. The savings are offset by reductions in income in relation to the Prop scheme of £0.204m and a reduction in the corporate fee charged to capital of £0.181m.

1.2 Financial Summary

1.2.1 2015/16 Final Position

The service final outturn position in 2015/16, including the budget for grade 11+ managers, resulted in a £0.365m overspend against its net income target. However, it should be noted that within this figure there is a non-recurring issue which is distorting the true operating position for the year. Income of £0.451m relating to 2015/16 was incorrectly included in the 2014/15 financial year through a year-end accounting adjustment. This resulted in an income shortfall in 2015/16.

The final position restated to remove the effect of this error results in a total underspend of £0.086m. This restated position provides a £1.715m net surplus of income over expenditure for the service which makes a significant contribution to the cost of corporate overheads.

1.22 Review of Fees & Non-Staffing Budget

The costs incurred by the Design and Construction (Buildings) service in relation to the repair and maintenance of county buildings will be recharged to the repair and maintenance budget held in Asset Management. These costs are not currently recovered and sit as a cost within the overall Building Design and Construction (BDC) budget. A fee rate of 9.8% will be applied to all repair and maintenance works costs. The 9.8% rate is consistent with the charging policy applied when this recharge was carried out in previous years

This will generate additional fee income for the BDC service of approximately £0.357m based on a total repair and maintenance budget of £4.000m. There will be no increase to the total repair and maintenance budget as this represents the correct accounting allocation of costs to services and will be absorbed within existing budget provision.

Other budgeted fees in relation to Capital and the PROP scheme have been reduced to reflect a more realistic income target position. The Corporate Fee charged to Capital to recover non direct costs associated with the development, procurement and monitoring of the Capital Programme has been recalculated to reflect current costs. This has resulted in a £0.181m reduction in the recharge to Capital. The PROP scheme fee charged in 15/16 included income generated due to the additional work arising from flood damage in schools. This additional income is not expected to be recurring and the budget has been reduced by £0.204m, largely to reflect this.

Analysis and realignment of the other fee income streams and non-staffing costs contained within this budget also resulted in a net saving of £0.107m.

1.23 New Staffing Structure

As described above the Design and Construction (Buildings) service is structured to incorporate a set of professional disciplines required to deliver a comprehensive design and project delivery service. This is a significant establishment with a total staff cost (inc Agency) in 2015/16 of around £5.200m.

The new structure as approved by management team reduces the management cohort and introduces a number of additional permanent posts to better balance the proportion of staff to Agency.

Whilst the new structure provides a level of resource which will be sufficient to manage a workload and capital programme similar to 2015/16 there will be periods when additional capacity is required. Where there is a peak increase in required capacity, either in the short term or as is likely to occur in 2017/18 due to increased Basic Need Allocation, this increase will be managed through the engagement of agency staff and framework consultants as required, working alongside the in-house staff.

A comparison between the 2015/16 actual staff cost and the cost of the new structure is provided in the table below.

	Staff (£m)	Agency (£m)	Total (£m)
Current Personnel Resource Costs for 2015/16 inflated at 2016/17 cost	3.862	1.300	5.162
New Personnel Resource Costs 2016/17	4.569	0.350	4.919
Net Saving			0.243

The staffing and income budgets prior to the ZBBR are based on a historical capital programme value which was significantly higher than current levels. To correct this issue the budgets would have been realigned to reflect the current position and this would have reduced the staffing budget down to £5.162m as outlined in the table above. This would have been mirrored by a corresponding reduction in the recharge to capital budget with a 'net nil' effect on the total budget. As such, the new structure cost of £4.919m represents a £0.243m saving against the realigned budget position.

1.3 Design and Construction (Buildings) Work streams

There are nine principal work streams delivered through the service. These include both fee earning and none fee earning works:

Fee earning:

- Capital Programme
- Pooled Resources Operational Plan (PROp)
- Other Schools – including Service Level Agreements
- Grounds and Cleaning
- Care Services – marginal fee recovery
- Other – external works

Non-fee earning:

- Repair and Maintenance
- Sports Ground Safety Inspections – Statutory responsibility
- Chronically Sick and Disabled People – modest support provided through Building Services

A brief outline of each work stream is outlined below, including a financial summary position illustrating the service expenditure, income and net surplus or deficit based on the restated position as referred to above. Further background information providing more detail of the services provided through Design and Construction (Building) is included within the Service Overview section below.

1.31 Capital Programme

This programme delivers the principal planned capital programme for the County Council. This programme is developed through the Asset Team and includes works in response to Education Basic Needs; Condition Led works and other works delivered on retained buildings.

Table 1: Capital Programme:

	£m	Comment
Expenditure (above the line)	2.349	
Income	-3.918	
Net	-1.569	Net surplus: 67%
CDS/Recharge (below the line)	0.191	
Net of all Expenditure	-1.378	Net surplus after CDS: 59%

A review of fees across other public and private sector providers has demonstrated that the fee structure in place is consistent and therefore not over-recovering through the capital programme. However it is recommended that an annual review of fees is introduced to take account of the capital programme and the size and nature of projects included within it.

1.32 Pooled Resources Operational Plan (PROp)

This is a non-profit making, traded, building and maintenance scheme for all Primary, Nursery, Special Schools and ACERS/PRU, whether community, aided or academy schools. This is an opt-in service offered to schools, there are other alternatives available to schools in the market. The scheme helps schools manage their estate in an organised and compliant way, to ensure construction and Health and Safety regulations are met.

The Projects income stream detailed below has been used to identify those projects which mainly arise out of the relationship with schools through the PROp agreement. The PROp agreement encourages schools to set aside monies for revenue planned maintenance works which are typically up-to a value of £10k with minimal design input and these attract the agreed 8% fee (such as new carpet , redecoration) . However the school is able to pool this money and supplement it with additional funding such as Devolved Formula capital (DFC) and schools own funding in order to undertake more substantial works, these works would typically attract a greater fee as greater design input and appropriate approvals are generally required i.e. planning approvals, building regulations.

Whilst not formally part of the PROp scheme there is a co-dependence between these works. They have therefore been considered together, but their financial position has also been reported separately below:

Table 2: PROp Planned, Reactive and SLA Scheme

	£m	Comment
Expenditure (above the line)	1.090	
Income	-1.604	
Net	-0.514	Net surplus: 47%
CDS*/Recharge (below the line)	0.100	
Net of all Expenditure	-0.414	Net surplus after CDS: 38%

*CDS – Central Departmental Services

Table 3: Schools Projects

	£m	Comment
Expenditure (above the line)	0.940	
Income	-0.937	
Net	0.003	Net deficit: 0%
CDS*/Recharge (below the line)	0.081	
Net of all Expenditure	0.084	Net deficit after CDS: 9%

*CDS – Central Departmental Services

The combined effect of these two work streams is a net surplus of £0.330m or 16% before contribution to corporate overheads. As this is a contract let on the basis of it being a non-profit making building and maintenance scheme for schools this level of recover was concluded to be appropriate.

In addition to the benefits already noted for the schools, it should also be recognised that the direct involvement of the service in the maintenance of the schools asset is benefit for the county council. This helps ensure that buildings are properly maintained and remain compliant, thus protecting the county council in its function as employer for the majority of schools on PROp.

The participation in the scheme has been consistently high with a very low proportion of schools leaving the scheme. 387 schools have been with the scheme for the full five years of operation, equating to a 95% customer retention rate. There are 422 schools within the scheme for 15/16 which is the highest participation rate since it began in its current form in 2011.

The scheme is funded through a schedule of fees that have been agreed as part of the three year contract (2014/15 – 2016/17). The current contract is currently in its second year and will end on 31st March 2017. Whilst levels of satisfaction are high and cost recovery is appropriate it is recommended that the agreement is reviewed again ahead of its next iteration. This should include further consultation with the Schools Forum as well as a review of fee levels.

1.33 Other Schools

This includes the provision of service level agreements with secondary and other schools which are not eligible for PROp. Rather than funding being made available as a pooled resource as in PROp each school forms its own agreement with Lancashire County Council, using an established standard set of fees across the various professional service packages available. Projects and services are funded by the school as they call on them.

Table 4: Other Schools and Service level Agreements

	£m	Comment
Expenditure (above the line)	0.063	
Income	-0.073	
Net	-0.010	Net surplus: 15%
CDS/Recharge (below the line)	0.006	
Net of all Expenditure	-0.004	Net surplus after CDS: 6%

It is recommended that SLAs continue to be offered under this model, but that fees are kept under annual review, as with other workstreams.

1.34 Grounds and Cleaning Services

This traded service offers premises managers advice and support in relation to grounds and cleansing needs and requirements. A range of different packages are available and can be selected to enable a tailored suit of services to be developed for each schools requirements:

- Building cleaning standard package including school site supervision and caretaking.
- Building cleaning enhanced package.
- Grounds and sports-field maintenance.
- Swimming pool water balance testing
- Play equipment inspection service that complies with the current BS and EN standards

Table 5: Grounds and Cleaning Services

	£m	Comment
Expenditure (above the line)	0.410	
Income	-0.767	
Net	-0.356	Net surplus: 87%
CDS/Recharge (below the line)	0.039	
Net of all Expenditure	-0.317	Net surplus after CDS: 77%

This is a popular service with schools which generates a significant level of return for the County Council. It is appreciated that there are potentially links between this traded service and those offered through Traded Services (Start Well). The outcome of the work done to explore the benefits of locating this service within Traded Services is that there are greater benefits to it remaining within Design and Construction (Buildings) allowing a single property maintenance for schools to be offered through one service area.

It is recommended that this service continue to be delivered within Design and Construction (Buildings) to the same business model.

1.35 Care Services

This programme provides a service to maintain kitchens in care homes, although this generates a very modest income, this does not recover the full cost of delivering this service.

Table 6: Care Services

	£m	Comment
Expenditure (above the line)	0.151	
Income	-0.028	
Net	0.123	Net deficit: 81%
CDS/Recharge (below the line)	0.013	
Net of all Expenditure	0.136	Net deficit after CDS: 90%

The delivery of this service through Design and Construction (Buildings) takes advantage of the various professional skills and experience within the team. However it is recommended that budgetary and accounting adjustments are made to ensure the whole cost of this function is captured in their entirety against the correct service, Adult Services. This will ensure that the costs that are currently hidden within the overall bottom line for Design and Construction (Building) are recharged to the appropriate budget and that the true surplus of this service can be easily identified.

1.36 Other

Design and Construction (Buildings) provide a service for external organisations. Currently work is carried out for Lancaster City Council, some non-Lancashire schools and Lancashire Police. This is a small element of the work programme due to the resources available, this could be enhanced in the future, but would need to be resourced accordingly.

Table 7: Other Works

	£m	Comment
Expenditure (above the line)	0.219	
Income	-0.233	
Net	-0.014	Net surplus: 6%
CDS/Recharge (below the line)	0.021	
Net of all Expenditure	0.007	Net deficit after CDS: 3%

As stated previously the fee structure used by the service is consistent with other public and private sector organisations providing these services. This should be kept under annual review to ensure it remains consistent.

However, there may also be opportunity with this type of work to introduce a model whereby fees are developed on a project by project basis, as they would be in the private sector. This could enable managers to take account of workloads and other influencing factors at that point in time.

1.37 Repair and Maintenance

This includes the professional support and delivery of repair and maintenance works delivered across the county council retained properties. The total value of works within this work stream is approximately £5.200m.

Table 8: Repair and Maintenance

	£m
Expenditure (above the line)	0.551
Income	0.000
CDS/Recharge (below the line)	0.048
Net of all Expenditure	0.599

Whilst the delivery of this work stream is appropriate for the Design and Construction (Building) Service, as this is where the relevant professional skills and experience are located, it is recommended that budgetary and accounting adjustments are made to ensure the whole cost of this function is captured in their entirety against the correct service, Asset Management. This will ensure that the costs that are currently hidden within the overall bottom line for Design and Construction (Building) are recharged to the appropriate budget and that the true surplus of this service can be easily identified.

1.38 Sports Grounds Safety Inspections

This is a statutory function and it is not permitted to generate income from the function. The authority is required to inspect sports grounds and issue safety certificates as appropriate. There are currently 12 grounds which require this function, with a further 47 which may fall in to the required definition if they change their requirements or secure a significant fixture.

Table 9: Sports Grounds

	£m
Expenditure (above the line)	0.039
Income	0.000
CDS/Recharge (below the line)	0.003
Net of all Expenditure	0.042

The relevant professional skills and expertise lie within the Design and Construction (Building) service to deliver this function. However it is recommended that the necessary budgetary and accounting adjustments be put in place to ensure the whole cost of functions are captured in their entirety against the correct service. This function primarily addresses a public health protection issue, and a recharge to this service area should be explored to establish the most appropriate budget to charge this against. This will ensure that the costs that are currently hidden within the overall bottom line for this service are recharged to the appropriate budget and that the true surplus of this service can be easily identified.

1.39 Chronically Sick and Disabled People (CSDP)

This programme installs and maintains equipment in the homes of Lancashire residents who are Chronically Sick and Disabled, enabling them to remain at home rather than require residential care.

Table 10: CSDP

	£m
Expenditure (above the line)	0.031
Income	0.000
CDS/Recharge (below the line)	0.003
Net of all Expenditure	0.034

The delivery of this service through Design and Construction (Buildings) takes advantage of the various professional skills and experience within the team. However it is recommended that budgetary and accounting adjustments are made to ensure the whole cost of this function is captured in their entirety against the correct service, Adult Services. This will ensure that the costs that are currently hidden within the overall bottom line for Design and Construction (Building) are recharged to the appropriate budget and that the true surplus of this service can be easily identified.

1.4 Business Model

The Design and Construction (Building) service operates a business model combining the in-house delivery of design and programme management with externally procured and contracted physical works, with income generation and cost recovery achieved through an established fee recovery system. The service is delivered through a professional structure of discrete disciplinary teams including Architects, Building Surveyors, Mechanical and Electrical specialists, Quantity Surveyors and Structural Engineers (see Service Overview Section below).

Capital work is delivered through an agreed programme of capital projects ranging from multi-million pound new school developments, school extensions, retained building improvements and depot development through to relatively small scale refurbishments. The responsibility for the development of the approved capital programme sits within the Asset Management Team. The capital programme development process is currently being reviewed within Asset Management to establish opportunities to provide information on the programme earlier in the preceding year, to allow services greater opportunity to plan and programme work, taking account of the full school year.

Income is recovered through the use of an industry standard fee process, whereby a fee is established at the outset of the project, based on the value of the project and the nature of work required to deliver it. There is an established and standard set of fees that are applied to all projects delivered by the Design and Construction (Building) service. Due to the amount of work that is undertaken for external bodies, including schools, there is an expectation that the service works in this way to replicate what would be seen in the market place.

This is a fundamentally different delivery model to the Design and Construction (Highways) model, where re-charges are made based on a record of actual time spent on a project, together with the application of a multiplier, currently 2.55.

A survey of other local authorities was undertaken as part of this ZBBR to establish the models used to deliver similar services across the UK. A brief survey was circulated and 24 returns were received. This has shown that the majority (20) of

authorities responding to the survey use the same or similar model to the County Council.

Other models have been introduced by a small number of authorities in recent years, including the development of joint ventures and out sourcing through the engagement of a commercial company to deliver the design element of the service. These models do not provide the authorities with the same opportunity to generate income, or contribute to overheads, and all require an element of in-house expertise to manage the 'client' role.

1.5 Conclusion

When taking account of the income generated through the service, the contribution to overheads and the established and recognised business model used to deliver these services it is recommended that the Design and Construction (Building) service continues to operate within the current model.

There are a number of recommendations detailed below which would help to ensure that the service continues to improve its delivery, maximising income generation and improving efficiency:

- Continue to deliver Design and Construction (Buildings) service to the current model.
- Continue to provide services to schools through PROp and SLAs. Review fees and level of support provided ahead of next contract 31st March 2017.
- Introduce annual review of fee structure alongside capital programme.
- Introduce budgetary and accounting adjustments to ensure the whole cost of non-fee earning functions is captured in their entirety against the correct service.
- Deliver early adjustments to management structure as soon as practicable and review whole service structure to be in place by 31st March 2017.
- Include 'Work in Progress' within financial monitoring to take account of the fee recovery process.
- Continue the delivery of Grounds and Cleaning Services to the current service model and retain within Design and Construction (Buildings).

Zero Base Budget Review (ZBBR) –Trading Standards

October 2016

2.1 Background

The Trading Standards (TS) service is made up of ten specialist teams, with a total FTE of 53. The ethos of the service is collaborative working to provide an evidence based, intelligence led support and enforcement service to Lancashire's businesses, protecting Lancashire citizens from illegal, and or unsafe trading practices.

The service model has developed active partnerships with local businesses, offering advice focussed on prevention reducing the need for time consuming and costly non-compliance related interventions. The Service also has significant and well developed partnership working arrangements with other agencies, district councils and the TS regional and national framework.

The review concluded that the net costs of the Trading Standards service are within the lower quartile benchmark comparator costs, in particular the service recovers higher than average income levels (the recent PwC SSBR report showed Trading Standards services as higher than lower quartile, however the analysis focussed on gross expenditure, and also included the management of closed landfill sites and delivery of Scientific services, which the comparator figures for other authorities does not include).

The ZBBR has focussed on a review of the current service, and comparisons have been made with practices carried out by TS services across other areas of the country.

The review has detailed a number of options for change for consideration by the Service and the Board.

2.2 The overall budget position

Financial Year/Position	Total
2010/11: Net budget	£3,223,000
2015/16:	
Net budget	£1,611,000
Outturn	£1,648,960
Variance (overspend)	£37,960
Trading Income	£300,577
2016/17:	
Net budget	£1,673,145
Variance between 2015/16 outturn & 2016/17 budget	£24,185

The Service has significantly reduced its cost base in recent years, the table above showing a 48% net budget reduction over the 5-year period to 2015/16.

The Service presented an offer that was incorporated in the Budget approved by Full Council in February 2015, reducing the budget by £0.370m by 2016/17. The majority of the reduction (£0.331m) was taken in 2015/16 and was achieved through efficiencies realised by adopting a single management structure approach to the wider scientific services and trading standards service and by significant reductions to the number of posts within the TS Service and further efficiencies. Actual net spend in that year was £0.278m (14%) lower than in the previous year. The £0.038 overspend in 2015/16 was due to the Safe Trader Scheme, which was previously funded as part of Help Direct, being, as agreed, delivered for the year without budgetary provision. Without this unbudgeted cost (C.100k), the Service would have achieved a surplus, due to overachievement on income targets and delivered efficiencies.

Given the size of the reductions experienced to date and the BOP/BSI savings to be achieved from the approved restructure in 2016/17, upon examination, there are no recurring underspends and no further opportunities, currently, to reduce the net budget for the service.

Following subsequent discussions with the Service the review concludes that:

- The Service has identified and delivered significant savings in recent years (including £0.331m service offer savings in 2015/16);

- Benchmarking indicates that at current expenditure levels of £1.82/head TS already sits in the lowest quartile of spend per head of population compared with the 15 nearest neighbour group authorities;
- Benchmarking data suggests that Lancashire is one of the highest achieving income generating TS services in the country. External (non-grant) income increased by 14% to £0.301m in 2015/16 and the Service has further increased its income target to £0.447m in 2016/17;
- An interim staffing structure has been approved that reduces the establishment by 2.0 fte's and removes layers, including management grade 11 posts. The structure retains specialist skills whilst still allowing for flexibility across functions according to demand;
- A number of the options presented in the ZBBR have been further considered with the Service as part of the review. These are detailed in the sections below.

2.3 Proposals for further consideration

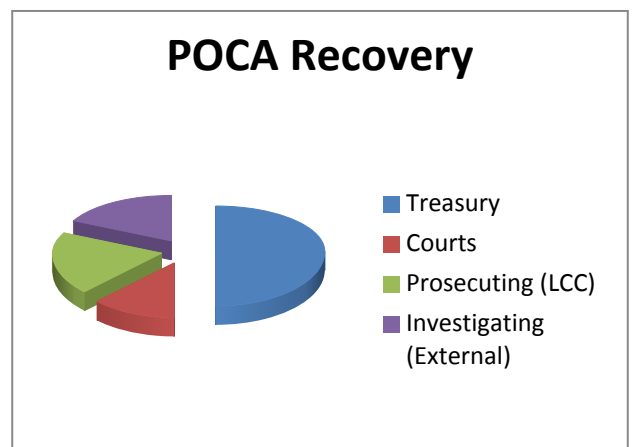
2.31 Accredited Financial Investigator (AFI)

This report proposes the establishing an AFI post. This would offer the Authority the opportunity to recover a higher level of incentivisation allocations under the Proceeds of Crime Act (POCA).

Home Office Incentivisation Scheme

As a means of encouraging enforcement authorities to instigate confiscation under POCA the Home Office splits any confiscation awards, with the Home Office receiving 50% and the rest being split between the courts (12.5%), the prosecuting authority (18.75%) and the investigating authority (18.75%).

Without an AFI, in relation to the financial element of investigations, Lancashire is currently only able to act in the capacity of prosecuting authority, however by appointing an AFI it would also become the investigating authority



With an AFI resource the Service will have the opportunity to investigate more cases, including those which we may currently not pursue because of the cost/lack of availability of an external resource. Importantly, an in-house AFI could restrain bank accounts at the time that warrants are executed, therefore, when confiscations are awarded, any financial gains have not been dissipated.

Employing an AFI would act as a deterrent and would contribute to a more efficient and effective Trading Standards investigation service.

Current Budget: 2016/17

Expenditure: £8,000
Income: £25,000
Net surplus: £17,000

Proposed Budget 2017/18

Expenditure: £50,000
Income: £100,000
Net surplus: £50,000

As well as the income received covering the costs of the AFI post and delivering an additional surplus, the costs of employing an external AFI would also be avoided.

It is recommended that an AFI post should be established on a 2-year fixed term contract basis to assess the viability of these assumptions. It is anticipated that employment of an AFI in house would quickly generate increased financial benefit. There will be no additional funding for the post, it is expected to fully recover costs, and regular monitoring of progress will be undertaken.

2.32 Charging for Business Advice – Including Primary Authority Partnerships

Outside of Primary Authority (PA) arrangements there is an option for Lancashire TS service to introduce charging for providing business advice over and above statutory minimum levels however this carries significant operational and reputational risks. Resource would be diverted from statutory functions and businesses could be deterred from seeking support, leading to non-compliance and higher enforcement costs.

It is recommended that, instead of introducing a charge, the Service investigate any options e.g. automated systems, on-line training/resources and wider signposting that may facilitate a greater level of self-service (where appropriate) thereby allowing current resources to focus on higher risk activities.

2.33 Safe Trader scheme

Lancashire's in-house Safe Trader scheme (c.1300 businesses) benefits both local businesses and consumers by providing a trusted trader service.

Continuance of the scheme was approved on a full cost recovery basis and a charge of £99/annum has been introduced from April 2016, which is considered appropriate based on consultation feedback.

Some authorities have adopted nationally-recognised schemes, moving away from an in-house resource. The Service considered the national Checktrade scheme but felt that it was more appropriate for authorities that didn't successfully operate their own scheme and that adopting a national scheme would actually not be in the best interest of Lancashire citizens and businesses. The annual cost of the national scheme to Lancashire traders would be significantly higher than Safe Trader therefore deterring small local traders, and higher scheme fees could be passed on to consumers.

If Safe Trader is unable to recover costs in full the Service will reconsider alternative options.

2.34 Regional Partnerships

Joint working can bring significant benefits such as shared expertise, resources and associated cost savings. However whilst there appear to be successful arrangements in place in some parts of the country, there is evidence that formalising partnerships isn't effective in some areas as local decision making can be weakened and local resource can be diminished.

There may be opportunities to consider wider partnership working arrangements for TS as part of the current review of the Council's operating model. The Service does already have very strong links with all NW Trading Standards Services and beyond, as a result of the regional and national framework that exists for Trading Standards. It also has well developed partnership arrangements with other enforcement agencies and the district councils in order to ensure efficient and effective delivery.

Zero Base Budget Review (ZBBR) – Health Safety and Resilience Service

July 2016

3.1 Executive Summary

- The service has reduced its cost base considerably in recent years and is achieving previously agreed savings targets
- The service has recently restructured and as a result will be making further staffing reductions and savings
- The ZBBR has identified some recurring underspends which amount to £25,000 which can be taken as further budget reductions
- The service has recently implemented a new SLA with schools. The additional income that will be achieved is not currently reflected in the base budget for 16/17. The recommendation is that £157,000 income should be reflected in the base (this is the net income position after allowing for staff costs)
- Benchmarking evidence suggests that the service is operating at an efficient level and will be within lowest quartile following the latest restructure
- There are some potential opportunities for further service development

3.2 Financial Position

2015/16 outturn position

- Net Budget - £1,267,000
- Actual - £1,150,245
- Variance - -£116,755

The 2016/17 net budget is £1,072,404 and the variance between the 2015/16 outturn and the 2016/17 net budget is -£77,841

3.2.1 Outturn variance budget savings

From the 2015/16 outturn variance of -£116,755 following work with finance and treasury colleagues, a total of £25,000 has been identified as a potential budget reduction consisting of:

- £5,000 on conferences which was not spent in 2015/16 and no longer required
- £20,000 underspend on subscriptions in 2015/16 that is not anticipated to be needed, largely because of the shift from print to digital.

The remainder of the underspend is deemed to be required going forward and is made up of:

- £34,756 overhead general is generally subject to fluctuation dependent on the scale of new legislation in the year and includes a £9,000 ERG (Emergency Response Group) training budget for volunteers which was unspent as no manager was in post. This will be appointed to in the new structure.
- £32,756 other income: the service has previously operated on a principle of transferring any surplus income generated 'in year' to a reserve as

appropriate. The decision has been taken to stop this transfer to reserve and any income surplus or deficit will now remain as an 'in year' revenue budget variance. As a result the cumulative surplus balance on the reserve at the end of 14/15 has been cleared and transferred to the revenue budget in 15/16. This transfer accounts for the majority of the additional income variance in 15/16 and therefore is not recurring.

- £20,455 staff-training is subject to fluctuation, savings have already been made via a reduction in training and associated costs for venues/facilities
- £17,525 public health grant: this income has been coded here in respect of work carried out by the service funded from the public health grant. The service has no budget for either the income or expenditure related to this activity as it is held outside of the Emergency Planning service. This results in a 'net nil effect' between additional income and expenditure and doesn't present an ongoing savings opportunity.
- The traded service costs are now superseded by the new schools SLA.

3.22 Savings already achieved

- A staff budget saving of £225,000 has been taken from the revenue budget, following the decision to fund the Employee Support provision from reserves
- A £64,000 saving arising from the Base Budget Review
- A pre service offer saving of £24,000 has been made

3.23 New income generating service - Schools SLA

Under the SLA, some former budget lines will become redundant. However, there will be additional income from this new arrangement for 2016/17. This is estimated to be approximately £350,000.

From this sum, approximately £193,000 will be required to cover the staffing costs of the 5 allied Grade 8 Health and Safety FTEs. There is a suggested £157,000 in additional income above expenditure forecast for 2016/17.

It should be acknowledged that the projected income figure of £350,000 is in all likelihood at a maximum and can be expected to reduce in the future. There is a wish to retain some surplus funds to ensure the costs of the 5 Grade 8s are covered so as to avoid losing skilled and experienced staff one year and potentially having to re-recruit.

3.3 Understanding the Service

The Emergency Planning & Resilience Service was formed in April 2015 by the amalgamation of former services, Emergency Planning, Health Safety & Quality (former Environment), Corporate Health & Safety (former OCE), Health & Safety (former LCCG) along with the creation of two new teams, Employee Support and Health Protection. The service sits in the Public Health and Wellbeing portfolio. The service operates within a wealth of legislation and internal policy that protects the wellbeing of Lancashire County Council staff by providing a safe and supportive work environment. Similarly, It supports and protects the wellbeing of the population of Lancashire by ensuring robust plans (and resilient responses) are in place to help

mitigate the effects of natural and man-made incidents and large scale outbreaks of disease.

The most recent structure sees the service renamed as the Health, Safety & Resilience Service. The service enables the County Council to demonstrate its legal, moral and economic commitment to the Health, Safety and Wellbeing of all employees and its population.

There are 4 key elements of service provision

1. Emergency Planning
2. Health Protection
3. Health and Safety
4. Employee Support

3.31 Emergency Planning

This provides a comprehensive and effective resilience and emergency planning service to the County Council thus ensuring the ability to respond to emergencies, manage business continuity and enhance levels of resilience within the community.

The service objectives are to:

- Meet and deliver statutory obligations and duties under civil protection legislation
- Assess the risk of emergencies occurring to inform contingency planning and resource allocation
- Review emergency planning and business continuity response arrangements and produce detailed plans outlining external and internal responses to emergencies
- Provide an effective duty officer service (24/7/365)
- Develop resilience with individuals and communities to be better prepared and more self-reliant during emergencies
- Maintain the integral role as a member of the Lancashire Resilience Forum

The Emergency Planning provision is delivered to

- All managers within LCC who have responsibilities for producing business continuity arrangements
- LCC staff and managers to support response, to and recovery from, an emergency
- Industrial establishments under civil protection legislation (e.g. Control of Major Accident Hazards – COMAH, Radiation Emergency and Public Information Regulations – REPIR and Pipeline Safety Regulations – PSR)
- Lancashire Resilience Forum partners.

3.32 Health Protection

Health Protection responsibilities transferred to the local authority in April 2013 as part of the transfer of Public Health functions. The local authority, together with the Director of Public Health have a duty to ensure that plans are in place to protect the

health of Lancashire's population from threats ranging from relatively minor outbreaks to full scale emergencies.

The service objectives are to:

- Meet and deliver statutory duties and obligations are met under relevant legislation
- Ensure that plans are in place to protect the population of Lancashire from infectious diseases, outbreaks, major incidents and hazards that threaten health and wellbeing
- Be able to respond to emergencies and assist in the recovery phase as and when required
- Develop and maintain a professional emergency response group, trained and able to deliver roles required to meet the needs of those affected by emergencies
- Improve levels of resilience across Lancashire so that individuals and communities are better prepared, more self-reliant and confident in the event of a major incident
- Ensure that LCC are able to continue their own critical activities in the event of internal disruption and quickly return to normal services

Through comprehensive planning and partnership work with key stakeholders and agencies, the service seeks to prevent or reduce the harm to human health caused by a wide range of incidents and emergencies such as outbreaks of infectious diseases, environmental hazards and contamination from chemical or radiation, significant disruption to utilities, major transport accidents and extreme weather events.

This provision is delivered to:

- The people and communities of Lancashire including LCC colleagues and Elected Members
- The 12 Lancashire district authorities
- The 2 unitary authorities
- Lancashire Resilience Forum
- The six Lancashire CCGs.

3.33 Health and Safety

This provision enables LCC to demonstrate its legal, moral and economic commitment to the health, safety and wellbeing of all employees and fulfil legal obligations, as per Health and Safety legislation. In addition, the reputation of LCC is safeguarded by the maintenance of health, safety and quality systems that may be a requirement for bidding for external contracts.

The service objectives are to:

- Demonstrate LCC commitment to health, safety and wellbeing of employees and those who may be affected by the work of the county council

- Evidence LCC compliance with all aspects of health and safety legislation
- Provide advice, guidance and support to managers and Head teachers regarding health, safety and quality systems and occupational health requirements
- Maintain external accreditation to health and safety and quality based systems as necessary

This provision is delivered to all LCC managers, including those externally accredited to 18001 and all educational establishments currently subscribed to the schools SLA.

3.34 Employee Support

This provision is in place to support and work both with managers and employees across the county council where personal and/or employment issues are affecting the capability and capacity of employees to effectively undertake their roles. The service supports the emotional, health and general psychological wellbeing of employees.

The service objectives are:

- Prevention – raising manager's awareness in recognising and responding to warning signs thereby reducing the risk of employees suffering work related illnesses, accidents and absenteeism.
- Promotion – identify and prioritise initiatives to assist the promotion of the wellbeing and resilience of employees
- Rehabilitation – to support the reintegration of an individual back into the workplace
- Staff development – to identify and raise awareness of themes to feed into the development of a range of proactive, educational and training programmes.

3.4 Cost Recovery

The Service is able to charge industry to ensure that the required plans are in place in line with legislation/guidance (COMAH, REPPiR and PSR). Currently, Lancashire has 2 nuclear sites, 8 chemical sites and 4 pipeline industries within the County.

Unfortunately, full cost recovery with regard to such plans was not being realised. This has subsequently been reviewed and full cost recovery is now in place.

Nationally, there is no standard rate, with appropriate bodies somewhat reluctant to issue any such guidance to local authorities. Similarly, there is also reluctance from local authorities to publically share their respective rates with peers. A new Lancashire rate of £55 per officer per hour has been agreed and this is viewed to be appropriate by comparison with other authorities, according to information that is available. The current, September 2015, service delivery plans, offer a useful overview of team/individual activity. Once the new structure is populated, an early task will be to produce the new service plan in September 2016.

There are extensive reporting lines regarding performance and the meeting of legislative duties and compliance and details all plans across the service areas,

together with a rigorous associated reporting and performance monitoring processes. These cover the whole service and are RAG rated
 A unit cost for each of the contingency plans has been considered, but deemed not to be feasible given that all of the plans are live documents and as such are variable, being respectively dependent on risk factors and live events.

3.5 Benchmarking

The approaches of other local authorities have been explored (Essex, Nottinghamshire, Warwickshire, Derbyshire, Devon and Kent). All seemingly adopting similar approaches to Lancashire, with common plans and links to their resilience forum. Warwickshire have developed a single unified team across the three local authority areas of Warwickshire, Coventry and Solihull. Officers work equally across these 870 square miles, compared to 1,189 square miles in Lancashire. Devon offers health and safety services to other not for profit organisations on a subscription basis, with similarities to the recently adopted Lancashire schools SLA approach.

3.6 Traded Services

A new 'Emergency Planning and Resilience Team Health, Safety and Quality Service Level Agreement' (SLA) has been developed and implemented from 1st April 2016 for Lancashire Schools, including Nursery Schools and Pupil Referral Units. Under the agreement, schools can receive advice, guidance and support in relation to the management of Health and Safety, utilising LCC officer skills and experience within this area.

Schools are charged on a sliding scale depending on type and size, paying an appropriate annual fee of between £600 and £1,200 per year. In addition, there is an optional, extensive list of activities available for schools to purchase as required from the LCC commissioned Occupational Health Service, OH Assist. Respective fees for educational establishments;

Voluntary Aided schools, Academies, Free schools, Foundation Schools and Foundation Special schools:

School type	Size	Annual Fee
Nursery/Primary	Below 100 pupils	£700
	Above 100 pupils	£800
Primary Academy		£800
Secondary	Below 600 pupils	£900
	Above 600 pupils	£1,200
Special/Short Stay		£800
Secondary Academy		£1,200

Community schools, Voluntary Controlled schools, Community Special Schools, Maintained Nurseries and Pupil Referral Units:

School type	Size	Annual Fee
Nursery/Primary	Below 100 pupils	£600
	Above 100 pupils	£700
Secondary	Below 600 pupils	£800
	Above 600 pupils	£1,100
Special/Short Stay		£700

Thus far, schools take up of the offer has been very good, as detailed below. However, schools are currently only signed up for one year and there is some risk that schools might decide to purchase these services from external providers in the future.

	Total no. of schools	Total no. bought in	% bought in
Nursery	24	23	95.8
Primary	475	416	87.6
Secondary	62	51	82.2
Special	30	29	96.6
Short stay	9	8	88.9
Academy	30	10 (18)	33.3 (60)

Income received from the SLA is currently funding the full cost recovery of 5 grade 8 Health and Safety Officer FTEs within the new/current structure.

It should be recognised that this arrangement offers a new and significant income for LCC.

3.7 Contracts

As an employer, LCC have requirements under the Health and Safety at Work Act to ensure the health, safety and welfare of all employees. Additionally, under LCC attendance management policy, it is required that reasonable steps are taken to ensure that employees are supported to return to work in a timely manner following periods of sickness/absence.

The County Council has had a contract for the provision of occupational health services for over 10 years. Since April 2013, this has been provided by OH Assist. Management Team have approved an extension of this current contractual arrangement to March 2017.

The total spend for this contract was:

- £441,370 in 2015/16
- £444,358 in 2016/17

The provider offers electronic referrals with further facility to provide telephone and face to face appointments by appropriate medical staff as well as more specialist health assessments as required. LCC (and subscribing schools under the new SLA arrangement) only pay for the work requested and it is considered to offer best value as it is delivered on a 'pay as you go' basis. A new service specification is currently in development following Management Team approval to tender for a new contract starting April 2017. Consideration was given to options for providing Occupational Health services in-house. The County Council only pays for the work that the contractor carries out on its behalf, rather than paying for a certain number of hours work by occupational health professionals and therefore running the risk of paying for time that is not being used.

Zero Base Budget Service Review - Legal and Democratic Services

July 2016

4.1 Executive Summary

- The service has received growth in its budget provision to deal with increasing demand for services, in particular in relation to children's services legal caseloads.
- Legal Services has seen an increase to its staffing budget to reflect a new structure which incorporates additional permanent roles in order to reduce the reliance on agency.
- An element of 'double counting' in the base budget for the service has been identified. This has arisen as a result of growth added to the agency budget prior to the restructure. This review therefore recommends a £0.350m saving to remove an element of this additional growth.
- There are also recurring underspends in other elements of the service which can be removed. This review concludes that these underspends total £0.306m.
- To offset these savings there is an ongoing pressure on the general legal services costs budget and this review recommends an increase to the base budget of £0.149m.
- The base budget for the Coroners service is insufficient to cover actual costs. This review therefore recommends an increase in the base budget for Coroners of £0.163m.
- The overall net reduction in the base budget recommended for the service is **£0.344m**.
- Elements of the service have been significantly remodelled and staff numbers have been reduced in recent years.
- Benchmarking is difficult but comparisons suggest the service is not excessive in terms of costs or provision.
- Opportunities to further reshape service delivery have been explored for further savings.

4.2 Financial Position

Year/Position	Total
2015/16:	
Net Budget	£13,295,220
Outturn	£13,994,319
Variance	£699,099
2016/17:	
Net Budget	£15,766,913
Variance between 2015/16 outturn & 2016/17 net budget	£1,772,594

4.3 Key Issues Arising from the Analysis of the Budget Position

4.31 Cost Base

At a subjective level the main elements of the gross cost base for the service – as seen in individual line items for the 2015/16 revised gross budget – are as follows:

Rank	Subjective Description	Cost Centre Description	Cost (£m)	% of total spend
1.	Services	CIN, CP &LAC – Countywide Legal Costs	3.918	26.1
2.	Coroners	Combined areas	2.016	13.5
3.	Members Allowances	Members	1.408	9.4
4.	Other Staff Group	Child Protection	1.079	7.2
5.	Other Staff Group	Democratic Services	1.074	7.2
6.	Other Staff Group	HoS Legal and Dem Services	0.724	4.8
7.	Grants to Voluntary Organisations	Central Gateways Grants Scheme	0.673	4.5
8.	Other Staff Group	Complaints	0.430	2.9
9.	Other Staff Group	Litigation & Employment	0.416	2.8
10.	Contribution to Earmarked Reserves	CC Election Reserves	0.400	2.7
11.	Other Staff Group	Highways ENV & Property	0.361	2.4
12.	Other Staff Group	Social Care & Education	0.335	2.2
13.	Other Staff Group	Commercial & Procurement	0.326	2.2
14.	Other Staff Group	Information Governance	0.315	2.1
15.	Other Pay Related	Child Protection	0.121	0.8

Table 2: Top 15 budget line items of the 2015/16 revised gross budget for Legal & Democratic Services by rank. Figures have been rounded.

These 15 areas account for 90.8% of the total gross budget with the remainder accounted for by miscellaneous services and supplies, travel expenses, etc.

4.32 Employee Budgets

The service has a total employee budget in 2016/17 of £6.754m – an increase of £1.107m from the 2015/16 budget of £5.647m. The service's new structure includes £0.928m of approved vacancies for additional legal services staff.

Any potential future savings from staff-related underspends in 2015/16 have been superseded by new staffing structures approved during the production of this report. However, the 2016/17 employee budget needs to be viewed in light of the previous growth that has been provided in the non-staffing budget in 2016/17 (see below).

4.33 Legal Services

- Net Outturn for Legal Services (legal costs) in 2015/16 was approximately £4.3 million.

- The net budget for Legal Services (legal costs) in 2016/17 is approximately £5.4 million.

In August 2015 Legal Services was granted an additional £1.36m to meet anticipated demand pressures on the agency budget. This was added as growth in the non-staffing budget for 2016/17. Demand for legal services – driven specifically by demand on the Child Protection team – has increased dramatically and the growth that was added to the legal services budget was to recognise the anticipated increase in agency costs to deal with the additional pressure. This growth was added to the non staff budget in advance of the new staffing structure for the service, which (see above) has now been increased to deal with the additional pressures on a more permanent basis, and to reduce the reliance on agency.

2016/17 budget monitoring indicates that, based on the six months to September 2016, actual external legal costs will not increase by the full amount added to the budget as growth and the full amount is therefore not required. The latest forecast suggests that the Legal Services outturn for 2016/17 will be just over £5m and the recommendation from this review is therefore to reduce the non-staff legal services budget by **£0.350m**.

4.34 Non-staff budgets

Major or "structural" overspends are overwhelmingly staff-related and are historic and demand-led, and have been addressed as part of the new structures. This review has therefore focussed on non-staffing variances in terms of identifying sustainable savings year-on-year.

Identified recurrent non-staffing under-spends:

- Child Protection has a budget of £118,000 for *Agency Staff*. Bearing in mind the significant increases in establishment staffing numbers, the service will likely no longer require the use of any agency staff in this area.
- A £130,773 under-spend in Members costs, including underspends in *car allowances, travelling expenses, communication and computing, and printing, stationery and general office*. While the election of new members next year could see some additional costs, the overall budget can be reduced in the future. Even with the exclusion of members' allowances, this budget item still underspent by £93,343.
- Official Visitors recorded a £41,602 underspend which is anticipated to recur due to the reduction in the number of official visitors to the council.
- The Chairman's budget recorded an under-spend of £17,661 which is anticipated to recur.
- Information Governance recorded a total underspend of £13,149 which is anticipated to recur.

- The Co-opted Members budget shows an under-spend of £8,868 which is anticipated to recur (a combination of reductions in *car* and *member allowances*).
- Members Conferences budget saw an under-spend of £6,027 which is anticipated to recur.
- Corporate Management budget saw an under-spend of £4,000 on *subsistence and conference* which is anticipated to recur.
- **Independent Members** show an under-spend of £3,995 due to reduced expenditure on *car* and *members allowances* which is anticipated to recur.

The items detailed above total **£0.306m** and the recommendation therefore is to reduce the service's non staffing budgets by this amount.

To offset these underspends, current year monitoring is showing a recurring pressure on the general legal services non staffing budget to the value of **£0.149m**. It is recommended to increase the base budget for the service by this amount.

4.35 Coroners

The county-wide Coroners service over-spent in 2015/16. The service also over spent in previous years. This review has identified a number of service remodelling opportunities which may reduce the historical variance in spend for this service. However, these opportunities, while they remain viable, cannot be realised before the setting of the 2017/18 budget due to the complexity and nature of the discussions that are required. Therefore it is recommended that the Coroner's budget should be increased by £0.163m to reflect the pressure on this budget. As and when appropriate, the budget can be reduced to reflect a revised service.

4.4 Understanding the Service(s)

4.41 Introduction

The vast majority of expenditure for the entire service is employee-related. This is a "people-driven" service with a huge cost base dedicated to staff and administration. It is likely that there is an opportunity to rationalise or centralise administrative systems, either through cross organisational efficiencies and/or expanding electronic systems, to reduce costs in this area, especially within Democratic Services. This report has not looked at this in detail due to the ongoing work to review the organisation's overall operational model.

The large amount of combined expenditure on all of our grant programmes remains a substantial element of the service's budget. This area is covered separately later in this section.

4.42 Complaints & Appeals

Complaints

The number of complaints received by the council increased by 95% from 2014/15 to 2015/16. As with Legal Services, the team's new structure is designed to work more

closely with operational colleagues in social care to manage demand and reduce the level of complaints.

The team has significantly reduced staffing levels over the last 12 months and its newly-approved structure both reduces grade levels and combines appeals and complaints functions rather than retaining specialised roles. Any further reductions in staff mean the council may risk failing to fulfil its statutory duties as complaints must be acted upon within strict legal time limits.

Appeals

Appeals volumes increased 32% between 2014/15 and 2015/16. The team has been significantly re-designed and new staffing structures recently approved by the council's Management Team reflect acceptance of both the significant demand pressure on the service and the continued need to retain a degree of specialist management and technical skills. The service operates under a number of statutory duties.

Appeals generated income last year of £177,382 (against a target of £175,000). Finance are currently examining whether our current charges are in line with rates at comparative local authorities. Even if this review concludes that the council is not recovering all relevant costs from schools relative to other local authorities, the overall amount is likely to be negligible.

The indicative unit cost for each complaint and/or appeal (cost divided by output) is £92.16.

4.43 Coroners

The Preston and West Lancashire Coronal area (PWL) is a complex jurisdiction with a number of institutions (four prisons, two teaching hospitals two district general hospitals, an elective orthopaedic centre, numerous mental health facilities and major sections of the transport network) which contribute to the types of deaths with which the Coroner must deal.

The PWL service area dealt with 2,437 deaths in 2014 (the most recent statistics available), 1,278 of which required a post-mortem and 391 went on to inquest. In comparison Manchester City Council's coronial area dealt with just over 600 more deaths. The PWL Coroner employs a full-time Area Coroner and three Assistant Coroners on a casual basis who generally deal with less complex cases or cover for periods of annual leave or sickness.

The East Lancashire Coroner is a part-time senior coroner due to the lower relative number of deaths dealt in the area. In 2014 the Coroner dealt with 631 deaths of which 346 required a post mortem and 103 went on to inquest. The nature of the work is not as complex

This service has historically overspent due to the acute demand-led nature of the service. While some delicacy is required here, it is clear that demand is purely a function of the number of deaths that occur in the county.

In 2015/16 the service overspent by a net amount of £0.163m. Some of the larger overspends included *Other Local Authorities* (£155,331), involving payments to Blackburn BC, Blackpool and the county police authority. *Staffing costs* represented another significant over-spend (£162,820) as did *Toxicology, mortuary storage, and Consultancy fees*.

There were also a number of variances related specifically to office costs (e.g. computer hardware, rent, electricity, rates) which highlights the need to look at consolidating the service (see *Opportunities* below).

There are also a number of underspends, although these are widely different for each Coroner's office (Central and East) and may indicate different arrangements between the two offices. Some staff re-structuring has already occurred to reduce costs.

Given that demand cannot be "managed", structural opportunities are the best prospect to reducing costs.

4.44 Democratic Services

Performance data supplied by the service indicates there has been an overall increase (9.9%) in raw output¹ over the last two years (2014/15 – 2015/16). This is broken down as follows and is subject to certain caveats:

- Executive Decision making – 14.4% reduction
- Non-Executive Decision making – 7% increase
- Companies – 14.1% increase
- Grants – 8.3% decrease in the number of applications received and processed.
- Financial transactions excluding grants – 12.8% increase
- Other Decision-Making – 21% increase

The service has provided explanations related to service demand:

- Executive Decision making: A new Scheme of Delegation to the Heads of Service will partly account for a reduction in the number of decisions now being made.
- Companies: Activity is increasing because of the creation of new LEP committees and work involved in the winding-up of other companies. This one-off activity means that demand in this service area will not necessarily continue to increase.
- Other Decision-Making: The level of activity undertaken for the Chairman is a function of the individual holding office; some are more active than others.
- There has also been a number of working groups and new scrutiny arrangements around children's services following the recent Ofsted report.

For the purposes of this report, it has been assumed that the number and purpose of all current meetings will remain the same – i.e. the county council will continue to support meetings that we currently support, whatever their frequency or relevance to the council's core business or objectives.

¹ "Outputs" cover a range of activity – number of meetings supported, presentations, training sessions, site visits, Decision-Making sessions, Key Decisions, cancelled meetings, financial transactions, etc. Data is available upon request.

Taking non-essential output (like financial transactions) out of the equation shows that overall output has declined in the last year by 6%. Staffing levels have also been significantly reduced (a reduction of seven FTE staff up to March 2015 and a further planned reduction of two staff due to VR and the non-filling of four vacant posts, equating to an overall reduction of 13 posts). The current proposed staffing structure for the service sees a reductions in posts to the minimum level. The service has also made a number of efficiencies in recent years to deliver the service in its simplest form, including innovations around IT and modern.gov.

It must be further acknowledged that Democratic Service "outputs" are a pure function of the number of committees, panels, working groups and other meetings the service is requested to support.

4.45 Grants

Grants are a significant spend within the overall service and have been subject to a number of reviews in recent years. However, grants are not a statutory service and are not currently aligned with any of the council's strategic priorities, nor are they evaluated in light of any objectives desired by the county council.

The number of grant applications received and processed declined by 8% from 2014/15 to 2015/16.

There will no longer be a specific grants team under the proposed new structure. Instead, Grants functions will combine with Decision Making to provide flexibility and potentially create service efficiencies.

4.46 Information Governance

Performance data for the service shows that the number of information security incidents and the number of incidents deemed to break the Data Protection Act 1988 are trending downwards. The number of Section 7 Data Protection, Freedom of Information (FOI) and Environmental Information (EIR) requests completed within the mandatory timescales are trending upwards. Approximately three-quarters of these requests are completed on time, varying between 73-90% depending on the quarter assessed. This snapshot suggests that the team is effective at managing demand, which remains significant and is broadly trending upwards.

The team also undertakes a number of other tasks that are not, on the face of it, subject to mandatory or statutory deadlines. For example, Police Information Sharing & Disclosure Requests (approximately 200 are received each quarter, 893 total in 2015) are trending upwards. The service reports that "this is the fastest growing area of work" and may represent an area where the service can delay or reduce its response in order to (a) reduce staffing levels overall or (b) ensure sufficient capacity is retained to deal with statutory demand.

The current proposed structure reflects the Information Commissioner's recent recommendations on the role of the service.

4.47 Legal Services

All of the performance data gathered for the purpose of this report indicates that there is significant demand pressure on the service. For example, the number of

cases referred annually to the Child Protection (CP) Legal Team (the largest team within Legal Services) continue to increase well above the national trend year on year. 2015/16 figures broken down by local authority area from the Children and Family Court Advisory and Support Service (CAFCASS) place Lancashire first in the nation in terms of issued public law cases².

The overall number of cases opened by the CP Legal Team saw an increase from 1,389 in 2014 to 1,557 in 2015. The total number of cases referred to CP Legal in January 2016 was 163. If this increase in case referrals was to continue throughout the year the team would open 1,956 new cases in 2016.

The service reports that its new structure is designed "to try and prevent cases going to court" and are "investing heavily to prevent demand occurring at the pre-proceedings stage". CP are working with Children's Social Care to implement new protocols, prevent future problems before the courts and reduce overall demand.

An overarching programme board (the 0-25 Programme Board) is driving and managing improvements to children's services, and includes the Director of Legal, Democratic and Governance. Children's Services, working through the Board, are reviewing systems and processes to help reduce demand. This will include close cooperation with CP Legal Team.

Efforts to reduce demand in this area must be monitored going forward.

Recent third-party reviews of other aspects of Legal Services (such as claims-handling) have concluded that the service performs to a relatively high standard. A more detailed review of current demand and performance is available if required.

4.5 Benchmarking

4.51 Introduction

National efforts to benchmark municipal Legal & Democratic Services have concluded that there is significant variance in relative expenditure and a substantial difference in the size of functions on an FTE basis between comparably-sized authorities.

The recent LG Futures Financial Intelligence Toolkit 2015/16 report for Lancashire states that within "central services" (which includes a number of different service areas) Lancashire is a relatively low spender on the "Corporate and Democratic Core", ranking 11th out of 16 authorities with a spend 35% below the average. The report also concluded that Lancashire's costs for "Coroners Court Services" are almost 25% above average and rank 6th out of 16 authorities (e.g. we spend £1.92 per unit compared with a group average of £1.54 – this may represent a target figure for any remodelling of the service).

According to CIPFA's Finance and General Estimates Statistics for 2015/16 (as reported in the Expenditure Benchmarking Project Phase 2 Summary Report, September 2015) the average shire county spends three-quarter of its central

² See <https://www.cafcass.gov.uk/leaflets-resources/organisational-material/care-and-private-law-demand-statistics/care-demand-statistics.aspx>

services budget on the "Corporate and Democratic Core": Lancashire ranks 14th with spending 25% below the average.

A sampling of other council's expenditure on Legal & Democratic Services indicates that provision in Lancashire is, broadly speaking, in line with the county's relative size and responsibilities.³

4.52 Complaints & Appeals

The *level* of appeals and complaints in Lancashire is significantly higher than those in other county councils we sampled. Lancashire is broadly in line with *provision* for appeals and complaints. As previously stated, Lancashire has already reduced and remodelled staffing levels for this service.

For example, Hertfordshire (which has population similar to Lancashire) handled 1,486 school appeals last year, compared with 2,816 in Lancashire. It spends more than Lancashire (£447,000 to £397,314) and employs 11 FTE to our 15 but does not combine roles with Complaints, as Lancashire does. Hertfordshire handled 1,486 complaints last year compared with 1,495 in Lancashire.

4.53 Democratic Services

For example, Surrey County Council's Democratic Services budget is £1,678,675 – more than half a million pounds more than Lancashire. There are approximately 19 non-business support FTEs in the team compared with 24 FTEs in our service. Staffordshire's service supported 235 executive and non-executive meetings last year; Lancashire's supported a total of 354 meetings. Staffordshire also spent significantly more on its service.

4.54 Grants

Hertfordshire operates a Member Locality Budget Scheme – a councillor grant scheme which allocates £10,000 a year for councillors to allocate to organisations in their electoral division. The scheme is administered by 2 FTE situated in the Corporate Policy Team with an overall budget of £770,000 (Lancashire's budget for its comparative grant scheme was £168,000 in 2015/16). The team process approximately 1,200 grants a year, which is in line with provision in Lancashire. In Staffordshire, a total of 676 grants were awarded in 2015/16 under the Council's "Staffordshire Local Community Fund", the council's main grant programme.

4.55 Information Governance

Lancashire's current structure for IG proposes 9 FTEs. Staffordshire employs 13.03 FTE and spent £290,000 last year on its IG team; Lancashire spent £300,851.

4.56 Legal Services

Lancashire's new Legal Services structure has 85 legally-trained staff compared with:

- 76 FTE "Fee Earners" in Hertfordshire's Legal Services Team
- 91 FTE in Staffordshire County Council's Legal Services Unit
- 65 FTE in Surrey's Legal Services Team

³ Information was received from the relevant departments at Staffordshire, Surrey, East Sussex, Hertfordshire and Somerset county councils. The full benchmarking report based on these findings is available. Case studies are also available.

Hertfordshire and Surrey's total legal services budget is broadly similar to Lancashire's.

4.6 Opportunities

4.61 Coroners

A range of service remodelling opportunities have been identified in terms of the Coroner's Service, which the county council part-funds. Although the county council is responsible for paying for this service it does not employ the Coroners, which presents a degree of challenge in terms of remodelling the service. However discussions are taking place and the possibility of a remodelled service, at lower cost, is being pursued.

4.62 Democratic Services

Member remuneration: A review of all remuneration levels could potentially take place, subject to various considerations.

Meeting support: The council could review and reduce meetings (net total for 2015/16 = 344) – but a review was only recently conducted. It is not clear whether another review would reach other conclusions.

Income streams: Examine opportunities to charge fees for support traditionally provided by the county council (e.g. Lieutenancy, public room bookings, etc.)

4.63 Legal Services

A Combined Authority for Lancashire offers the possibility of shared delivery of legal services, which could lead to a reduced cost service in the future

Zero Base Budget Review Report - Operational Income and Recharges

October 2016

5.1 Executive Summary

A total of £1.890m budget reductions have been identified which have no effect on front line service delivery or jeopardise the achievability of savings already approved. Of this total reduction £0.305m relates to areas of the budget that achieved additional income in 2015/16 and a review of the overhead calculation has resulted in an additional budget reduction of £1.585m.

A further programme of work around the service delivery model, severe weather activity, staffing overhead and fees and charges is recommended to identify further saving opportunities.

5.2 Scope of the Review

This review covered all aspects of the highways service including highway operations, highway management (public realm, network management etc.), street lighting, parking services, flood management, strategic highways and traffic, streetworks and regulation and highway safety inspection and developer support.

5.3 Budget Breakdown & Cost Base

Table 1 below outlines the net cost of the highways service and provides a high level summary of the expenditure, recharges and income that the 2016/17 budget consists of. The headings include the following transactions:

- Employees: all highways operations and non-highways operations staff costs.
- Premises: running costs for the highway depots currently in operation.
- Transport: hire of external plant, fuel costs and car allowances
- Supplies & Services: highway works stock, materials and equipment, external contractors, general office consumables and services
- Third Party & Transfer Payments: public realm payments to district councils, gritting salt contract payments, traffic management system contract payments.
- Financing & Reserve Movements: Revenue contribution to capital spend on carriageway and footway repairs, North West Regional Flood Levy payment and contributions to parking and roundabout sponsorship reserves.
- Charges: 'Inter highways' recharges from highway operations to highways function budgets (public realm, drainage, street lighting, etc.), insurance claim cost recharges and vehicle fleet recharges.
- Recharges: 'Inter highways' recharges from highway operations to highways function budgets (public realm, drainage, street lighting, etc.), & recharges to capital.
- Income: PCN charge, pay & display income, street works permits, licences and defective reinstatement charges, rechargeable works, land search charges, TRO cost recovery.

Table 1: Summary of 2016/17 Highways Budget

Expenditure/Income	Subjective Category	16/17 Budget	% of Exp/Inc
EXPENDITURE	EMPLOYEES	22,569,032	25%
	EMPLOYEE RELATED COSTS	13,100	0%
	PREMISES	1,029,848	1%
	TRANSPORT	4,654,614	5%
	SUPPLIES & SERVICES	33,599,809	38%
	THIRD PARTY AND TRANSFER PAYMENTS	3,607,431	4%
	FINANCING AND RESERVE MOVEMENTS	3,284,189	4%
	CHARGES	20,821,210	23%
TOTAL EXPENDITURE		89,579,233	100%
INCOME/RECHARGES	RECHARGES	-59,570,484	87%
	INCOME	-8,703,267	13%
TOTAL INCOME/RECHARGES		-68,273,751	100%
Grand Total		21,305,482	

5.4 2015/16 Outturn position analysis

The final outturn position in 2015/16 reported an underspend of £4.849m.

Analysis has been carried out to understand the cause of each variance and to establish the impact of these factors on future budget requirements. A number of the underspend variances present recurring budget reduction opportunities and these are listed below:

- Highway operations plant and transport expenditure: £0.908m underspend – this underspend was caused by reductions in fuel costs and more efficient use of the vehicle fleet. This expenditure is recharged to capital (80%) and revenue (20%) maintenance based on the cost estimate at the beginning of the year. This level of underspend is not anticipated to be repeated in 2016/17 to a significant degree due to the realignment of costs from elsewhere in the budget and a forecast increase in fuel prices. The reduction in costs has been reflected by also reducing the recharge rates accordingly.
- Highway streetworks income: £0.863m underspend – this over recovery of income has been generated through a combination of the newly introduced highways permit scheme and higher than anticipated fees for general streetworks inspections, licences etc. The estimated income surplus for 16/17 results in a **£0.305m recurring savings opportunity**.

A number of large underspends in 2015/16 do not present recurring saving opportunities and include:

- Employees: £0.730m – this budget has been replaced as part of the staff mapping exercise which has brought the 2016/17 budget in line with the proposed structure.
- Environment Directorate General: £0.356 – this budget was previously used as a contingency for the Environment Directorate and in particular highways as well as covering an element of apprentice's costs. The budget was removed in 16/17 as part of the staff mapping exercise.
- STREM Recharges: £1.053m – A review of the overhead multiplier applied to capital design and supervision staff hours is likely to reduce it from its present rate of 2.55. This will reduce the amount chargeable to capital and it's estimated that the revised recharge will be similar to the 2016/17 budget level.
- Drainage Maintenance: £0.254m – Due to the severe flooding events resources were deployed away from routine drainage work resulting in an underspend against drainage maintenance and an overspend against the severe weather budget.
- Developer Support Income: £0.180m – This budget over-recovered on its income target by £0.180 in 2015/16. £0.300 has been added to this budget in 2016/17 as part of previous Service Offer and Base Budget Review savings so no further over recovery is expected.
- Highway Depot Premises Costs: £0.099m – This budget was reduced in 2016/17 by £0.090m to reflect a Base Budget Review saving and as a consequence no underspends are anticipated in future years.

5.5 Further savings identified

5.51 Overhead Charge to Revenue

A full review has been undertaken of the overhead calculation to restate the position for 16/17. This overhead calculation excludes direct labour (including non-productive on cost), direct materials and plant/machinery costs which are included in the schedule of costs and charged direct to the appropriate revenue or capital codes. The overhead charge is calculated using the budgeted expenditure for the areas identified below and apportioned across revenue and capital based on the estimated value of capital and revenue work at the start of the year.

The overhead calculation includes the proportion of non-direct staffing and non-staff costs deemed to be relevant to Highway Operations as follows:

- Highways Staff: Direct staff managers, Grade 11+ managers, Quantity Surveying Team, Programme Liaison & Support Team, Highway Stores Team, Health & Safety Team, Public Realm & Network Management Teams and Business Support & Customer Services Team.
- Non-Highway Staffing: Highway Depots premises and management costs, Insurances, General Operations and Delivery overheads and Central Departmental Charges.

The revenue overhead charge budget for 15/16 was £3.686m and has been adjusted to £3.645m for 16/17. The value of the overall highway revenue maintenance budget for 16/17 has reduced significantly due to over £3m of Service Offer and Base Budget Review savings. In addition to this the value of the Capital programme

continues to increase and these two factors result in a shift in the proportion of Highway Operations work delivering the capital programme as opposed to revenue work. In line with this a larger proportion of the overhead will now be charged to Capital in 16/17 and only £2.061m will be charged to revenue. This presents a **recurring savings opportunity of £1.585m**. It should be noted that any further shifts in the balance between capital and revenue work may impact on the certainty of achieving this saving in future years beyond 17/18.

5.6 Recommendations for further work

The report recommends that work continues on a number of service areas to identify further saving opportunities. Research has already begun to gather sufficient evidence to evaluate why the County Council, when benchmarked against other authorities, appears to be more expensive. The key areas currently under review are:

- Service Delivery Model – Review of lowest quartile spend authorities to assess internal vs external delivery and benchmarking of works costs.
- Severe Weather – Analysis of the key severe weather budget variables and benchmarking with lowest quartile spend authorities to assess the Council's position on policy, efficiency and cost of resources.
- Staffing Overhead – Activity analysis has been undertaken to understand the cost of each revenue function carried out within the teams included within the overhead calculation. Whilst this has been successful to a point in assigning costs at a higher level more work is needed to drill down further to a lower level of activity.
- Fees & Charges - Some work has been done to benchmark our fees and charges with other authorities but this needs expanding to align these fees with the true cost incurred in generating this income. Full cost recovery needs to be illustrated for all the fees and charges levied by the Highways team and this will build from the activity analysis referred to previously.

Zero Base Budget Service Review Report - Estates

October 2016

6.1 Executive Summary

- Through the ZBBR process, a number of recurring underspends and some additional income has been recommended as budget savings to the value of **£0.304m** from 2017/18; this comprises of £201k increase to the capital recharge budget, £53k recurring underspend (£35k across non-pay budgets and £18k increase to the LCDL income budget) and £50k cost recovery from charging of surveyor time in relation to property sales.
- Upon investigation, the degree of risk in terms of the timing of various activities such as the ability to sell or hand back surplus properties and the timeframes for maintaining assets no longer in service use, lead to the conclusion that it would not be prudent to build any further income targets or cost reductions into the budget for 2017/18, however, the service will continue to review its performance and expects to be able to reduce its costs from 2020 when the majority of the activity in relation to the Property Rationalisation has been completed. It is important to note that corporately, there are emerging priority workstreams around the Combined Authority and One Public Estate and the extent of the work that this will generate for the Estates Service is unknown at present. All staff resources are currently deployed to deliver current priorities, but dependant on future demand, there could be the potential to explore income generation options post- 2020, as it is envisaged that there could be capacity within the current team resource to undertake additional workstreams at that time.
- Expenditure and income for Land Not In Operational Use (LNIOU) are difficult to predict and the review of funding required for LNIOU will continue to be undertaken as part of the Medium Term Financial Strategy process.
- Directly comparable benchmarking of this service is difficult however a review of different service delivery models, for example, 'buying in' some elements of the service were not considered to be cost effective and would reduce the significant positive contribution made by this service to corporate overheads. There may be opportunities to review and change the current operating model as part of wider organisational changes.
- The conclusion of the review is that it is recommended that the priorities of the team are to deliver the significant savings targets already agreed in relation to the Property Rationalisation which includes capital receipt and revenue savings target; supporting capital programme delivery, especially in terms of transport schemes and building programmes by way of land

acquisition/compensation; day to day property management of the commercial, operational and schools portfolio, along with assisting in delivery of one off projects such as Cuerden/Enterprise Zones.

6.2 Financial Position

6.21 2015/16 outturn position

- Net Budget - £1,787,000
- Actual - £859,318
- Variance - -£927,682

The 2016/17 net budget is £1,552,045, which is £692,727 higher than 2015/16 outturn.

A review of the outturn position for 2015/16 has identified that the following areas of underspend are either (1) not deemed to be recurring, or (2) will result in adjustments to Estates and other budgets but will not deliver savings for the Authority as a whole:

- £341,000 staffing underspend (£429,000 internal staff costs partly offset by £88,000 agency staffing). This is non-recurring following a budget reduction that re-based 2016/17 budget to fund the actual cost of staff in post plus agreed vacancies. Three grade 9 posts were established on a temporary basis until March 2018. The Service anticipates generating enough additional income during the rationalisation phase to manage the additional cost of the posts within the overall budget, but have agreement that any shortfall will be met from the Transformation Reserve.
- £147,000 underspend across the three traveller site budgets. The budget has been set at £131,000 for a number of years and this significant underspend resulted from earlier year accounting accrual adjustments. Actual charges have reduced from £91,000 in 2013/14 to £73,000 and £70,000 in 2014/15 and 2015/16 respectively. The reduction in spend reflects the reduction in the maintenance regime undertaken by Districts, in particular the communal blocks. The Lancaster site requires £0.100m of work (not all essential immediately) and a further £0.025m of work is essential at the Preston site. There is no additional provision set aside in the 2016/17 but to mitigate the risk of overspend the Service will limit the maintenance work to stay within budget this year, and complete the work in 2017/18, again within the allocated budget. (Note, in the past there has been grant funding available but at present there are no opportunities to bid for funding).

The Base Budget Review highlighted that the Authority has no statutory obligation to either provide or to maintain traveller sites - but neither is there an obligation for District councils to maintain the sites. However, as long as the county council owns the sites, it has a statutory obligation to maintain them. The current arrangements are long-standing but in the current financial climate a review of the council's position

could be considered. Section 225 of the Housing Act 2004 places legal responsibility on local housing authorities to identify and provide suitable and appropriate gypsy/traveller accommodation; housing services are a District and not a County Council function, however, Section 124 of the Housing and Planning Act 2016 removes the duty on local authorities under the Housing Act 2004 to assess the accommodation needs of Gypsies and Travellers in their area as a distinct category. Instead, it specifies that local housing authorities should consider the needs of people "residing in or resorting to their district with respect to the provision of sites on which caravans can be stationed, or places on inland waterways where houseboats can be moored".

- £186,000 underspend in respect of the Land Not in Operational Use (LNIOU) budget. The gross expenditure budget of £826,000 funds property maintenance, utility charges and other professional fees, and in 2015/16 there was an underspend of £114,000 against expenditure budgets. In the short term the costs in relation to LNIOU will increase as a result of the property rationalisation programme.
- Rental income is generated under the LNIOU budget from properties at sites that have been purchased for capital development. The budget for 2015/16 was £48,000 but actual income was £53,000 higher than budget. This was due to a building at Moor Lane (a surplus building previously a day centre for adults with learning difficulties) being rented for the full year to UCLAN rather than sold as was originally planned. The intention is to agree a 3-year lease arrangement with UCLAN from November 2016 but to market the properties for sale (with tenancy) in the meantime.

Expenditure and income for LNIOU are difficult to predict and the review of funding required for LNIOU will continue to be undertaken as part of the Medium Term Financial Strategy process.

6.22 Outturn variance budget savings

The review of the 2015/16 outturn position has identified £254,000 of recurring underspend. It is proposed that budgets from 1st April 2017 reflect the following:

- **£201,000** increase to the capital recharge budget. In 2015/16 the Service charged £469,000 to capital schemes, reporting an over-recovery of £295,000. This represented an increase of £117,000 from the 2014/15 recharge of £352,000. Supporting the capital programme will continue to be a key priority for the Service and so it is proposed that from April 2017 the budget is increased from £174,000 to £375,000 to better reflect the costs recoverable. It is acknowledged that the priorities of the Service can change and the position will continue to be monitored. Any future changes that will impact on the capital recharge will be reflected in the Medium Term Financial Strategy.

- **£35,000** reduction across non-pay budgets, including £20,000 subscriptions and £5,000 conference/subsistence. The remaining £10,000 is split across various supplies & services budget lines;
- **£18,000** increase in the income budget for LCDL estates management services to reflect the actual cost of staff time recharged.

6.3 Cost Recovery

The key areas of cost recovery relate to the work undertaken on capital projects, the delivery of the estates management function for LCDL, and some external contracts.

Capital works – transport programmes: From July 2016 Estates will charge staff time through PPMS, at cost, directly to the capital programme. An increase in the recharge budget to £375,000 - detailed above - is more reflective of the resource directed to supporting capital works.

Property / site disposals – As of April 2016 the DCLG allow the flexible use of capital receipts and the Authority has reflected £22.0m of capital receipt income in the revenue budget over the three years to 2018/19.

Sales at auction incur an additional charge on the purchaser for surveyor time, over and above the purchase price. This income is currently reflected in the Estates budget. The same should be applied to sales by tender / private treaty (excluding community asset transfers and smaller site sales).

The Service estimate charging c£50,000 per annum and it is proposed that a budget for this income be established from 1st April 2017.

LCDL: The Service recover staff time based on set rates and actual time recorded. The current income budgets are not representative of the real cost and an increase in the budget to recover the anticipated costs in full has been proposed above.

SLA – Police: The income budget of £0.017m is currently recovering only the direct salary cost of 0.2 fte for two employees. Going forward the Service should be recovering a contribution to other service costs and overheads, and intend to negotiate a revised fee from April 2017, although the increase will be minimal.

6.4 Savings already taken

The Service has previously agreed savings in 2016/17 – 2017/18 of £5.119m, of which £0.119m related to staff costs and £5.000m represents the property rationalisation target saving (BSI001).

A review of the BSI001 reported that the Service has delivered the 2015/16 staff savings. The 2016/17 savings have been achieved through re-basing of the budget. Whilst the property rationalisation saving is 'held' within the Estates Service the actual property running cost budgets are with the services that operate from the properties. As properties are vacated the saving (equivalent to the running costs) is transferred to the relevant service. To date running costs have been reduced by c.£0.860m.

BOP001 highlights the risk in 2017/18 of non-delivery of the property rationalisation savings and sets aside a provision of £2.000m in that year to fund delays, and if non-delivery becomes certain the budget will be re-based to reflect this.

6.5 Benchmarking

The 2016/17 gross expenditure budget for the Estates Service is £2.490m. 97% of the budget is represented by three elements:

- Staff costs £1.426m (58%)
- Land not in operational use £0.862m (34%)
- Traveller Sites £0.131m (5%)

There is no comparator unit cost information readily available for Estates services. The Revenue Outturn published figures do not include a specific category for Estates, and the Statutory Services Budget Review (SSBR) undertaken by PWC categorises Estates Land Not In Operational Use under 'Corporate Services' alongside many other service areas. PWC found Corporate Services overall to be a high gross spend area, with Lancashire needing to reduce spend by £23.1m to meet lowest quartile comparator. No comparator income information is provided and so it is difficult to assess whether in net terms the Estates Service is high cost.

A high proportion of staff are experienced and this is reflected in salaries being generally at, or close to, top of scale.

Nationally, the majority of local authorities are implementing property rationalisation strategies to reduce the size of their estates and revenue running costs. Estates is one example where shared services can work, e.g. with neighbouring authorities, Health and other public-funded bodies and this will be explored through the Combined Authority and One Public Estate work.

6.6 Summary of budget savings identified

The review has identified that through a combination of cost reduction and recharging of costs the budget can be **reduced by £304,000** from 1st April 2017. Further savings opportunities are difficult to estimate at this stage. The cost drivers are predominantly (1) the size of property portfolio and (2) the size of the capital programme, since staffing and LNIOU represent 92% of the budget. Whilst there are plans to reduce certain elements of the property portfolio by c.50%, the overall portfolio will reduce by a much smaller proportion. With added uncertainties around things such as the direction of academisation it is difficult at this stage to predict what the reduced portfolio and therefore a reduced establishment could look like post-2020.

Other opportunities to redesign the Service include:

- Exploration of a shared service model, partnering with neighbouring authorities / combined authority footprint. This need to be considered in the context of the wider Corporate strategic agenda, e.g. around One Public Estate;

- Adopting a commercial approach, capitalising on the skill base of the team to generate more external chargeable work (at market rates rather than full cost recovery).

6.7 Understanding the Service

The Estates Service is responsible for the provision of a professional estates management service for Lancashire County Council's property portfolios (including schools) and other external partners' property portfolios, where there are contractual arrangements in place. The current priority areas of work for the service to deliver aspects of the Corporate Strategy are:

- Estates contribution to delivery of the corporate property rationalisation
- Major capital schemes, acquisitions, compulsory purchase orders, compensation
- Disposal of surplus properties/other property interests to maximise capital receipts and minimise expenditure
- Estates management of the property portfolio being operational, surplus or commercial until decisions are made on the future portfolio

Income is generated through the recovery of fees for both internal and external projects/work.

The Service is currently facing increasing levels of demand, due to the rate and scale of change within the Local Authority across the priority areas of work described above, including the Combined Authority and One Public Estate. The full impact of the of the property rationalisation programme on current and future workload is still not fully known in terms of which properties are to be disposed of; decisions are still not confirmed and timescales keep moving out, although 2020 is the current anticipated timeframe. Demand for the Service is dependent on both finances and political steer and at the present time, it is believed that the Service level of delivery is appropriate to the authority's legal duty for holding property and carrying out schemes.

Further organisational reviews and restructures as a result of the Statutory Service Budget Review and review of the council's operating model currently being undertaken by Price Waterhouse Cooper may highlight links with other parts of the organisation or wider public sector that may bring about further efficiencies and further reduce costs.

6.71 Estates Workstreams

The current principle workstreams of the Estates Service are:

- Contributing to capital programme delivery
- Acquisitions
- Compulsory Purchase Orders (CPO) the majority of the capital works in major transport schemes are underpinned by CPO powers; the work of the Legal, Estates and Highways team are intertwined to deliver the CPO requirements

The Estates service currently contributes to the delivery of the following major schemes:

- Pennine Reach
- Heysham-M6 Link
- Broughton By-pass
- Penwortham By-pass
- Preston Western Distributor and E-W Link
- A582 Dualling
-

Estates input is required in other capital schemes to a greater or lesser extent, e.g. Preston Bus Station and schools major capital projects, along with bridge schemes and other highways programmes.

- Estates management of Lancashire County Council's entire property portfolio (operational and surplus)
- Corporate Landlord function - statutory function; the ownership of property and the responsibility for its management, maintenance and funding are to be transferred from service departments to a centralised corporate model
- Swimming pools - currently out for expressions of interests for community asset transfer
- Travellers sites held by LCC and currently managed on a day to day basis by the districts
-

There is a statutory obligation that goes with owning or leasing property that as a responsible body, the County Council must adhere to until decisions are reached on the changing shape of the portfolio.

1. Estates management of Schools portfolio:

The Estates service has a range of different inputs within the schools portfolio with the County Council having various property legal interests and is subject to key legislation under both the Academies Act 2010 and the School Standards and Frameworks Act 1998. The academies position is very dependent on central government and the up take in Lancashire which is currently low but could accelerate dramatically impacting on the transfer of the property interests of the county council on a case by case basis.

2. Managing Lancashire County Developments Limited (LCDL) commercial property portfolio:

The Estates service manages the Lancashire County Developments Limited (LCDL) commercial property portfolio at:

- Whitecross, Lancaster
- Rising Bridge, Accrington
- Lancashire Business Park, Leyland
-

The portfolio comprises of 170 tenants, approximately £3.5m annual rent roll across one million sqft.

3. Contribution to property rationalisation
The Estates service contributes to the property rationalisation and management of the wider operational, surplus and commercial portfolios in estate management terms, whether as freeholder, lessee or lessor. There is a statutory obligation that goes with owning or leasing property that as a responsible body, the County Council cannot ignore; this can cover public liability, health and safety, occupier's liability, duty of care, through to Landlord and Tenant Legislation - Granting and Surrender of Leases, Best Value and the Corporate Landlord Function.
4. Disposals
Complying with legislation to dispose of property and the priority of obtaining maximum capital receipts, whilst reducing revenue. The costs for this area of work will be recovered from the capital receipts going forwards, which is governed by finance regulations. Under Section 123 of the Local Government Act 1972: Disposal of land by principal councils, the County Council must be able to effectively sign off that when disposing of land/property, they are getting the market value for the property that they should be; this workload will increase as a result of property rationalisation.
5. Land Not In Operational Use (LNIOU) - management of vacant and surplus property
Although the LNIOU budget is not technically statutory, it is a budget that cannot be reduced, as the authority has a legal obligation to maintain empty properties of which it has ownership. The budget is used to maintain property acquired for capital highways schemes/surplus property in the main. There is an element of maintaining the property as a responsible authority and therefore statutory, being security, asbestos, health and safety etc, which would have to come out of the Repairs and Maintenance budget (which currently sits with the Asset Management service), were the LNIOU budget not to exist. Additionally, there is the element of increasing the value of property assets through demolitions/planning applications etc, as a form of invest to save, which is not statutory, but increases the capital receipt.
6. Statutory asset valuations (and rating valuation)
From a financial perspective, the County Council could be challenged if the financial value of its assets were not made available to the Accounts Commission; the Estates Service has responsibility for maintaining the list of assets and carry out the valuations in line with statutory guidelines.
7. Travellers sites
The County Council currently owns and maintains three travellers' sites in Lancaster, Hyndburn and Preston, which are managed on LCC's behalf by the relevant District Councils (see further narrative in 2015/16 outturn section).
8. Lancaster City Collaboration
This joint working arrangement with Lancaster City Council is seen as appropriate in respect of the combined authority discussions.

9. Estates service to Police
Providing an estates service to Lancashire Constabulary through a light touch collaboration.

10. Ratings advice to Lancashire schools, funded by the Schools Forum
Ratings advice to the Lancashire schools is funded by the Schools Forum devolved budget, with any savings on the rates liability returning to the County Council as part of its statutory finance role.

11. Combined Authority and One Public Estate
Estates is one example where shared services can work, e.g. with neighbouring authorities, reducing management and running costs.