

HEREFORDSHIRE CONNECTS

PORTFOLIO RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

20TH APRIL, 2006

Wards Affected

County-wide

Purpose

To note the completion of Phase 1 of the Corporate Strategy Review and to endorse the arrangements for proceeding to the next stage.

Key Decision

This is a Key Decision because it is significant in terms of the effect on communities living or working in Herefordshire in an area comprising one or more wards. It was included in the Forward Plan.

Recommendations

THAT Cabinet

- (a) **approves the Herefordshire Connects Programme including the outline financial appraisal at Appendix 1;**
- (b) **receives further updates on the Herefordshire Connects Programme in due course including a more detailed financial appraisal so that changes in the approved revenue and capital spending plans can be made;**
- (c) **approves the strategy of using the £1.928m Invest to Save budget for 2006/07 to fund additional capital financing costs and direct revenue costs resulting from the Programme in 2006/07 and 2007/08; and**
- (d) **notes the potential need to revisit the Prudential Borrowing limits for 2006/07 and beyond as a result of the additional long-term borrowing required to pay for the Herefordshire Connects Programme.**
- (e) **confirm that the governance arrangements be developed in accordance with the framework set out in paragraphs 37 – 47.**

Reasons

To note progress with the Herefordshire Connects Programme and its potential impact on the Council's financial position.

Further information on the subject of this report is available from
Julie Holmes, Head of Information, Technology and Customer Services on (01432) 260403

Considerations

Background

Central Government Context

1. Beyond tackling both the financial challenge facing the authority in the coming few years and therefore the affordability of the Council's Herefordshire Connects Programme, Central Government is itself increasingly conscious of the need to improve the efficiency of public service provision; to maximise the value of public services to citizens and stakeholders. At the same time, there is also a concerted drive to encourage local government to deliver internal and external services electronically. More specifically, the Council has to address:
2. **Council's Financial Position** – The key points of the Local Government Financial Settlement for Herefordshire and known budget pressures are as follows:
3. This budget cycle has been a difficult one for the Council. Herefordshire faces huge challenges in meeting rising customer demand, statutory duties and rigorous inspection regimes whilst maintaining financial stability into the future.
4. Herefordshire schools are amongst the worst funded in England on a per pupil basis but the increase in Dedicated Schools Grant was comparatively good at 4.3%. In contrast, the 2.4% increase in non-schools funding will barely cover inflation.
5. The scope to make good the shortfall in Government funding is severely limited by the cap on Council Tax increases. Reviewing the scope to raise additional income sensitively through fees and charges may reveal opportunities for bridging the funding gap.
6. The budget outlined in this report represents a significant step towards addressing some of the structural issues within the Council's budget for the future. However, reserves will be significantly depleted in 2005/06 as prior year and current year over spends are written off to help establish a stable budget position going forward.
7. The creation of a Social Care contingency in the event demand continues to increase to the extent currently predicted is an important step towards managing the key financial risks Herefordshire is facing. It is essential that these demand led pressures are fully understood and the resource implications assessed as soon as possible.
8. There will be limited capacity to deal with the level of over spending in key service areas that occurred in 2004/05 and is happening in the current year. These service areas need to consider whether alternative service delivery models may achieve more with less.
9. The medium-term financial prognosis is not good with SR07 looming large. The pressure from the Government to deliver efficiencies whilst improving outcomes and outputs continues to increase. The limited capacity in Herefordshire's financial reserves to provide the flexibility needed to achieve a soft landing in the budget means there is a pressing need to develop a Council-wide Service Improvement Programme supported by implementation of appropriate ICT, accommodation and organisational development strategies. The pay back in terms of budget reductions resulting from the investment needs to be certain and be delivered if Herefordshire is to maintain its current financial standing.

10. **Gershon Report** – this is of particular relevance to the issue of public sector efficiency savings and sets out the scope for further efficiencies within the public sector’s back office, procurement, transactional services and policy making functions.
11. The Gershon Review also identified opportunities for increasing the productive time of professionals working in schools, hospitals and other frontline public services and makes a series of cross-cutting recommendations to further embed efficiency across public sector. Further it seeks to make efficiency gains through the scale economies of more effective cooperation and coordination between agencies across the whole of the public sector, not excluding the independent, voluntary and private sectors. By deploying new ICT applications for example, it is envisaged that the delivery of corporate resources, e-procurement and e-government can be shared resulting in lower costs, thereby, releasing more resources to front-line services.
12. The only further cashable efficiency saving that has been identified since the last budget report is in recruitment advertising (£44k in 2006/07 and £88k in 2007/08). This figure will need to be allocated to Directorates based on staff turnover statistics. The remainder needed to meet the £1.65m target is £494k in 2006/07 and £225k in 2007/08. The target for the next two financial years will be achieved from additional vacancy savings allocated to Directorates on the basis of total base budget for employees in 2005/06. It may be possible to update the efficiency plan for 2006/07 as a result of the Corporate Strategy Review currently underway.
13. **The National eProcurement Project** – identified that local authorities should aim to reduce the cost of goods and services by 2.8% through strategic sourcing and e-procurement.
14. **The legacy ICT environment** - within the aforementioned strategic context, the Council is faced with immediate challenges regarding its current applications systems infrastructure in a number of areas. Work on the “as is” architecture has shown that there are in excess of 900 separate individual applications in operation.
15. These systems whilst in some instances perfectly adequate for the limited user communities they serve, are in the main now limiting the Council’s ability to implement the Service Improvement Programme and its corporate priorities.

Herefordshire Connects

16. The financial context for Herefordshire Connects is compelling. Service areas have already identified that in order to fund the level of service we know is required the Council need to secure an additional £20 million. There is no scope for increasing council tax above the government’s cap of five per cent, the prospects for any material increase in the revenue support grant are pessimistic and room for manoeuvre in terms of raising income or cutting discretionary services is limited. Rather than wait until the Council’s financial position becomes serious, the authority has sought to implement now a strategic transformation of its business and services – to determine new and more efficient and flexible ways of working to deliver high quality services focused around the needs of our customers, and all of this for less cost.
17. ‘Herefordshire Connects’ is the council’s strategic transformation project - previously called the Corporate Strategy Review. The project will address the service improvements required and mean substantial investment in staff and support systems in order to revolutionise the delivery of council services.
18. The vision is for every local citizen to have considerably improved access to services and information, at a time and a location that is convenient to them, and by any means

that suits them, so they can communicate with a single point of contact, who is trained and empowered to respond effectively to their request across the full range of council services available. The project will also transform the performance of the council, helping us all to work more closely together, supporting service areas to focus on delivery and developing customer-facing staff and services.

19. The 12 week programme launched in January 2006 included a review of processes, organisation and systems across all Directorates and was charged with recommending a series of defined service improvement opportunities inclusive of the associated investments and benefits.

20. Whilst technology is one of the enablers to achieve this vision, the project is principally about transforming our services; changing our culture and focus for the benefit of local citizens.

21. The review has recommended:

- A cross directorate service delivery model and operating structure that provides a single face to the customer and is oriented around customer demand and preferences
- A council wide transformation programme consisting of a series of clearly defined but interlinked activities with clearly articulated costs and benefits
- Significant changes to customer service, support and performance management processes, organisation and technology to create a more integrated and flexible model for these areas
- The provision of a platform for tighter integration with key partners such as the PCT, Police Authority and the voluntary sector.

22. The approach to the review has been to

- create a core team comprising a change manager, change champions and core team representatives from all Directorates
- time box the review to maintain momentum and focus on critical challenges and those solutions which will deliver maximum benefit
- focus on the elements within the immediate control of the Council rather than agencies, partners and organisations outside the core control of the Council
- hold a series of service improvement workshops (21 in total) to agree a set of outcomes, projects and benefits for each Directorate
- translate these service improvement plans into three prioritised council wide business cases focused on specific improvement themes with a more detailed view of the costs and benefits
- involve an appropriate cross section of employees to validate those costs and benefits
- seek approval to proceed with the implementation of the review's recommendations.

23. The Herefordshire Connects Programme Board recommends an integrated programme of change across the Council structured around the three work streams:

Integrated Customer Services – a simple, multi-channel way of interacting with citizens using an electronic records and document management system to ensure that the right information is immediately available.

Integrated Support Services – an integrated capability covering finance, procurement, HR and asset management; ensuring data is only entered into the system once and the timely availability of accurate information.

Corporate Performance Management – a cross Council corporate performance management framework linking the planning of budgets, other resources and activities to the achievement of specified outputs and outcomes including performance indicators for different levels of the authority.

24. The requirement for flexible working and workflow management is consistent across all work streams.
25. Furthermore, it is important that the momentum built up to date in the programme is not lost and that the skills and knowledge already captured in those core team members is put to best effect. It is therefore recommended that as many of the core team members are retained on the programme moving forward as possible.
26. As these resources are seconded to support the procurement and implementation elements of the programme, the issue of backfilling key post holders' positions will need to be addressed on the basis of demonstrable need. This may incur additional expense not accounted for in the confidential financial appraisal attached at Appendix 1.

Corporate ICT Strategy

27. In addition, work has been ongoing on the underlying Corporate ICT Strategy. This has highlighted the need for work to continue on those key building blocks such as the network replacement project and ICT disaster recovery as well as future programmes around the standardisation of infrastructure and desktop, the implementation of further systems management tools and the extension of the web infrastructure.
28. Given the overall context in preceding sections of this report, a key consideration for the achievement of the Herefordshire Connects vision is the use of enabling technologies. The options available to the Council in terms of the technology solutions to underpin the Herefordshire Connects Programme are limited.
29. Two options prevail. Namely, the use of:
 - A single vendor system to deliver the breadth of functional and information requirements set by both the Herefordshire Connects Programme and current management demands. Such systems are more commonly referred to as Enterprise Resource Planning (ERP) systems. Owing to market consolidation over the past 2-3 years, two vendors dominate this marketplace: Oracle Corporation and SAP AG.
 - A selection of “boutique” systems from vendors who specialise in UK local government and have well regarded specialist systems. These vendors and their specialisms include, for example, Northgate (HR, GIS and CRM), Civica (ePayments), Agresso and CedAR (Financials), Selima (Payroll), Academy (Revenues & Benefits), etc. These systems are more commonly referred to as “best of breed” (boutique) systems.
30. The ICT Strategy Report agreed by CXMT dated 4th October, 2005 agreed a number of key assumptions in order to kick-start the planning process for Herefordshire Connects.

31. The programme should be:

- service driven
- contain realistic work packages
- deliver rapid time to benefit
- adopt the best practice business processes within the application rather than modifying them

32. The technology should be

- A single integrated environment as the standard (a whole council architecture)
- A commercial 'off the shelf' package(s) rather than boutique solutions
- Leverage applicable existing corporate systems
- Must offer an enterprise services architecture – this will allow us to plug in any "boutique" offerings more easily

33. The Programme should allow for:

- Enforcement of current corporate standards
- A phased approach to implementation
- The formation of one ICT organisation ; and
- For resources to be made available to the project in a timely manner.

34. The transformation programme we must undertake is further complicated in so far as much of the business critical data required by the Council is held in a large number of disparate forms. These include; spreadsheets, access databases and word documents. This poses significant risk in respect of accuracy and duplication of data, potential for non-compliance to Freedom of Information requests and unacceptable levels of business continuity risk (e.g. failing to meet levels of availability required to fulfil the Civil Contingencies Act).

35. Certain existing systems are based on outdated technologies that are costly to integrate, support and develop. Management information is often limited as a consequence and data quality variable.

36. As a consequence of the functional limitations of many of our existing systems, Directorates and the corporate centre are heavily dependent on paper based transactions, manual approval and distribution processes, and inadequate management information. Implicitly this has led to inefficient resource management processes and acts as a barrier to more innovative, technology enabled and flexible working practices.

Programme Governance

37. Herefordshire Connects represents a major transformation programme for the Authority. Whilst the report this far has focused on the business requirements together with the enabling technology aspects, it is our handling of the people and cultural changes that are required which will determine, or not, the success of this key initiative.

38. Many of the key governance structures are in existence across the Council, however, are in need of review or indeed reworking. A major challenge of the governance arrangements will be the need to transition from a governance model which today is essentially based on organisational structures (Directorates, Services, ICT ...) to one which addresses both the organisational and process governance challenges.
39. A further commitment to a corporate programme and project management framework based on OGC best practice to include gateway reviews and based on Managing Successful Programmes (MSP) and Prince2 as part of this corporate governance model must also be included as part of the programme's initiation.
40. Further, to minimise the risk of programme failure to deliver the required benefits a revised corporate governance model including a benefits realisation framework is included as part of the initiation of this programme, which additionally manages other key priority programmes across the authority as well.
41. It is evident that a new model for the governance arrangements is required. Essentially whilst recommending that the Information Policy Group (IPG) remain albeit with a reworked format and membership, the overall governance body for this and other programmes becomes the Corporate Transformation Board. This Board would comprise the Chief Executive, the Director of Corporate & Customer Services, one operational Director, Director of Resources and the Change Manager. It would become the responsible body for all matters relating to business transformation including but not limited to:
- Strategic direction and policies
 - Investment appraisals
 - The benefits realisation framework
 - Risk management
42. In this model the IPG would act in support of the Corporate Transformation Board continuing its existing role as the authority's overall ICT governance body with responsibility for policy and procedure, and acting as the Information Security Forum on a quarterly basis.
43. It is further recommended that an enhanced capability be developed with respect to the current Programme and Project Support Office (PPSO) with particular regard to programme management standards, quality assurance and monitoring. It is proposed that the OGC model based on Centres of Excellence be used as the framework moving forward.
44. Given that this is the most significant transformation programme the authority has undertaken which will involve significant process, organisational and cultural change together with the high degree of interdependency between this and other programmes such as the Accommodation Strategy and Corporate Customer Services Strategy, it is recommended that the Council approve the formation of a dedicated change management team to oversee and lead on both the communication and change plans.
45. There will also be a requirement for suitable project team infrastructure and facilities to include both accommodation and ICT. Neither have been costed as part of the financial appraisal appended.
46. The reality of Herefordshire Connects means that the programme will have to define accountable benefits realisation owners both within the programme and across Directorates. The framework for defining and measuring these benefits has yet to be

defined, however, a robust mechanism will be required to ensure that benefits are both realised and pulled out of service budgets.

47. Under Phase 1 of the Project the reference group of Members was established. The Leader, Cabinet Member (Corporate and Customer Services and Human Resources) and Cabinet Member (Resources) were briefed regularly on progress. This arrangement would continue, with reports to Cabinet at key points in the life of the programme.

Outline Financial Appraisal

48. The outline financial appraisal shown in the confidential Appendix 1 is provisional at this early stage in the development of the Herefordshire Connects Programme. The figures are sufficiently robust enough, however, to provide a feel for:

- the likely level of cost of implementing the Programme through to 2011/12);
- the level of potential cashable benefits in implementing the Programme through to 2011/12;
- the likely level of additional capital financing costs falling on the revenue account through to 2011/12; and
- the point in time at which potential benefits will exceed costs in a financial year.

49. The outline financial appraisal assumes that:

- Most of the costs can be capitalised alleviating pressure in the revenue account;
- the £1.928m Invest to Save budget will be used to smooth the impact of the Programme on the revenue account in 2006/07 and 2007/08;
- there are no further reductions in costs through the procurement process for the Programme when it is likely (but not yet possible to estimate) that this will be the case;
- Herefordshire Council bears the total cost of the Programme and enjoys 100% of the potential benefits (a situation that may alter depending on the procurement decisions ultimately taken);
- there is no separate external funding available for this Programme (some may be available to help pay for integrated children's services and social care projects and other external improvement funds should be applied to this Programme where grant conditions allow);
- the balance of costs will be financed through long-term borrowing as the prudential case can be demonstrated as potential cashable benefits from 2008/09 onwards far exceed the additional capital financing costs in the year; and
- there is no double counting of benefits in the Programme and in other Corporate or Directorate plans and strategies.

50. The outline financial appraisal does not include the cost of the underlying ICT strategy needed to support the Programme or the cost of strengthened change management arrangements.

51. The outline financial appraisal indicates a benefit to cost ratio over the period to 2011/12 of 2:1 excluding capital financing costs. Compared to benchmark data, the cashable benefits identified are thought to be realistic and potentially on the low side. The overall financial summary indicates there is a comfortable margin for costs to increase/benefits to reduce before the Programme becomes non-viable for purely financial reasons. A more detailed sensitivity analysis can be carried out as the detailed Programme and hence detailed financial appraisal develops. Significant non-cashable benefits of circa £18m are also anticipated. The non-financial benefit of this Programme should not be overlooked.
52. The financial appraisal will change over time as the details of the Programme are developed. Cost and benefit profiles may change as the phasing of the various projects making up the Programme is determined. Regular monitoring of the financial position will be included in the Integrated Performance Report on an exceptions basis.
53. The outline financial appraisal at this stage looks promising with the likelihood that significant revenue benefits will accrue from 2008/09 onwards. This is perfect timing in terms of SR07 which is anticipated to prove difficult for local government and will set the basis of the three year settlement starting in 2008/09.
54. From a purely financial viewpoint, there is much to commend the Herefordshire Connects Programme given the medium-term financial outlook highlighted in recent budget reports. A key issue for the Council will be maintaining pace so that the Programme delivers a full year of benefits in the critical 2008/09 financial year as indicated in the outline financial appraisal.
55. Development of a robust benefits realisation programme is critical to success to avoid the risk of the Programme being overlaid with a cost reduction programme involving service cuts rather than improvements.
56. The Programme will involve a significant procurement exercise. It is important that the Herefordshire Connects Programme Board seeks external advice (from the OGC) and internal advice (from the statutory monitoring and chief financial officers) on the appropriate procurement procedure.

Alternative Options

The only viable option to the Herefordshire Connects Programme would be a dramatic cost reduction programme involving aggressive reductions in service delivery and personnel.

Risk Management

1. The current financial appraisal does not include the financial requirements for key elements of the enabling ICT Strategy such as desktop standardisation; ICT infrastructure replenishment and requirements for flexible working.
2. The impact of other key programmes and partnership working such as the LAA and Children's Act have yet to be factored into the programme.
3. Key skills and resources are not in existence inside the council today. Additionally, other key resources which do exist may not have sufficient capacity.

Consultees

Members of the public

Member Reference Group

Directors and Heads of Service

Members of the Herefordshire Connects Core Team

Change Champions

Representatives of the Resources Directorate.

Background Papers

None identified.