

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	18 April 2011
Title:	Efficiencies & Expenditure Reductions Programme: Review
Reference:	2870
Report From:	The Chief Executive's Department

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1. Executive Summary

- 1.1. The purpose of this paper is to brief the Cabinet on work to review and offer critical challenge to the Council's Efficiencies and Expenditure Reductions Programme.
- 1.2. In January, as the former lead CAA inspector for Hampshire, I was asked to undertake a short independent review of the efficiencies programme, focusing on those areas with the largest estimated savings or highest potential level of risk. The review, aimed at helping the Council assure itself that its implementation plans to deliver savings targets are viable and robust, has taken place as these have been developing.
- 1.3. This paper seeks to provide an overview of the areas reviewed and key conclusions which can be summarised as follows:
 - The Council has set itself a very challenging agenda in terms of both the level of savings and the timescale for achievement. It has made a strong start in planning and progressing the senior management reductions but needs to keep up impetus and keep its arrangements under review to ensure they are fit for purpose.
 - Savings estimates for most elements of the programme for 2011/12 (Phase 3) are supported by plans and more detailed forecasts are developing. There are some areas where more work needs to be done on timing and costs, including staff reductions.
 - There are a number of risks and issues to track to ensure that the programme is deliverable. These include timing, capacity, accountability and wider impact. Higher risk workstreams include staff reductions and major contract negotiations.

- The Council has set in place appropriate arrangements to manage risks and assess progress. These include a monthly profile of the expected savings and a higher level budget risk register.

2. Background and approach

- 2.1. This Council faces a £55m funding gap in 2011/12 due to Government funding reductions, the cost of new responsibilities and additional demands on services. The Council's response has evolved over the past year as the extent of these pressures has become known. In July 2010 Cabinet approved an Efficiencies and Expenditure Reduction Programme (EERP) which required services to make budget reductions of 8% compared to provisional figures for 2011/12 last year. At the same time a number of corporate efficiency workstreams were agreed, mainly focusing on back office functions to minimise the impact on frontline services and contribute to the overall savings target. In total the Council aims to deliver savings of £62.3m to ensure a balanced budget in 2011/12 and cover the costs of changes and risks associated with efficiencies and transformation.
- 2.2. This review has focused on the corporate workstream element of the savings programme with a total target of some £29m and in particular those workstreams providing the highest potential cost reductions. These are Senior Management and Staff Reductions, Contract Renegotiations, IT cost reductions and Business/Shared Services, which together account for £23m of the target. The review aimed to provide critical challenge to the Council, assessing the robustness of plans, the realism of savings estimates and the risks to successful implementation. It also examined the governance arrangements in place to manage and monitor delivery.
- 2.3. The review has taken place as the Council has been developing its implementation plans, as well as progressing key elements of the programme such as the senior management reductions. It is therefore a constantly developing environment and the aim so far has been to provide timely feedback to contribute to the planning process, rather than a set of "snapshot" judgements which would quickly become out of date. However as the Council moves from planning to implementation in the new financial year, a summary of progress to date is timely.

3. Overall conclusions

- 3.1. **Realism, deliverability (and VFM) of short and medium term savings proposals**
 - 3.1.1. The scale of savings required and the tight timeframe within which to both plan and deliver them is a huge challenge for the Council. To add to the short term pressure, the Council's approach is to implement changes within as short a time as possible to minimise long term disruption and damage to staff morale. The number and diversity of departmental and cross-cutting initiatives in the EERP will be very testing.
 - 3.1.2. A key risk is around achieving savings targets within the desired timeframe, which is why realistic plans which take account of capacity requirements and costs are important. This was initially an area of concern but in the last few months there has been an enormous drive to develop implementation

plans and there are relatively few areas where these are not yet in place at least in outline. There is more work to be done in some cases to clarify the costs of delivery, specify milestones and identify when savings will be achieved, most notably to deliver staff reductions below grade H, for which the programme value is £4.4m.

3.1.3. The Policy and Programme Office (PPO), working closely with County Treasurer's officers, has played a major role in supporting the development of workstream plans, assessing risks and checking for realism. At times it has had to provide some impetus otherwise lacking, but increasingly it is taking a more supportive and lighter touch role as savings plans are integrated into mainstream departmental plans and budgets. There is potential for initiative overload, particularly as capacity is increasingly stretched when the effects of staff redundancies begin to be felt. It is essential to prioritise effort where value and return is highest – particularly where there is a large number of potential initiatives, such as with renegotiation of contracts.

3.2. Approach to Longer Term Transformation

3.2.1. Inevitably the need to deliver within reduced budgets is a major driver for changes. In this context there is a risk that all the focus is on cuts rather than taking the opportunity for some radical thinking about how to deliver services better as well as more cost-effectively. However it is clear that some services are transforming the way they work, some driven by financial necessity or external factors, such as changes in the health sector.

3.2.2. Longer term sustainability is also a key consideration: will changes be resilient over time? Will they support corporate and service objectives? Is it realistic to attempt to deliver the same service with fewer resources? Or should other approaches be considered, such as changing user expectations, changing the way the service is delivered or discontinuing the service? These sorts of changes may be harder to deliver as they may have political or reputational dimensions which need to be built into plans.

3.2.3. For this reason, it is important to maintain ongoing challenge to plans and keep under review what others in the sector are doing. It is also essential that shorter term plans for efficiencies are consistent with longer term goals.

3.3. Governance arrangements: accountability and ownership

3.3.1. It is important that not only senior managers but also middle managers and staff understand and “own” their role in delivering change. Not only do they have to make it happen but how they present these changes, both internally and externally, is key both to successful delivery and the reputation of the Council. Accountability for corporate workstreams in particular is not straightforward, partly because of the complexity of some of the projects, and partly because of the devolved nature of the Council's organisational structures and culture.

3.3.2. The Council has set in place good arrangements to counter these risks, including clearly identified leads for each corporate workstream, whose

authority has been endorsed at a corporate level; a high degree of engagement by senior officers in delivering the corporate workstreams relevant to their services and a range of departmental approaches to engage with and consult staff. There have been challenges around consistently developing and sharing information, again perhaps a factor of the devolved organisational culture. It will be worth keeping all these issues under review, possibly mainstreamed through existing performance appraisal processes.

3.4. Governance arrangements: assessment and management of risk

3.4.1. It is essential to effectively identify and monitor the risks of non delivery of major savings targets so that mitigating action can be taken in time. The Council also needs to be able to track smaller failures which may not be significant in themselves but in aggregate may become a more substantial problem. As well as delivery risks, there are a number of other risk areas such as reputation, staff morale and productivity, impact on service users, impact on external partners and markets.

3.4.2. The Council's process for managing risks within the efficiencies programme has developed rapidly. There is a corporate register which brings together larger risks (>£500k) to corporate workstreams and departmental efficiencies initiatives. This clearly identifies the financial value, who is responsible for taking mitigating action and residual risk. Corporate implementation plans also have risk registers overseen by workstream leads. Heads of Finance will be responsible for updating the register and will provide a departmental view. Monthly savings reporting will help to ensure that issues and risks are discussed in a timely manner and mitigating action taken when necessary.

3.5. Governance arrangements: monitoring delivery and the impact of cost reductions

3.5.1. Naturally it is essential that the Council maintains an accurate and up to date view of achievement so that it can act quickly to address any problems. It will also be important to track other issues which may have unintended consequences for the efficiencies programme, for service delivery or the strategic objectives of the Council. Examples include staff morale and productivity which may affect delivery and reputation, and impact on suppliers and partners including the voluntary and community sector, which may affect sustainable markets and supplies. Management capacity, not only to deliver the savings, but also to deliver the Council's normal business, will be stretched, and should be kept under review.

3.5.2. The Council is developing a robust approach to monitoring delivery. Each department has provided information to establish a baseline for its financial contribution to corporate workstream targets and for departmental initiatives. These include the expected timing and key milestones. A monthly return will enable departmental and corporate tracking of progress and timely intervention where relevant. This process will be complemented by a new streamlined approach to budget monitoring that is being

introduced, with the intention that monitoring of the efficiency programme is integrated with normal financial management.

- 3.5.3. Some of the workstreams have more potential to affect suppliers, for example, contract renegotiations. Adult Services have already raised some concerns about any further potential beyond Phase 3 for this reason. Other changes may affect specific groups such as rural communities. An equalities impact assessment has been prepared which identifies some impacts on suppliers and vulnerable groups. The next task is for departments and workstream leads to work up more detailed assessments together with suggested mitigating action. The PPO is using this to take an overview of cumulative effects and to inform the next round of budget planning.

3.6. Communications

- 3.6.1. This review has already touched on the potential impacts internally and externally of activity to deliver savings and how this may involve reputational risks for the Council. In fact the Council has already seen how negative perceptions can be created for service users and in the media during its consultation on children's centres. The Council needs to manage communications proactively and a communications strategy for the Efficiencies and Expenditure Reductions Programme would support this work. The equalities impact assessment referred to above has made a start on highlighting the communications challenges to be faced during 2011/12.
- 3.6.2. It is also worth taking the time to consider how the organisation will learn from successes and how it will publicise these. A high impact improvement as a result of the Efficiencies and Expenditure Reductions Programme will be good for internal morale and should be externally promoted.

4. Corporate Workstreams

4.1. Senior Management Reductions

- 4.1.1. The savings target of £7.9m is extremely challenging, being the second largest item in the corporate programme for 2011/12. It was based on departmental estimates which were originally developed from averages and headcount, although officers worked quickly to move to actual figures once specific staff had been identified through voluntary redundancy and early retirement schemes. This is critical as salary, length of service, and leaving dates all affect costs and therefore potential savings. This process led to some revising up of the savings target, while the number of posts to be removed fell slightly. While the process for developing estimates seems to have been variable, the Council is currently forecasting that it will achieve 99% of the savings target in 2011/12, which indicates that the estimates were based on a realistic assessment of what could be delivered. A more consistent approach would enable a corporate view to be formed more readily.
- 4.1.2. The most obvious risk is timing: to achieve the savings target within 2011/12, most of the redundancies had to be actioned by the end of 2010/11. The current forecast is that senior staff reductions to deliver £7.83 million in 2011/12 have been identified and are on track to be completed on

time. The shortfall is due to some staff leaving later than originally planned and departments are already making alternative savings proposals to ensure they meet overall targets. Delivery has involved effective collaboration between departments, HR and CT and this momentum will need to be maintained to ensure there is no unplanned slippage on leaving dates which could affect delivery of savings.

4.2. Restructures and recruitment freeze

4.2.1. Some departments, for example Children's Services and IT, started to reduce staffing below senior management level with significant restructures in 2010/11. However delivering the £4.4m savings from this workstream in 2011/12 remains a major task for the Council. The challenges will be to ensure that:

- staff leave within the planned timeframe to ensure savings are achieved when expected
- that departments retain sufficient capacity to deliver services and business objectives
- that staff commitment and productivity is maintained.

4.2.2. There is a clear process for approving staff reductions proposals. All departments have developed estimates of the numbers of posts to be removed as part of their budget submissions. Some have also worked up restructuring proposals covering all or parts of departments which are signed off by the Director of HR. These identify numbers, grades and timing of voluntary redundancy exercises and departures where known. They do not, in the main, robustly address the sustainability issues raised above in paragraph 3.2.2.

4.2.3. Some restructuring proposals (business cases) have still be developed, and the planned timing of voluntary redundancy offers and staff departures is not clear for all areas. Some of these are likely to fall further into the financial year, and departments are prioritising their work according to management capacity. But it does mean that likely costs and payback periods and their implications for budgets is not explicit for these areas and there is less information available for planning HR and departmental work on redundancies.

4.3. Contract Renegotiations

4.3.1. The target for savings on contracts stands at £9.7m having been slightly adjusted down from original estimates as detailed planning has got underway. Estimates for major contracts are based on a realistic assessment of costs and timeframe for achieving savings, potential leverage and the market. Implementation plans are in place or developing. Adult Services will be responsible for delivering the largest element of the target (£7.4m) and arrangements are well advanced with contract negotiation teams progressing negotiations across a raft of suppliers and some savings already achieved. Discussions have been begun with Amey for the highways contract and Veolia for waste disposal – these are

planned to deliver some savings later in the financial year with the remainder from 2012/13.

- 4.3.2. Planning beyond 2011/12 is incomplete. Plans are currently being drawn up which include targeting key suppliers in 2012/13. A longer range view is being developed by the recently established Procurement Improvement Programme, led by departmental procurement leads. These are tasked with reviewing all contracts, beginning with those of highest value, to ensure opportunities are captured on an ongoing basis. It will be important to ensure that staff with the necessary capacity, skills and confidence are tasked with undertaking negotiations.
- 4.3.3. Ownership and accountability is a risk but there are arrangements in place to address this with a steering group for the Procurement Improvement Programme, a Programme Manager for the overall workstream and identified lead officers for each major contract. There may be risks around smaller scale contracts but these will need to be managed within departments. A key issue for some contracts will be to assess the impact on suppliers and whether there are reputational or relationship risks to delivering plans. The Programme Manager manages a risk register which departments will contribute to.

4.4. **IT cost reductions**

- 4.4.1. Current estimates for the eight topics within the workstream exceed the £1m target. Most of these have delivery plans underpinning estimates but planning for some projects is in the early stages, while capturing savings across departments will be challenging. In the circumstances it seems sensible to retain a conservative estimate for 2011/12, with any overachievement contributing to 2012/13 targets.
- 4.4.2. Processes to track savings across departments are developing – this is challenging because some savings will be realised in departmental budgets rather than the IT budget, while some will be difficult to quantify. Also some reductions in departmental IT costs will not immediately result in savings to the IT budget, for example where equipment is returned.
- 4.4.3. Accountability within the department is clear with reporting to the IT board and identified leads for each topic. Accountability for delivery is complex for some of the topics because achievement is dependent on departments having the necessary commitment and capacity to deliver.
- 4.4.4. The IT department is also working on a number of other initiatives including the contracts and shared services workstreams. This will almost inevitably present capacity challenges and the department will need to prioritise its efforts. At present topic leads are exploring which topics are most likely to deliver significant value.

4.5. **Business/Shared Services**

- 4.5.1. This workstream contains a mixture of initiatives covering IT, legal, HR and internal audit services, with a total target of £400k. Of the four main elements, two – provision of HR services to Test Valley BC and shared internal audit with Southampton CC – are well advanced and already

delivering savings or income. Legal Services has an established track record of earnings and the target of £130k for 2011/12 is largely based on activities already under development.

- 4.5.2. There are several strands to shared services in IT, including supporting Havant PSV, joint work with Dorset CC and lots of potential initiatives to provide services to other county and district councils, schools, academies and other public sector organisations. Much of this is still at the ideas stage but the elements delivering savings in 2011/12 are well established.
- 4.5.3. To date the approach to developing shared services could be characterised as opportunistic, capitalising on existing contacts, capacity or activity. Much – though not all – the thinking seems to be based on retaining existing capacity and looking at ways to subsidise this through selling services to other public sector partners.
- 4.5.4. There is great potential to expand this work – both in looking at other areas of back office efficiencies, but also in examining the scope for transforming how services are delivered in partnerships. There is some overlap with asset rationalisation initiatives here too. Some of these discussions are already underway with police, fire and health authorities, other councils and the voluntary sector. As planning for phase 4 gets underway, an overarching corporate strategy would provide focus and a clearer steer to staff on how the Council wants to develop this area.

5. Conclusion

- 5.1. The Council has risen well to the challenge of delivering savings on an unprecedented scale and has set itself a clear agenda and timeframe for achievement. It has made a strong start in planning and has already progressed the senior management reductions within very demanding deadlines. It has also set in place appropriate arrangements to track progress and manage risks. It now needs to maintain impetus and keep its arrangements under review to ensure they are fit for purpose.

6. Recommendations

- 6.1.1 It is recommended that the Cabinet:
 - a. notes the positive progress to date
 - b. acknowledges the scale of the challenge facing the Council and the associated risks, and
 - c. keeps progress under regular review.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes/no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Improvement plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:	
It relates to the Council's corporate efficiencies and expenditure reduction programme	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

1.1. This report comments on the broad issues around the Efficiencies and Expenditure Reduction Programme and equalities issues are considered separately as relevant to that programme.

2. Impact on Crime and Disorder:

2.1. This report comments on the broad issues around the Efficiencies and Expenditure Reduction Programme and any Crime and Disorder issues are considered separately as relevant to that programme.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

This report comments on the broad issues around the Efficiencies and Expenditure Reduction Programme and any climate change issues are considered separately as relevant to that programme.