

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Cabinet
<b>Date:</b>	27 October 2014
<b>Title:</b>	Transformation to 2017 – Report No. 1
<b>Reference:</b>	6180
<b>Report From:</b>	Chief Executive

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#### 1. Executive Summary

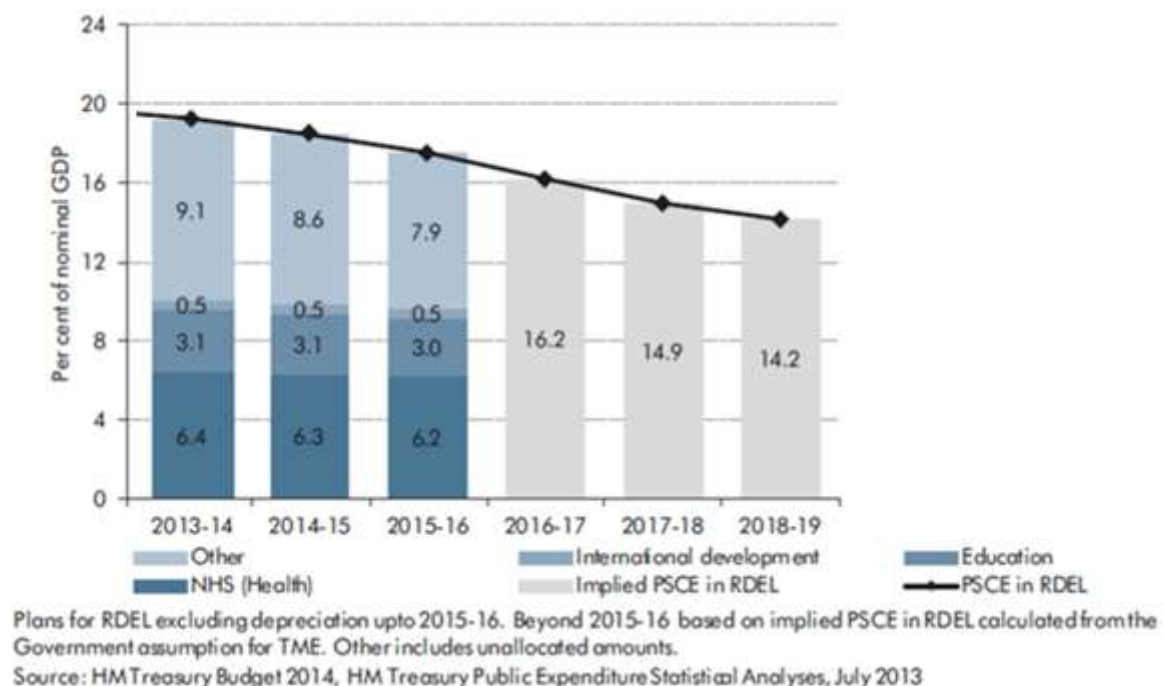
- 1.1. The purpose of this report is to look in depth at the emerging programme of workstreams that will be used to develop a (fourth) savings and efficiency programme to meet a planned reduction of another £100 million in our expenditure by April 2017. This programme is called '**Transformation to 2017**' and is the successor to 'Transformation to 2015' which is reported elsewhere on the agenda. The Cabinet approved this approach at its meeting in July and requested an update report when Transformation to 2015 had been reviewed.
- 1.2. This report reviews the financial position, identifies major themes, activity and future workstreams and recommends that these be factored into a strategic programme (**Transformation to 2017**) to respond to the financial pressures faced by the Council up to 2017 and beyond. Subject to Cabinet approval, the programme will be finalised and factored into the budget in February 2015 and included in an overall programme of activity for Cabinet approval in Summer 2015. Planning early, facing 'full on' the issues and having a comprehensive and systematic approach has been the hallmarks of our success so far.
- 1.3. It is also important in austerity to remember that while this report and Cabinet's attention is often focused on our saving and cost reduction, the County Council should always, or nearly always, be defined by the outcomes of what it spends: £1.5 billion in revenue and £220 million in capital for this year alone. For obvious reasons the austerity discussion often masks the huge volume and range of services – some of the highest quality in public service – delivered on a day to day basis to the residents of Hampshire.

- 1.4. The extent to which any savings from Transformation to 2015 and Transformation to 2017 are not achieved will increase the current forecast of £6m which will be needed to be drawn from the Grant Equalisation Reserve in 2015/16. An updated figure for 2016/17 is being worked upon.

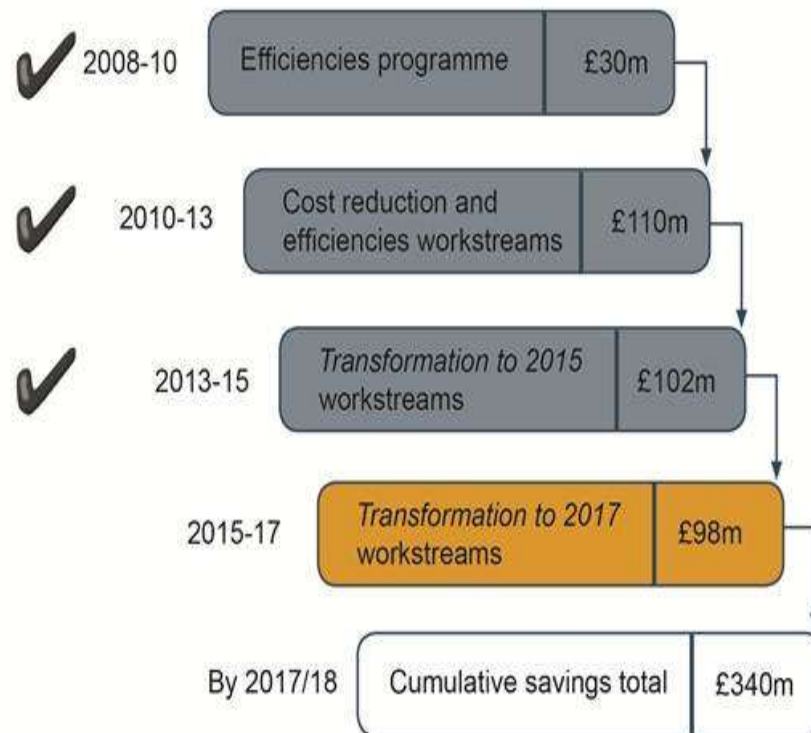
## 2. Context: The reality of Public finances

- 2.1. The diagram below is one illustration of the projected spending in local government to 2019. With specific national services 'protected' it seems inevitable that, from a reducing total, the share available to local government generally will reduce. Specifically for DCLG to meet its share in Whitehall reductions, it seems inevitable that it will be forced to continue to reduce grant support to Councils. Within this scenario the (new) elected Government in May 2015 will (probably in 2016) require to review and publish its 3 year Spending Review. While this will not be known until 2016 at the earliest, it could be anticipated that any improvement to spending may not come until after 2019.

Chart 1.3: Current spending on public services and administration



## The County Council's Transformation Programme 2008 - 2018



- 2.2. Irrespective of the outcome of the next general election, it would be a reasonable assumption that the public finances will at best level off in terms of spending volumes or at worst, continue reducing at the current rate. If this is the case this will require further reductions beyond 2017/18 being factored into our spending. Ranged against this financial onslaught we have found solutions through value for money reductions, transformation, demand reductions, spending reductions, efficiency and pay bill reductions, procurement savings, housekeeping, asset management and senior management reductions. All of these initiatives will be brought back into play, with the addition of the benefits to be had by a deepening impact of digital technologies and processes into our business. It is safe to assume, however, given the scale of the challenge and the degree of recent business transformation, that these initiatives while essential will not obviate the need for substantial service re-design. The next section of this report reviews how to tackle the position to 2017/18.
- 2.3. We are nearly seven years from our starting point in 2008, with the result that the organisation is quite different today to the one back then. Two differences are noteworthy and have an impact on the future. Firstly, successive reductions over such a timeframe mean that there is nothing which easily translates into spending reductions. Secondly, while a different organisation, it is more resilient with many parts of it stronger, fitter and

developing with and into public sector markets that economically and commercially bode well for the future. No one generalisation adequately describes our continuing success in the most difficult times ever seen in public service markets.

- 2.4. Two other assumptions have so far been made in our planning. Firstly, that the Council tax will remain at zero (or low) to 2017. Secondly, that the County Council will continue to offer a broad but flexible package of services to the residents of Hampshire notwithstanding the inevitable service implications of these cash reductions - hence dealing with the tension inherent in this model as we change our overall operating model to work within a constantly declining cash and tax limit. This is the challenge ahead.
- 2.5. One conclusion can be drawn – over the next three years it would be imprudent to build or argue for any further recurring revenue expenditure to be built into our expenditure as it will simply have to come out of other activity by way of an increased spending reduction further down the line. Far better to protect wherever possible, innovate and improve our service offerings within tight financial discipline. When there are upturns (e.g. in capital expenditure) or benefits (the early delivery of savings) these are available for member decisions on investment rather than to meet overspending.
- 2.6. The assumption running throughout the next section of the paper is that while nothing is ruled out, the County Council will continue to adjust its existing operating model to its reduced cash limit.

### **3. Key Themes for future development: Finding another £100 million**

This section looks at the themes, activities and workstreams that need to be developed and worked through (by the Summer of next year) which will form a coherent strategy alongside a set of financial targets equivalent to a further 14% reduction on revenue spending. In short, reduce our cash limits by £100 million by 31<sup>st</sup> March 2017.

#### **3.1 Private Sector Partner (2)**

- 3.1.1 Members will be aware in the period 2011-2014 we made use of our Private Sector Partner to insource specialist knowledge, technical know-how and project and programme management capacity to fast-track our work on external spend and supply chain management, but also the delivery of the Integrated Business Centre. Following the recent appointment of Deloitte as the Council's PSP(2) it is proposed to use them to build on successful workstreams, but also identify how quickly and effectively further efficiency, transformation and cost reduction proposals can be developed. This mixture of public and private capacity has proven to be a potent weapon in our spending reduction activity.

#### **3.2 Building a Strategy – Opportunity Assessments**

- 3.2.1 In a strategic sense the best means of finding another £100 million of reduction for 2017/18 is to use Deloitte and our own capacity to do an

Opportunity Assessment of where we could find further efficiencies and cost reductions. This would provide an enhanced challenge to existing service delivery. This would cover all services and be reported to Cabinet through the regular reporting mechanisms and to the Executive Members in the build up for the 2016/17 budget proposals. These Opportunity Assessments build on the success we have had with our own internal Peer Review processes and the earlier iteration of Corporate Workstreams which we began in 2010. This would create a coherent pattern for each service and a joined up analysis for Cabinet. Of course, for this exercise to be meaningful it must be deep and far-reaching in its consideration of service options which further underscores the value of an effective external partner in the exercise. Tied into our budget preparation for 2016/17 this would mean that the same internal business process would be used for both the budget and assessment exercise. This makes best use of staff resources and leaves Cabinet in a position to ultimately decide on political priorities through the budget each year in the normal way, but remain committed to a longer term view of change.

### **3.3 Digital Strategy**

- 3.3.1 Members will be aware from reports elsewhere on the agenda and from earlier reports to Cabinet, that running through our thinking and Transformation to 2015 is the need to deepen and harness the financial benefits of digital technologies and processes to reduce the cost of the Council's services and to improve access to and transactions with the Council. Our digital strategy will look to identify how we can reduce costs from our business processes and services. It will also look deeply at existing business processes and operating models to find greater economy in the use and deployment of staff.
- 3.3.2 At the same time the Council's IT platform and in particular its web-based IT services needs extensive modernisation allowing it to become a significant means by which issues are raised with the Council, responded to, fulfilled and delivered across the principal services and functions of the Council. For over a quarter of a century the County Council has had a deeply embedded IT culture, strong and effective desktop working, aligned more recently with the upgrade to the Integrated Business Centre. Pushing forward the use of digital processes and technologies to increase productivity, reduce costs and find further efficiency will become a key part of our activity in 2015 as we look to exploit these technologies to improve services but also reduce the cost of providing those services.
- 3.3.3 The 'Front Office'
- This approach also acknowledges that much of our effort has focused on 'back office services and functions'. The vast majority of planned spending remains in the front line service delivery and the management and business support which they consume. This opportunity deepens the approach to reviewing front-line delivery and expenditure.

### **3.4 External Spend and Supply Chain Management**

3.4.1 While it is inevitable that the County Council will look for both productivity and efficiency gains (often the provision of services with fewer people), it needs to be recognised that the vast majority of our budgeted spending is in services we commission or buy from the private sector. Almost £600 million per annum. So as we look for digital strategies and people reduction programmes to reduce the cost of in-house services, at the same time we expect a major contribution to come from those services and products we buy by further questioning and challenging the need for external procurement, by looking at those things we commission to ensure we have the right balance of content and outcome, and to ensure we have efficiency targets, productivity hurdles and effective gateway reviews from our supply chains and procurement processes that provide effective challenge to what remains the largest area of the Council's spending. The County Council should improve its performance in this area by stretching targets in this activity.

### **3.5 Innovation**

3.5.1 Inherent within the proposed Opportunity Assessments is the need to ensure that we innovate, adapt and create a business culture fit for the future. That requires blending a strong 'Hampshire brand' with a creative focus on future partnerships (where the County Council is a major leader) trading and income opportunities. The 'extended organisation' is one manifestation of our current success as other organisations buy into our business model and buy from our trading operations. While these activities are necessary, but not sufficient for future success, they help significantly in morale and staff development and capacity issues. It is the outcome from that development that builds capability, competence and capacity for the future. Many of our partnerships could represent future business opportunities.

### **3.6 Internal Shared Services and the Extended Organisation**

3.6.1 The review of central services abolished the three central services departments (e.g. Chief Executive's, HR and Treasury) and led to a significant reduction in management costs. At the same time new business models in Finance and HR were introduced involving a wider span of controls with fewer senior roles. It is proposed, much as we have developed a leading position in external shared services, to review how well such a model could be applied internally as a future development. This would require a further review of central functions, administrative support and services in all departments and specialist areas of activity. It is proposed to progress this work immediately.

3.6.2 At the same time it is proposed to accelerate the work associated with trading services and evaluate further how best it can play a part in the future and the issues and implications. In many cases these reviews can be conducted within the envelope of the Opportunity Assessments mentioned above. Once again this would retain the discipline around one set of business planning processes feeding both the Transformation

Programme and the budget cycle. It is worth restating that our trading strategy cannot possibly resolve the financial challenge but it can and does help the County Council sustain capacity and efficiency on behalf of the citizens of Hampshire. Regular reports and updates will be brought to Cabinet and Executive Members as the reviews progress. Building on the effectiveness of past work, it should then be possible to attach outcomes and targets to revenue spending and workstreams, retaining financial discipline around the work programmes.

### **3.7 Demand Management and the Voluntary Sector**

- 3.7.1 Part of the financial issue is of course not caused solely by grant reductions but more particularly by increases in demand for services particularly in Adult and Children's Services. For most of this decade funding has been found to meet the growth in demand for both. Looking to the future, that position could only apply if further efficiencies and reductions were found in other services. Such a position is not sustainable. It is therefore important that both services review their strategies for demand management into the future. In this connection it is proposed to accelerate the work relating to the voluntary sector to specifically identify the part they can play in providing early help and slowing down access to more expensive Council based services. This review should be available by the time of the budget.

### **3.8 Health Related Issues: Charting a Course**

- 3.8.1 The position with regard to the financial outcomes with the Better Care Fund (BCF) have been reported and rehearsed in the earlier paper on the agenda. In a strategic sense discussions around the BCF have confirmed the difficulty of making progress but the importance of not being deflected from the real opportunity they represent. They will make a financial contribution, which otherwise would have increased our savings targets. However, on a wider analysis, and over a longer time frame, it is hard to argue, against the view that the salvation and solution to the health and social care systems lie together. Similarly, beyond BCF effective integration, pooled budgets, workflow and service transformation will only come about by leadership of the system. The County Council should (re)commit to that leadership role but make it clear to government and local health organisations that joint commitment, governance, and delivery all require to be of a higher and faster pace if the people of Hampshire are to receive the services they expect and to enjoy the benefits of greater efficiency in both

### **3.9 Housekeeping – A step further**

- 3.9.1 The relentless pursuit of cost reduction and efficiency has been at the centre of each of the successive strategies we have pursued. With our cloth consistently being cut this remains central to our ability to protect jobs and services. It is proposed to go beyond our previous position in this regard to explore opportunities to join our services with others, pool budgets, share staff, management and assets, not because we have done enough but to remain relentless in the pursuit of value for money and new ways of working where it is economically advantageous to do so. This will

require a further look at the balance of in-house, direct and contracted provision to establish potential benefits of alternative models.

### **3.10 Workforce Transformation**

3.10.1 By the time of the Cabinet meeting, another round of voluntary redundancy will have begun. The last one on the existing enhanced terms and conditions. The policy was time limited to the end of March 2015 and a revised policy paper is in preparation for spring 2015. The latter aims to capitalise more easily on the turnover and age profile of the staff to provide flexibility across the whole workforce as the programmes and workstreams are worked out. The use of turnover and redundancies also provides (potentially) a significant contribution to the financial targets mentioned above. This also creates space for internal capacity and staff development.

### **3.11 Funding the Programme**

- 3.11.1 The County Council has continued with its deliberate policy of making savings in advance of need, and then utilising these resources to fund the next phase of transformation activity.
- 3.11.2 Departments continue to be able to retain in year underspends to help meet their own cost of change, but the levels of these resources are reducing since they are being used in part to meet demand pressures or to cash flow savings proposals that have a longer lead in time. The cross cutting nature of many of the Transformation to 2017 Corporate Workstreams, will however require less direct financial input from Departments, but the expectation is that they will continue to meet the pension strain and the compulsory element of any future redundancies.
- 3.11.3 In line with the previous policy, the voluntary element of redundancy payments will be met from the Organisation Change Reserve, which currently amounts to £7.9m.
- 3.11.4 Separate funding already sits within the approved budget for the costs of PSP2 and there is sufficient other funding within the Capital Programme to meet the early costs of Transformation activity, which will inform the shape, direction and wider investment needs for the whole programme.

## **4 Momentum**

- 4.1 Since 2008 one of our successes has undoubtedly been to plan early, to build capacity and to deploy that capacity against the relevant workstream. This capacity can then focus on the financial targets, the service transformation or a particular efficiency outcome. The same will be true as we look towards 2017/18. Without a doubt key to our overall success has been the quality of our people, our ability to develop senior leadership teams and capacity consistent with the increasing difficulty of the task.
- 4.2 Therefore finding a further iteration of our leadership development programmes will be key to build on what we have already done but also to continue to grow the capacity throughout the organisation essential for its success over the next decade.

- 4.3 Therefore, the programme for 2017/18 will have at least in part the following ingredients.



- 4.4 At this stage the model is incomplete. Not because the circle can't be squared but because we need some time to build outcomes from the work that now needs to be put in hand as we migrate from Transformation to 2015 to Transformation to 2017. This will begin to fill in more of the canvas in the coming months and to allow cash targets to be set for departments and workstreams. It will also create the confidence and background to set a budget in February 2015 and more particularly by the summer of 2015 to have for Cabinet a strong set of programmes and activity that will lay the success for Transformation to 2017.

## 5 A Strategy for 2017 – Next Steps and Timing

- 5.1 Bringing all these themes in Section 3 together with financial targets is the next step. Getting workstream and departmental targets which will make up the 14% reduction for revenue spending is the work that needs to be done. Experience tells us that having a coherent Council-wide approach is essential. For ease of reference Appendix I summarises the shape of the work we need to do. Appendix II illustrates the same (emerging) strategy in terms of workstreams and illustrates both consistent themes and workstreams and the increasing number of activities that are required to find further cost reductions.

Taken together they form a strong platform for future work. By the time of the budget and summer next year it will be possible to put financial targets to the workstreams and activities creating the financial discipline that has served us well in the past. One major change will be to accelerate the decision making in the summer of next year by bringing to Cabinet 'a

budget in June' for approval by County Council in July 2015. In practice this will be a report on revised cash limits for 16/17 and 17/18, giving the maximum time possible for reductions to be found. Key dates within this timeline are shown in the table below:-

<b>Timescales</b>	<b>Activity</b>
October 2014	Cabinet consider the updated assessment of the deliverability of the Tt2015 savings and proposal to formally initiate the Tt2017 programme.
November 2014-February 2015	Tt2017 programme begins and departmental Opportunity Assessments undertaken, supported by PSP2. Budget February 2015.
Early June 2015	Early budget envelope reports containing details of transformation, savings and expenditure plans to each select committee and each executive member.
Late June 2015	Report to Cabinet on the cumulative Tt2017 proposals alongside an updated MTFS which confirms the overall resource envelope (again for 2016/17) and for 2017/18.
July 2015	Full Council debate and ratify the Tt2017 proposals for immediate and on-going implementation.
February 2016	The budget process for Full Council confirming precept for 2016/17 and reflecting the Tt2017 proposals previously agreed in the summer of 2015.

- 5.2 The next £100 million will need to be identified through the opportunity assessment process outlined above. At this early stage it is anticipated that very significant contributions will come from a financial reduction in the consumption and purchase of common goods and services, further workforce transformation reductions, major review of internal shared services and an assessment of cost reduction and efficiencies from services. Inevitably the forthcoming review will need to go deeper than hitherto with implications for the shape and nature of service provision. What is absolutely certain is the Council needs to ensure it maintains business as usual, that services and departments stay within revised cash limits and savings targets, and at the same time capacity is deployed to find the savings required to 2017. This is by now a familiar picture and presents another opportunity when this triple lock on the Councils services is maintained for the medium to long term benefit.

## **6. Communications**

- 6.1 In the last twelve months it has been surprising that a number of organisations and agencies close to the County Council have been unaware of the scale of the current level of reductions and their wider impact on partnerships, District Councils, the voluntary and community sector. It is recommended that Cabinet give consideration on how best to communicate with these organisations so that they are aware of the

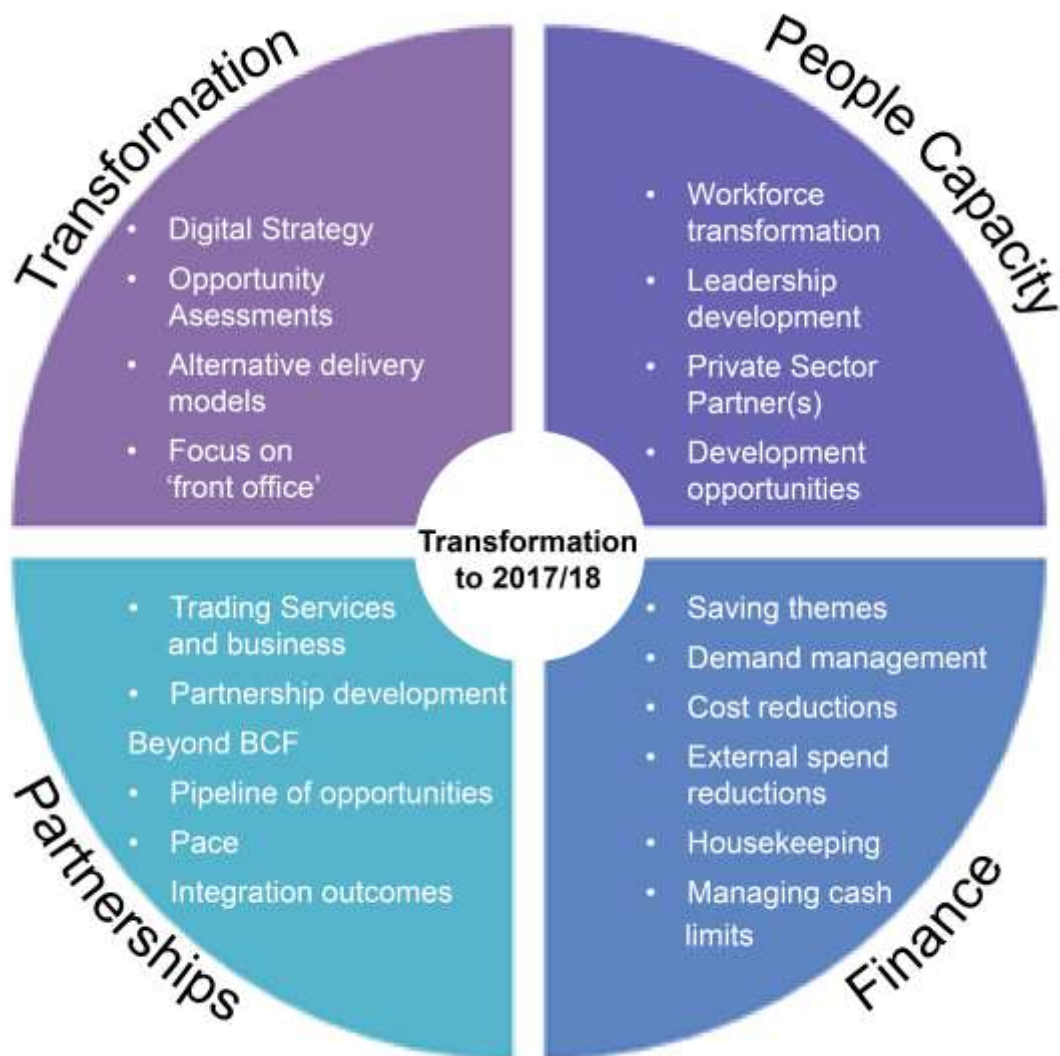
challenge ahead and can understand the timing and some of the business processes, which subject to Cabinet's approval today will be set in train for next spring and summer. It is inevitable that this tranche of reductions will impact on all the agencies and partnerships that the Council has.

## **7. Recommendations**

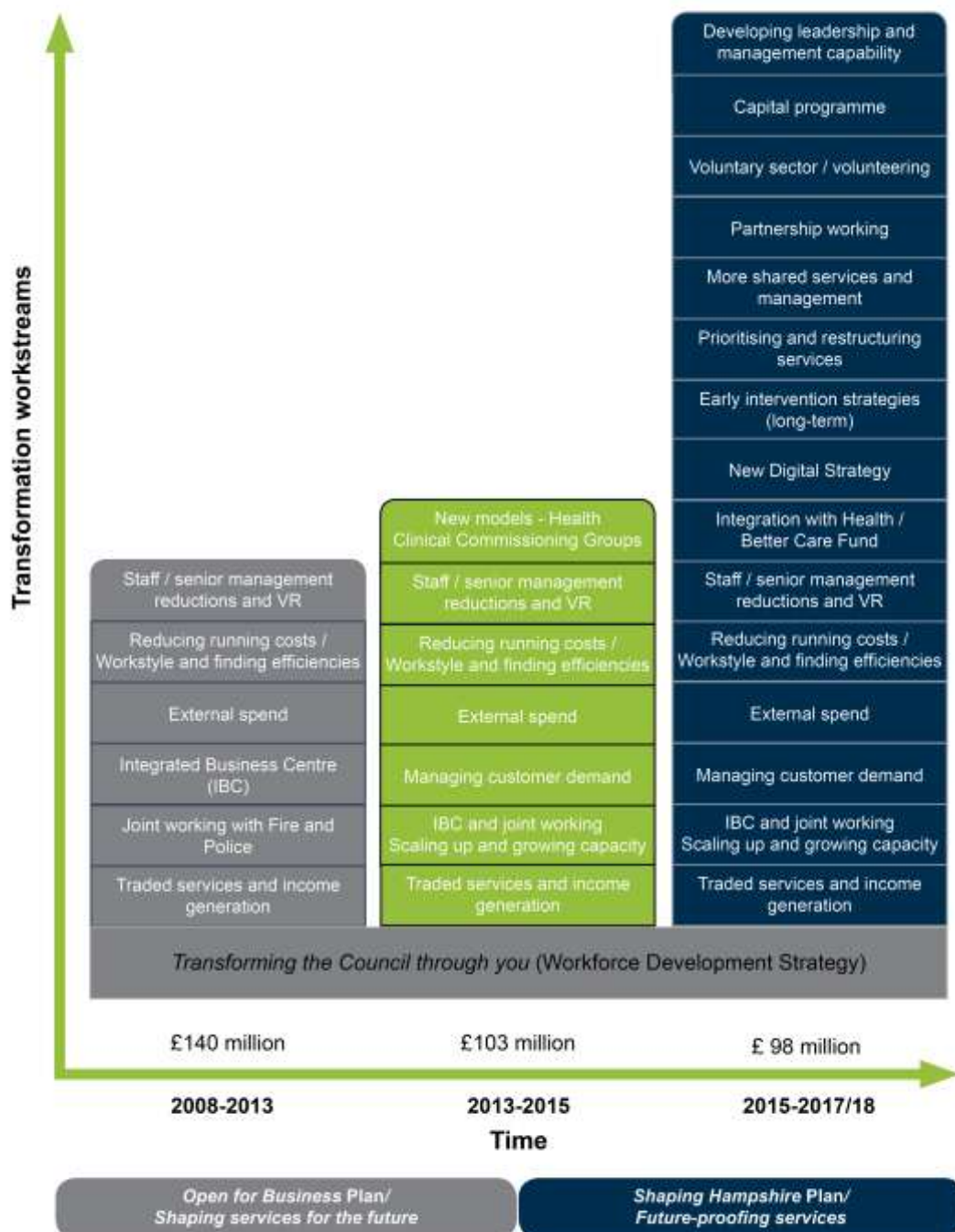
7.1 It is recommended that Cabinet;

- (a) Approves the report as the basis for working up the Transformation to 2017 to reduce revenue spending by (another) £100 million;
- (b) Approves the funding arrangements for the early Transformation to 2017 programme as set out in Section 3.11;
- (c) Agrees the next steps set out in section 5 of the report and receive regular updates to Cabinet on progress and issues;
- (d) Notes the convergence of business planning for Transformation to 2017 with the annual budget cycle and member decision making; and
- (e) Agrees that the partner agencies be advised through the Hampshire Partnership of the scale of the task and its early impacts

## Building a strategy for Transformation to 2017/18



## Workstreams and themes for 2017



**CORPORATE OR LEGAL INFORMATION:**

**Links to the Corporate Strategy**

<b>Hampshire safer and more secure for all:</b>	no
<b>Maximising well-being:</b>	no
<b>Enhancing our quality of place:</b>	no
<b>OR</b>	
<b>This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision to enable workstreams and activities to progress to meet the planned reduction in revenue spending by the County Council</b>	

**Other Significant Links**

<b>Links to previous Member decisions:</b>		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Transforming the Council to 2015 – report No 4	5923	23 June 2014
Medium Term Financial Strategy Update	5881	21 July 2014
<b>Direct links to specific legislation or Government Directives</b>		
<u>Title</u>	<u>Date</u>	

<b>Section 100 D - Local Government Act 1972 - background documents</b>	
<p><b>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.)</b></p>	
<u>Document</u>	<u>Location</u>
None	

## **IMPACT ASSESSMENTS:**

### **1. Equality Duty**

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

**Due regard in this context involves having due regard in particular to:**

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

### **1.2. Equalities Impact Assessment:**

It is to be expected that each theme/workstream will have an impact on staff and communities. To ensure that the Council meets its statutory equality duties any theme/workstream will be asked to consider potential differential impacts on people and communities. Detailed Equality Impact Assessments will be carried out on the implementation plans as appropriate.

### **2. Impact on Crime and Disorder:**

2.1. N/A

### **3. Climate Change:**

- a) How does what is being proposed impact on our carbon footprint / energy consumption? N/A
- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts? N/A