

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Cabinet
<b>Date:</b>	21 September 2015
<b>Title:</b>	Transformation to 2017: Report No. 4
<b>Reference:</b>	6906
<b>Report From:</b>	Chief Executive

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### 1. Executive Summary

1.1. At its meetings on 15 December 2014 and on 30 March 2015 Cabinet agreed provisional cash limit reductions for Transformation to 2017. These represented a reduction of approximately 14.5 % from departmental cash limits. The same reports identified this requirement to translate into a further £98 million of savings in line with the forecast from the Medium Term Financial Strategy. This report updates Cabinet on solid progress and next steps.

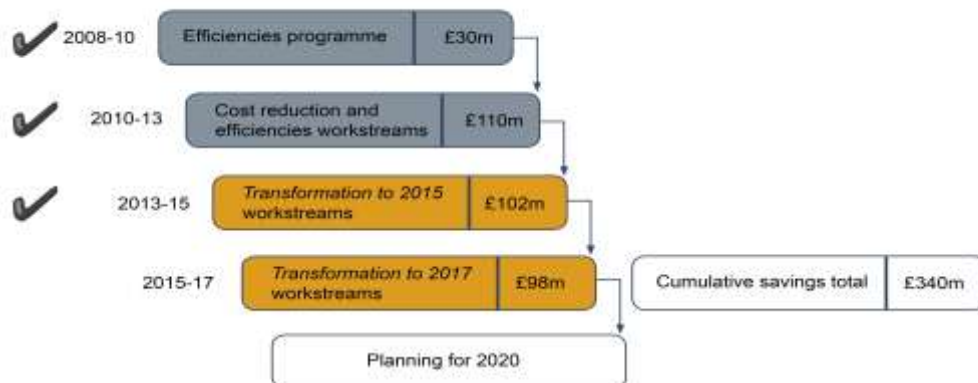
#### **Business Strategy in Transformation 2017**

1.2. The strategic business case embedded within Transformation to 2017 remains the cornerstone of our existing policy to meet further planned reductions in grant support and increases in demand and cost pressures. This includes:

- Continuing to reduce the costs of our Corporate Services and infrastructure costs;
- Delivering savings and efficiencies from inputs, hence the focus on reducing supply chain costs and the cost of commissioned services;
- Reinvesting savings achieved in advance of their requirements in capacity to generate further savings to fund one off costs and our private sector partner;
- Reducing the overall costs of service provision with a managed reduction in the number of employees funded by the Council
- Redesigning service delivery models across nearly all services and to reduce costs

This strategy is built on the assumption that Departments will then deliver “business as usual” within approved cash limits.

1.3. The sums required by Transformation to 2017 would take cumulative savings totals since 2008 to £340 million.



1.4. At its meetings in June 2015 Cabinet noted progress on public consultation and that an early start had been made on savings for 2017 as the Council moved from the planning to implementation phases. Getting traction on the savings workstreams being the critical next step, recognising that after seven years the savings are impacting on highly regulated and demand led services.

1.5. This report

- Reviews progress on the different Workstreams;
- Brings Cabinet up to date on progress including the outcomes from the recent public consultation exercise (a separate report is elsewhere on the agenda)
- Identifies where organisational capacity and (re)organisation is required;
- Identifies key issues and risks for the future;
- Looks at further work to underpin the programme up to and beyond 2017; and
- Confirms that the Transformation to 2017 is on course to create a platform for the decisions required at Cabinet and County Council in October.

### **Financial Context**

- 1.6. Cabinet has previously noted that each successive programme of Transformation was in itself harder than the previous one, as the scope for early and easy removal of spending was much diminished. Time is therefore critical. Continuing to deliver at a pace which is aligned to, and preferably ahead of, planned reductions in national support brings significant organisational benefits and provides one off funding for the 'cost of change'.
- 1.7. The medium term financial position has not become clearer since the budget on 8 July 2015. Continuing to reduce public expenditure, over the lifetime of the Parliament would suggest that staying on track with the County Council's current financial planning is the most prudent and realistic course of action. It could be reasonably expected that nationally, the local government financial settlement could worsen (as an unprotected spending area) which puts more emphasis on capacity and traction in the savings programmes for 2017, and opens up the requirement to think beyond 2017 to 2020. The spending review will not be known until November, but the Chancellor has publically acknowledged that spending departments will be asked to review spending reductions (which includes local government grant support) of 25% and 40%.

### **The Challenge**

- 1.8. The programme known as Transformation to 2017 is also expected to be more challenging as it involves transformational, policy and service change across all services at roughly the same time over the next two years. The financial impact of voluntary redundancies will also have less of an impact than earlier transformation programmes. All of this puts a premium on having the appropriate management capacity available to the County Council and applied consistently to workstreams for many months to come.

## **2. Progress on savings reductions for Transformation to 2017**

- 2.1. In practice, as we move from planning to implementation, the departments and the different workstreams are required to get traction on the work needed to reduce costs, transform work processes and redefine policies and service arrangements for less cost. These proposals were obviously included in our consultation exercise approved by Cabinet in June 2015, the outcome of which is reported elsewhere on the agenda.
- 2.2. The monthly reporting process has identified so far that some £21million is secured with a further £9million rated as 'green'. Another £40million is 'amber' and only £20million flagged as 'red', the bulk of that being in Adult Social Care. The remainder is £8million of housekeeping savings which are secure. The practical task is to deploy our capacity and that of our private sector partner to the tasks identified as 'amber' and 'red'. In effect using our own and the private sector partner resources on Adult Social Care workstreams, and supply chain and market management from where the bulk of the savings will come from. This represents solid progress recognising that a significant number of our proposals are subject to 'Phase II' consultation programmes which can only begin in October 2015

### **3. Better Care Fund**

- 3.1. Members will recall that embedded within the Transformation to 2015 savings programme for Adult Social Care is a requirement to produce a recurring saving of £20million from Health and Social Care spending. This requirement was a centre piece of the BCF proposal for Hampshire County Council and the five Clinical Commissioning Groups (CCG's). A detailed analysis of the programme is contained in Appendix 1.
- 3.2. A programme of workstreams was identified and agreed with a view to finding a reduction equivalent to £20million of recurring savings. Cabinet were advised several times last year and earlier this year that progress was not good. In the circumstances and recognising the scale of the issue, a risk share agreement was created as a secondary mechanism to insure against slow or no progress. The CCG's helpfully formally signed up to this for 2015/16 protecting the position in the current financial year. In principle, the risk share agreement also applies to the 2016/17 financial year, but formal agreements have only been signed for the current year.
- 3.3. Following initial discussions, CCG's have now confirmed that they are unable to enter into the risk share agreement for 2016/17. It has therefore been necessary for the County Council to review its options to find an internal resolution for the issue. Leaving the issue unresolved in timescales and a framework which is uncertain would simply increase the risk to the County Councils overall transformation and spending programmes.
- 3.4. It is therefore proposed that £10 million of the total required should come from Adult Social Care spending and budgets. The Director of Adult Social Care and the Director of Corporate Services have agreed that this could be done given the contingencies that we have built in to the adult social care spending profiles. At the same time consideration has been given to adjusting the balance of our corporate contingency reserves to match the remaining £10 million. It was not planned that this would happen until after 2017 given the uncertainty of the forthcoming spending announcements in November and the early actions of Government. The alternative would be to consider a Council Tax increase to meet the balance. Even this cannot be decided for the time being until such time as the Chancellor has reaffirmed or otherwise the Government support for Council Tax and its policy towards Council Tax increases. Therefore on balance the recommendation is that the contingency provision should be reviewed and the resources to find the balance put into the financial envelope being considered by Cabinet and the Council in October.

### **4. Funding for the Private Sector Partner**

- 4.1. While the Council has anticipated the impact of dramatic public expenditure reductions as early as 2008, it became obvious that by 2010 the reductions in Local Government spending would be unprecedented. Up until then, and at the time the County Council was considered by the Audit Commission to be Four Star and Improving Strongly. The Council had been an extensive user of

IT, had deeply embedded departmental business systems, a strong professional service culture, and a significant number of employees. The political strategy which was developed was to anticipate and plan to make early policy decisions across the Council to get “ahead of the curve”. This had the potential benefit of accruing savings earlier than required for subsequent one-off investment.

4.2. The then business strategy, much as it is today, was to look at:

- Rebuilding the cost of our IT platforms and services (so that we could reduce our costs and generate income),
- Redesigning and implementing common business support processes,
- Focusing on reducing supply chain management costs (where the bulk of our spending occurs), and
- Building workstreams to generate savings on robust business analytics.

4.3. It was also realised that the County Council, like the rest of the public sector had little specialist resource or capacity in some of these areas. In the context of public sector pay restraint it proved difficult to recruit from the private sector capacity that could engineer a lower cost infrastructure base for the Council. After redesigning, successfully, a significant cost reduction in our Corporate Services, it was decided to use this model as part of our change management strategy. A private sector partner was selected after competitive tendering.

4.4. The success of the model was underpinned, and a great deal of the risk mitigated, by the fact that we would be using “one off savings” generated earlier than required by grant reductions, to invest in workstreams that would provide recurring annual savings into the future. It was also decided that if such a model could be developed it should be used to identify the opportunities for recurring income opportunities. At the very least a pound invested in the private sector partner would bring at least a pound of recurring savings or a pound of future income on a recurring basis.

4.5. The key requirement therefore in deploying the private sector partner was to ensure that it was always focused on areas of recurring savings, for the maximum effect. The minimum requirement was a 1:2 ratio which is currently being sustained, although on many projects that is 1:5 and some at 1:10 and beyond.

4.6. By design the private sector support is therefore been focused on

- Adult Services which accounts for the largest savings (£43 million by 2017)
- Our external spend of some £600 million a year
- Technology and digital where we are building a competitive advantage by replacing our infrastructure with a more mobile employee self-service based infrastructure

- Shared services which would build the future platform for Police, Fire, Oxfordshire County Council and others
- Leadership capability where with Oxford University we have begun the process of developing a world class leadership programme for our top 150 staff. This is the only area of expenditure where we have not applied the above matrix.

4.7. The initial work with the private sector partner identified a range of potential savings in our expenditure for 2017 between £80 - £124 million which laid the foundation for the current transformation programme.

## **5. Consultation Outcomes and Transformation to 2017**

5.1. Members are well aware that the legal framework around decision making has changed recently in relation to recent court judgements. This was almost inevitable the longer that austerity went on and the greater the likelihood that spending reductions would impact on both universal public services and those for particular groups around Childrens and vulnerable Adults. In the circumstances the County Council during May and June uniquely changed its decision making arrangements to ensure that Transformation to 2017 and in particular the decision required by the Cabinet and County Council in October 2015 were informed by a public consultation exercise. This consultation would therefore work through the strategy for Transformation to 2017 and prepare the ground for those specific service based consultations that will be required after the Council decisions in October.

5.2. The report elsewhere on the agenda outlines the key findings from the consultation. However, one of the top line findings is that there is strong support (79%) for the current financial strategy which is embedded in Transformation to 2017 involving

- Running the County Council more efficiently by reducing the cost of back office functions
- Using savings to help protect frontline services
- Prudently using reserves to support the cost of change

5.3. All three of these proposals are embedded in Transformation to 2017 which would keep us on course. The detailed response on a service by service basis will be considered by Executive Members during September and October and by Cabinet and ultimately the County Council. The findings around the Council Tax have not been factored into Transformation to 2017 which is based on a planning assumption of a zero Council Tax increase. This issue would require to be determined by Cabinet in its October meeting and in any event cannot be actioned until the budget in February 2016. It is heartening the public consultation provides strong support for the existing Transformation strategy.

## **6. Capacity Issues**

6.1. Earlier reports to Cabinet identified the importance of having sufficient capacity to work across all the departments and workstreams. Departments continue to draw down support from our Private Sector Partner, allocate staff to savings and workstreams, and continually balance the demands of business as usual. Over the summer the opportunity has been taken to identify the availability of interim capacity from the market. This was not wholly successful although with some reconfiguration of internal leadership capacity it is proposed to make an early start on the supply chain management savings. This will rely on a new model being developed around which internal staff are organised and make use of interim capacity for its first phase. This will best underline the ability to continue to remove savings from this workstream.

## **7. Conclusion**

- 7.1. The County Council's strategy in Transformation to 2017 is moving swiftly from planning to implementation. The benefits of the early political and policy decisions taken by Cabinet have protected to a large extent the time which is critical between now and the end of March 2017 to realise the savings and benefits from the strategy. Early traction on the benefits realisation of the implementation phase is solid, notwithstanding the complexity and the difficulty of implementation. As with previous iterations of the strategy the planning assumption is for a zero Council Tax.
- 7.2. By resolving the Better Care Fund issue and factoring the recurring spending into the Medium Term Financial Strategy, this best protects the overall County Council position, and while a disappointing result, resolves the only major risk to our planned spending reductions. This also leaves Cabinet and the Council free in October and in February 2016 to make any further planned reductions that come out of the Spending Review at the end of November 2015, or indeed as has traditionally been the case provide for increases in spending levels relevant to demand and cost pressures. Hitherto, the spending increases have been for Adult Social Care and more recently Children's Services, which while historical in terms of past decisions is coincidentally in line with the recent consultation.

## **8. Recommendations**

- 8.1. It is recommended that Cabinet:
- i. notes progress on developing workstream strategies to deliver relevant proposed savings by 31 March 2017;
  - ii. notes the early achievement of a significant contribution to the £98 million target;
  - iii. approves the next steps outlined above towards implementation of the Transformation to 2017 savings strategy;

- iv. Formally agrees to the proposed approach for dealing with the BCF funding position outlined in the report so that it can be built into the MTFS Update scheduled for 5 October.

**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>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>
Transformation to 2017 – Report No. 1	6180	27 October 2014
Transformation to 2017 – Report No. 2	6591	30 March 2015
Transformation to 2017 – Report No. 3	6722	22 June 2015
<b>Direct links to specific legislation or Government Directives</b>		
<u>Title</u>	<u>Date</u>	

**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.)

<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:**

- 1.2. The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- 1.3. Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- 1.4. 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.

#### **1.5. 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:**

Not applicable

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

3.1. How does what is being proposed impact on our carbon footprint / energy consumption?

Not applicable

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

Not applicable