

## SOUTH HAMS DISTRICT COUNCIL

<b>NAME OF COMMITTEE</b>	<b>EXECUTIVE</b>
<b>DATE</b>	<b>11 DECEMBER 2014</b>
<b>REPORT TITLE</b>	<b>FUTURE OPERATING MODEL OPPORTUNITIES AND A REVISED T18 BUSINESS CASE</b>
<b>Report of</b>	<b>EXECUTIVE DIRECTOR (COMMUNITIES) &amp; HEAD OF PAID SERVICE EXECUTIVE DIRECTOR (RESOURCES) HEAD OF FINANCE</b>
<b>WARDS AFFECTED</b>	<b>ALL</b>

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**Summary of report:**

The report summarises ongoing work in relation to the implementation of T18, in particular identifying additional savings and opportunities which have emerged during further detailed work on the future organisational design.

Balanced against these long term financial benefits is the outcome of the Phase 1a and SMT recruitment process. Experience suggests that initial implementation costs are predicted to increase if the Councils are to successfully secure major cultural change and ensure that there are the right skills, attitudes and behaviours across the two organisations to meet future challenges.

This report summarises the anticipated impact of the expected annual savings and one-off investment costs on the business case, the revised investment pay back periods and includes proposals to manage the cash flow implications during the transition phases.

**Financial implications:**

The Council faces the challenge of a funding gap of over £2.5 million (28%) over the next four financial years, in the context of net revenue spend of £9 million as the base position for the programme (i.e. the expenditure of the Council is predicted to exceed the funding available by £2.5 million by four years' time). To respond to the financial challenges requires either a major reduction in services and associated staffing during this period, or the ongoing implementation of the current Transformation Programme.

For South Hams District Council, the updated T18 business case delivers:-

- Recurring annual savings of £3.37 million (SHDC share of the savings) as shown in section 4.1
- The updated payback period is 2 years and 6 months for South Hams
- To achieve these outcomes the revised business case requires additional investment from the Council of £1.66 million (The initial business case anticipated an investment of £2.95 million and in the revised business case this figure is £4.61 million as shown in Section 4.1)
- A 'fit for purpose' organisation that will be in a position to drive further income opportunities, generating funding to support the Council's future priorities
- The Transformation Programme has received Government backing as the Council will receive Government funding from the Transformation Challenge Award of £434,000 (SHDC's anticipated share of a joint award for funding of £700,000 between both South Hams and West Devon Councils based on the ratio of contribution to initial investment).

Across both Councils (South Hams District Council and West Devon Borough Council), the updated T18 business case delivers:-

- A 30% saving (£5 million combined saving with the SHDC share being £3.37 million) on the combined net revenue budgets of both South Hams and West Devon Councils of £16.8 million
- Once fully implemented T18 will deliver a monthly saving of £320,000 across both Councils, compared to the base line position, emphasising the importance of maintaining the Programme's current momentum
- The implementation of phase 1a and the restructuring of the senior management team will deliver combined annual revenue savings of £915,000.

## **RECOMMENDATIONS:**

***That the Executive recommends to Council to:***

- (i) approve an updated investment budget of £4.61 million for the T18 Programme, to deliver annual recurring revenue savings of £3.37 million as shown in section 4.1;***
- (ii) finance the net cashflow requirement of £1.594 million in accordance with the Investment and Financing Strategy as shown in section 1.2 of Appendix D;***
- (iii) transfer £225,000 into an Earmarked Reserve for T18 as shown in Section 1.3 of Appendix D***
- (iv) delegate authority to the S151 Officer to determine the appropriate allocation of investment costs against revenue and capital funds including establishing a Strategic Change Earmarked Reserve as detailed in Section 4.8;***

- (v) **share the Transformation Challenge Funding award of £700,000 with West Devon Borough Council, based on the same ratio as the initial investment costs, resulting in £434,000 for South Hams District Council and £266,000 for West Devon Borough Council as detailed in Section 4.3;**
- (vi) **approve the amended senior management structure as set out in the report;**
- (vii) **approve the amended line management responsibility for the Commercial Services Group Manager.**

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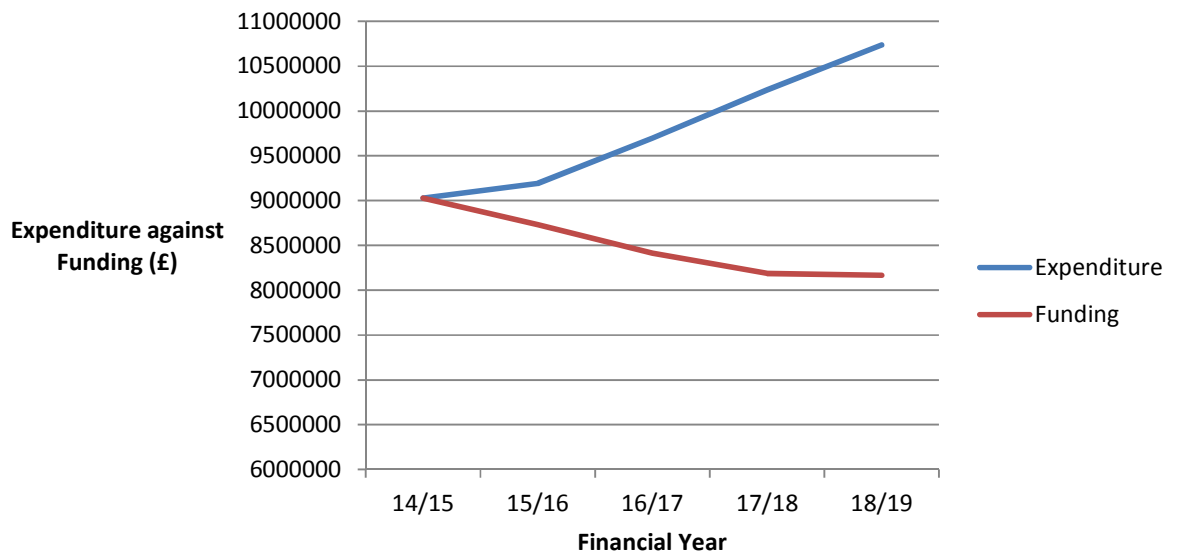
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## **1. BACKGROUND**

- 1.1 The Council has embarked on an ambitious plan to totally redesign its service delivery to ensure a better experience for the customer, which is fit for the future and at the same time, reduces the cost to the taxpayer.
- 1.2 The implementation plan is divided into three phases, the first stage being Support Services, which went live on time in September 2014. The remaining phases are due to be delivered in June 2015 and March 2016.
- 1.3 Inevitably as such a major transformational programme is implemented in phases there is a significant level of organisational learning which enables the initial proposals to be further developed. Changes also affect initial expectations and therefore the original business plan. Reports to Members last autumn noted that *'with a programme of this size and length many of the costs and savings are based on a series of assumptions, some of which are variable and could be subject to change. For example, it is difficult to predict staff exit costs at this point in the programme.'*
- 1.4 The Council faces the challenge of a funding gap of over £2.5 million (28%) over the next four financial years, in the context of net revenue spend of £9 million as the base position for the programme. The graph below shows that the expenditure of the Council is predicted to exceed the funding available by £2.5 million in four years time.
- 1.5 The new operating model is therefore pivotal to achieving substantial savings to secure the long term future of the Council and to ensure effective future service delivery, despite the anticipated major reductions in government grant. Indeed the Council is now planning for no revenue support grant by 2020.

**£2.5 million Funding Gap to 2018/19  
(28% of SHDC's Net Revenue Budget of £9 million)**



1.6 The national financial picture can be summarised as:

- There has been a 40% reduction in central government support 2011-2016;
- Councils will need to be self-financing and be able to finance their services from income including business rates, council tax, new homes bonus and other sources by 2020;
- The Chancellor's Autumn Statement in early December is likely to further worsen the local government funding position for 2015/16 and beyond.

1.7 As 65% of revenue expenditure is spent on staff related costs for non manual activities, responding to this scale of financial challenge cannot be met without reducing staff numbers.

1.8 However by establishing T18 and therefore creating the future model, we will be able to reduce staff numbers whilst still maintaining frontline services despite the reduction in funding. The model will also create the best foundations to pursue income opportunities in the future.

1.9 In summary, it is anticipated that the recent work to update the model will achieve revised annual savings of £3.37 million for South Hams District Council. These savings, combined with the annual savings of £1.64 million being delivered for West Devon Borough Council, mean that the operating model will deliver savings of 30% (£5 million) of the combined net revenue budgets of the Councils of £16.8 million. This will not require any reduction in service delivery. Initial one off investment costs for the Council are now estimated to be £4.61 million as shown in Section 4.1.

- 1.10 It is also important to see our current 'internal' Transformation Programme in the wider context of developing 'Our Plan' and establishing the culture to achieve more effective working with partners and communities in localities, as well as enhancing our future income generating opportunities.

## **2 IMPLEMENTATION OF THE PROGRAMME - ACHIEVEMENTS TO DATE**

- 2.1 The first phase of the programme has now gone live and support services staff have been appointed into the new model.
- 2.2 This team has been in operation for several weeks. The majority of the initial vacancies have now been filled and by January the Finance Community of Practice will be at full strength and it is anticipated that the ICT Community of Practice will have filled all vacancies.
- 2.3 All members of the team are now working in an agile manner. All staff use laptops and there are no fixed desks. This has really assisted in breaking down old model departmental silos as staff from different disciplines have worked collaboratively on projects which impact on the whole team.
- 2.4 A number of processes in HR and Legal have been built into the ICT system known as W2 (Workflow) and training is being undertaken. The processes will then be activated. The focus currently is on Document Management systems which will contribute towards the section going 'paperless' over the next few weeks.
- 2.5 A number of quick wins have been implemented to improve efficiency. These include:
- Making the payment of invoices more automated. Electronic reminders (called self serve alerters) have been introduced for payment of invoices. These enable invoices to be authorised via direct electronic reminders which include one click links to the relevant processes in the financial system;
  - A new room booking system has been introduced. This will cut out most of the manual intervention in the previous process and ensure that room use is maximised;
  - The payroll self-serve software has been installed. Electronic submission of travel claims will be tested in December as will be electronic leave cards. Electronic payslips should be available from January.

- 2.6 Key achievements across the Programme's separate work streams include:

### *ICT*

- The procurement and migration to completely different systems than those used in the past is well underway. The procurement activity saved £200,000 against the budgeted spend as outlined in the initial business case, with this funding available to support other aspects of the Programme.
- Effective working relationships with the supplier have been created. Two of the main projects, the customer portal which will allow customers to view bills, track progress of applications and claims; and the migration of the majority of the back office systems to one new system are both on target against dates of April 2015 and June 2015 respectively.

### *Accommodation*

- The approved accommodation strategy is being successfully implemented on schedule. It is based on achieving agile working, with co-location of support staff for both Councils at Follaton House and retaining customer access to services at Kilworthy Park along with a Civic Hub, Member Services and staff touchdown facilities.
- Much of staff touchdown hot desk accommodation at Follaton is now in place with the work programmed to be completed on time.
- The agile 'hot desk' office space at Kilworthy is operational. Work has started on identifying potential 'touch-down' spaces in the localities.
- Heads of terms for a major new tenant at Follaton have been agreed and subject to final sign off of business case, the new tenant will be occupation in 2015. Income from the letting will be in advance of the business case expectation.
- Heads of terms have been agreed with an additional new tenant at Kilworthy for anticipated commencement in January 2015. Income from the letting will be in advance of the business case which programmed new tenant income in 2015/16, based on the letting market at that time.

### *Business Processes*

- This work stream is responsible for delivering a significant proportion of the savings and is divided up into a number of periods of intensive activity known as sprints. Sprints have been undertaken covering a broad range of Council processes so far including Council Tax, Planning and Environmental Health. We are on target to complete 22 development sprints by May 2015 which will likely be in excess of 400 processes. This should be the majority of business processes required for phase 1b.

### *HR*

- The selection process into the new operating model for 1a took place earlier this year. Staff attended familiarisation workshops in June which prepared them for the process and emphasised the IMPACT behaviour framework. Assessments took place in July and consisted of a variety of case studies and a formal interview.
- There were 50 jobs available in the new model for Phase 1a and 70 people were in scope. Of those, 16 requested and were granted voluntary redundancy. Of the remaining 54 who went through the process, 48% secured their preferred role and 26% secured their second or third preference. Unfortunately we were unable to offer posts to nine people and they were made redundant in July 2014.
- Establishing the host organisation, SERVACO, will assist the Councils in embedding the IMPACT behaviours required for the culture change necessary for the new operating model.

- Selection for the third tier Managers and Community of Practice Leads for phase 1b activities will take place during January and February 2015. Staff selection for phase 1b is scheduled between February and April 2015.

#### *Customer Service*

- New software which will shortly be installed will provide data to enable us to better understand how customers like to interact with the Councils and enable us to target digital solutions to those who are likely to take them up. We can also use the data to inform the locality working project, ensuring that we are making the best use of the officers out and about in the district.
- The project team has also been gathering information on the experiences of other councils who have been undergoing projects to encourage take up of cheaper forms of contact such as electronic and telephone. This has been done via a nationwide survey and we have gained some valuable insight into the best approach for the customer and the councils. There are many approaches and techniques to consider, these will form the basis of the Channel Shift Plan which will be developed next year.

#### *Locality Working*

- Officers have worked with a group of Councillors to start to shape the locality working model to ensure that it meets the needs of customers but also strengthens the role of Councillors as community leaders.
- The group have already agreed a set of principles that we are using in the design of service provision in the Locality Model and they are currently working on a set of skills and behaviours that would aid Members to be fully effective community leaders in the new model.
- Further work for the group will involve piloting the technology/mobile device(s) for Members to operate in the new model and, in the longer term, thinking about how we achieve a multi-agency engagement framework and the joint/local commissioning of services.
- A bid for £90,000 to DCLG's 'Delivering Differently In Neighbourhoods' fund has been submitted to support our future locality working under T18.

#### *Review of the Senior Management Structure*

- When the business case was being developed it was anticipated that restructuring of senior management could occur towards the end of the Programme. When the business case was approved by Members, SMT comprised of a Chief Executive, two Corporate Directors, seven Heads of Service and three PAs. In June 2014 the Council agreed to reduce its costs by approving a future senior management structure consisting of two Executive Directors and four Service Leads (now termed Group Managers) with no dedicated PAs.

- The revised timetable for the senior recruitment has enabled combined savings of £350,000 per annum to be achieved earlier than scheduled in the business case. The one-off costs of the external recruitment process will be funded from the in year savings secured by not continuing with the former Chief Executive post. This follows from the adoption of the Executive Director model in June 2014, subsequent to the pilot arrangement started in January 2014. It is anticipated that the recruitment process will be completed shortly with most appointees in post by Easter 2015.

### *Developing the detailed design for phase 1b and 2*

- There has been a significant review of the Strategy and Commissioning element of the future model, the management structure below the senior management team, the levels of professional capacity required in the new model, the interrelationship with front line service delivery and developing the localities element of the model. Work continues on many of these areas but some of the changes emerging to the model now require formal consideration by Council.
- The role of Corporate Planning & Strategic Finance (S151) Lead (a second tier post in the management structure) replaces the original role of Head of Strategy and Resources as recommended in the report to Council June 2014, although the salary range remains unchanged at between £61,000 to £66,000 (Appendix A). This will strengthen the strategic financial expertise at a senior level at the same time as ensuring a robust commissioning cycle is adhered to.
- It is proposed that line management responsibility for the Ferry, Salcombe Harbour, AONB and the building control partnership is undertaken by the Commercial Services Group Manager (Appendix B).

## **3 EMERGING OPPORTUNITIES**

- 3.1 The future operating model which the T18 programme will deliver does not exist in its entirety elsewhere and whilst we can learn from others experience to some extent (in particular Eastbourne BC), the model has and will continue to evolve.
- 3.2 During the design process to date, confidence has grown as to the potential that it offers and the organisational design has been influenced by this, as well as by a growing detailed understanding of the many processes the Council undertakes. In addition the proposed creation of a new commercial services delivery unit which has emerged from work that has taken place over the past few months means that further efficiencies and market growth can be realised from 2017 onwards.
- 3.3 Appendix B shows the proposed changes, the revised management structure and the activities to be carried out by this unit. It provides the Councils with the opportunity to build upon current service provision through the use of charging powers or trading vehicles as appropriate and deliver ethical, commercial services direct to individual customers or to localities through partners. Beyond the obvious commercial advantage to this solution, the replication of the cultural change at the front line offers an opportunity to improve staff productivity amongst the 'out of scope' workforce.



- 3.4 By creating this organisational structure and pursuing an appropriate trading vehicle (or vehicles) for delivery (e.g. a Local Authority Trading Company) then the revenue costs, based on the current spend for front line services, could be improved arising from new ways of working and more efficient use of resources. It would then be the business aim to improve on its position annually either through improved overall spend or through reinvestment in the front line services.
- 3.5 Further work will need to be undertaken over the next few months on an outline business case to be presented to both Councils to assess the commercial trading options available and how these can be best delivered in our communities.
- 3.6 Whilst the potential shared arrangements with Torridge are no longer being pursued, the work undertaken to establish the options has created a valuable insight into the varying partnership arrangements that could be considered as part of the future operating model. All of which would create income opportunities for the Councils. However at this stage this has not been factored into the updated business case. Options range from selling the very valuable experience some of our staff have gained whilst developing the model at one end of the spectrum to a full developed shared service option at the other.
- 3.7 There are a significant number of councils wanting to know more about the Transformation Programme, as most councils are now searching for ways to drastically reduce their costs as the challenging financial landscape becomes a long term problem.
- 3.8 Whilst a shared arrangement with a neighbour might be of most value strategically, perhaps the most valuable from an income perspective is selling some of our services operating in the new model to other parts of the public sector.
- 3.9 Once the model is live we will have a unique proposition which needs to be developed as a commercial offering. This will in its own right be a significant project which will need the engagement of our suppliers. This project will begin in 2015 and members will be kept informed of progress.

#### 4. UPDATED T18 BUSINESS CASE

- 4.1 The revised T18 Business Case for South Hams District Council is summarised below (as shown in Appendix C):

	Initial Business Case (Oct 13)	Revised Business Case (Nov 14)	Increase
Recurring Annual Savings (SHDC share)	£2.5 million	£3.37 million	£0.87 million (35%)
One-off Investment costs (SHDC share)	£2.95 million	£4.61 million	£1.66 million (56%)
Payback period for SHDC	2 years	2 years 6 months	6 months

- 4.2 The Updated Business Case for the Transformation Programme has a net present public value of £5.5 million (SHDC's share) over the next 5 years. The Government's New Economy Cost Benefit Analysis tool has been used to assess the Updated Business Case. This demonstrates the value for money being delivered by the Transformation Programme for residents of the district. The Net Present Value calculation of the project using Treasury's Green Book principles (using a discount rate of 3.5%) demonstrates that the payback period for the Programme is 2 years and 6 months.

#### ***Update on the Transformation Challenge Award (TCA) funding***

- 4.3 South Hams District Council and West Devon Borough Council submitted a joint bid to the Government's Transformation Challenge Award. Our pioneering plans to transform the way the Councils operate have been endorsed by the Government which has awarded us £700,000 (between both Councils) to further develop new ways of working. Our Councils have secured the money through the Transformation Challenge Award organised by the Government's Public Service Transformation Network which champions public sector reform. It is recommended that the Government funding is split based on the ratio of upfront investment costs i.e. 62% SHDC and 38% WDBC. This equates to £434,000 for SHDC and £266,000 for WDBC.

#### ***Schedule of savings and investment costs***

- 4.4 Appendix C gives a detailed breakdown of the updated schedule of savings and investment costs for the T18 Programme. This shows that the total net annual revenue savings are £3.37 million and the total one-off investment costs (capital and revenue) are £4.61 million.

#### ***Early savings from the Programme***

- 4.5 The decision to create an earlier Phase (Phase 1a for Support Services) was taken after the initial Business Plan was agreed. The financial benefit of Phase 1a and the senior management restructure has equated to early savings of £915,000 (shared between the two Councils) being delivered.

#### ***Reasons for the increase in the annual savings***

- 4.6 Savings are above initial projections for a number of reasons. There is a revised reduction in full time staff equivalents (FTEs) from 97 FTE's to 111 FTE's (this equates to approximately 30% of the combined Councils in scope workforce) as more work has been mapped to case management rather than more expensive specialists, following detailed design in tandem with growing confidence that the software will be able to deliver better integrated data and processes. In addition, the previously agreed new travel policy will be implemented in June saving £128,000 (SHDC's share) with the potential for other staff related savings as the work force reduces. There will also be a £305,000 contribution to the SHDC business case by applying aspects of the new ways of working, using better quality data, data integration and more efficient use of resources, in recycling and waste services, commercial waste collection and street cleaning/public realm management.

### ***Reasons for the increase in projected investment costs***

- 4.7 While the business case remains robust it is recognised that the initial investment required to secure the substantial future savings is significant. In response officers have reviewed the implementation of the initial phase of T18 and considered possible changes that might help reduce the upfront one-off costs.
- 4.8 The investment in IT and accommodation is in line with the initial business case however officers are projecting an increase in the cost of cultural change based on the outcome of recruitment to date. The main reason for projecting increased staff change costs since the initial assumptions that were developed last summer arises from the difficulty of predicting human behaviour and controlling staff churn during a major change programme. Of the key implementation costs, it was always expected that staff change costs would be the most difficult to manage. For this reason financial support for our staff change costs was the basis for the bid to TCA for £700,000. However it must also be recognised that not all of the staff change costs are attributable to the Programme as the projected reduction in government funding would have led to a significant number of staff being made redundant. As staff change costs will fluctuate throughout the period of the Programme, it is recommended that a Strategic Change Earmarked Reserve is set up to manage these costs and when costs arise, they will be financed from this Reserve.
- 4.9 The scale of escalation of staff change costs which would undermine the business case is £10.98 million (SHDC share of such a total would be £7.03 million). So if staff change costs across both Councils rise to £10.98 million, this is the point at which the Net Present Value of the Business Case falls to zero and the business case is undermined. However officers are confident that this situation will not arise.
- 4.10 In an attempt to reduce the predicted increase in costs officers have undertaken an evaluation of options, such as recommending a change to the Redundancy and Interest of Efficiency Policy, limiting the voluntary redundancy opportunities by selecting for redundancies (rather than the current approach of positively recruiting to the model) and placing a cap on numbers allowed to leave on this basis. Changing the approach part way through the Programme will of course create a new risk in relation to a possible challenge from the unions and staff.
- 4.11 However all these options would limit the cultural change which is absolutely essential to ensuring the new model is successful. The ability of staff to work in the new model, to provide excellent customer service, to be able to respond quickly to changing needs of customers and the community, to harness new technology, to adapt, to challenge the status quo, to always maintain a 'can do attitude', to work collaboratively and to do so with less management must be tested through a selection process. Prior performance is not a reliable indication of a person's ability to work in the very different environment that the new model will create.

- 4.12 To move away from the current process of selection coupled with the existing voluntary redundancy scheme would seriously put at risk the significant predicated savings. With staff costs representing over 65% of the Council's annual running cost, the number of staff it employs must be reduced. Implementation of the new operating model is the only way to ensure this reduction in staff does not lead to a reduction in front line services.

### ***Updated investment and financing strategy***

- 4.13 An initial net cashflow requirement of £1.594 million is required and it is recommended that this is financed in accordance with the Investment and Financing Strategy as shown in Appendix D. The original Business Plan considered by Council on 31 October 2013 anticipated an initial net cashflow requirement of £1.01 million and therefore Appendix D sets out a strategy of how the updated figure of £1.594 million could be financed. The net cashflow requirement is the money that will be needed to be paid out in advance of the savings materialising in full and equates to £1.433 million in 2014/15 and £0.161 million in 2015/16 (a total of £1.594 million) as shown in Appendix C.

### ***T18 expenditure monitoring report***

- 4.14 Appendix E sets out the T18 expenditure monitoring report to date. This shows expenditure as at 24 November 2014 equating to £735,228 for South Hams District Council. The profiled budget for the same period is £1,033,470 and the expenditure of £735,228 is currently £298,242 below the profiled budget.

### ***Implementation costs to be funded from the Phase 1a salary savings***

- 4.15 There are salary savings from Phase 1a (Support Services) of £565,000 per annum shared between both Councils (SHDC share of the savings is 63.7% - £360,000). These savings have been generated earlier than the original Business Plan anticipated due to the creation of an earlier phase i.e. Phase 1a – Support Services. There are some costs associated with the transition of both Phase 1a (Support Services) and Phase 1b and these transition costs are being paid for from the early savings achieved. The combined transition costs (to be shared between both Councils) are detailed below:-

- Costs of transition resources (up until March 2015) - £155,000  
*(This is the cost of a small number of staff who work for support services who are staying for a short term period after the go live date of 29 September 2014 to help hand over duties and train staff and to work on short term transition projects in support services. These staff do not form part of the new support services staffing structure and are a short term resource to help with transition to the new structure).*
- Cost of sprint staff (up until March 2015) - £75,000  
*(This is the cost of temporary staff that are assisting the Business Development team with mapping of the processes for Phase 1b into the new Workflow system).*

## **5. NEXT STEPS**

- 5.1 The strategy is to maintain the momentum of the Programme to ensure savings are delivered to align with the Medium Term Financial Strategy and to minimise the current levels of uncertainty for staff. The next phase of recruitment to the model will begin in January 2015. The first phase of implementing major ICT changes within support services will be implemented in the new year. Accommodation changes will be completed early next year and marketing of the space available will continue. Further detailed work to develop the arrangements for both Mobile Locality Officers and the Community Enabling team will be a key focus. The current governance arrangements for the Programme will also be reviewed in light of the senior management changes, as well as the member governance review arising from the Boundary Commission's conclusions on levels of member representation from May 2015.

## **6. LEGAL IMPLICATIONS AND STATUTORY POWERS**

- 6.1 This report updates the initial business case for T18 and requires additional investment on an 'invest to save' basis of funding not currently budgeted for. Furthermore the report recommends a further revision to the initially proposed structure of the organisation. The proposals therefore require approval by full Council as the body responsible for the policy framework and the overall budget.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 The Council faces the challenge of a funding gap of over £2.5 million (28%) over the next four financial years, in the context of net revenue spend of £9 million as the base position for the programme (i.e. the expenditure of the Council is predicted to exceed the funding available by £2.5 million by four years' time). To respond to the financial challenges requires either a major reduction in services and associated staffing during this period, or the ongoing implementation of the current Transformation Programme.
- 7.2 The financial implications are set out in the report. In summary, it is anticipated that the recent work to update the model will achieve revised annual savings of £3.37 million for South Hams District Council. These savings, combined with the annual savings of £1.64 million being delivered for West Devon Borough Council, mean that the operating model will deliver savings of 30% (£5 million) of the combined net revenue budgets of the Councils of £16.8 million. This will not require any reduction in service delivery. Initial one off investment costs for the Council are now estimated to be £4.61 million as shown in 4.1.

## **8. RISK MANAGEMENT**

- 8.1 The Risk Management implications are shown at the end of this report in the Strategic Risks Template.

## 9. CONCLUSIONS

- 9.1 The Councils are part way through delivering a major Transformation Programme that will change the way local government services are delivered as a response to the current financial challenges. To date most of the work streams are being successfully delivered on time and within budget. While the initial investment costs to fund organisational change are anticipated to increase, detailed further work on the future operating model has identified further savings and the business case remains robust.
- 9.2 It also important to bear in mind that the current focus of T18 is the internal organisational change but the Programme is part of wider transformation in the way the Council 'will do business' in the future. This change is designed to ensure that future services are commissioned based on a better understanding of community needs, facilitating greater cross agency working in localities and creating a culture that drives future income opportunities. In combination these changes will provide the capacity for the two Councils to respond to community ambitions, changing the focus over recent years which could be characterised as being dominated by incremental service reductions to achieve a balanced budget.

## 10. OTHER CONSIDERATIONS

<b>Corporate priorities engaged:</b>	This report relates to the delivery of the Council's future priorities embodied in the emerging 'Our Plan' during a period of increasing financial constraint
<b>Considerations of equality and human rights:</b>	This report updates Members on the opportunity for developing improved access to a range of Council services and meeting a wide range of customer needs
<b>Biodiversity considerations:</b>	None
<b>Sustainability considerations:</b>	The updated model is designed to ensure that both Councils are sustainable in the medium term. Greater agile working linked to better use of technology should reduce the Councils' carbon footprints
<b>Crime and disorder implications:</b>	None
<b>Background papers:</b>	Reports to Council – 31 October 2013, 20 March 2014 and 19 June 2014
<b>Appendices attached:</b>	Appendix A – Updated Organisational Design Appendix B - Commercial Services Design Appendix C – Phasing of savings and investment costs Appendix D – Investment and Financing Strategy Appendix E – Financial T18 Expenditure monitoring report – as at 24 November 2014

## STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Financial Risk - Funding	<p>Funding availability for initial investment to implement the Programme. The Council reports of 31/10/13 (SHDC) and 04/11/13 (WDBC) set out an Investment and Financing Strategy for the Programme</p> <p>The revised investment costs at SHDC are £4.61 million, to realise annual combined recurring savings of £3.37 million. The Programme has a payback period of 2 years and 6 months</p>	5	2	10	↓	<p>Investment and the availability of resources have been profiled in the context of an updated business plan</p> <p>Continue to explore external funding opportunities, such as Transformation Challenge Funding &amp; Delivering Differently programme</p> <p>Investment costs will be funded from Reserves as set out in each Council's Investment and Financing Strategy</p>	Executive Directors; Finance Professional Lead
2	Financial Risk - Costs	<p>Higher than anticipated costs and/or lower than anticipated savings arising from the Programme. Key variable risk is the cost of staff redundancies and experience, following recruitment to Phase 1a and SMT, has demonstrated that these costs are projected to increase</p>	4	4	16	↑	<p>Increase visibility of financial limitations to budget holders and Workstream Leads</p> <p>Ongoing monitoring of costs and savings within the Programme. Sensitivity analysis undertaken</p> <p>In recognition of uncertainty of some costs, introduce contingency sum into detailed business plan and review after each phase, particularly in relation to staff change costs</p>	Executive Directors; Finance Professional Lead

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			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
3	Financial Risk - Unexpected external costs	Unexpected external cost pressures which divert funding from the Programme and delays delivery	3	3	9	↔	Use of Unearmarked Reserves to address the risk of a delay in delivery of the Programme. Each month of delay could cost between £50,000 (at the start of the programme) to £320,000 (at the end) as a combined figure	New Senior Management Team
4	Technology Risk - Integrated ICT solution issues	Integrated ICT solution proves less successful than anticipated. Business continuity and connectivity in remote rural areas will be key to successful implementation	4	2	8	↔	<p>Develop effective working relationships with core technology supplier to enable partnership approach</p> <p>Set up appropriate project level controls to ensure effective governance and communication</p> <p>Develop/update business continuity plans</p> <p>Ensure solution design &amp; implementation considers connectivity requirements/challenges</p>	Executive Directors; ICT Professional Lead
5	Management Risk - capacity to deliver	Management capacity to deliver the Programme	4	3	12	↑	<p>Programme identified as the key corporate priority</p> <p>Commission external support as required to ensure the Programme is delivered in line with the timetable</p> <p>Fund appropriate transition arrangements</p>	Executive Directors



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6	Management Risk - Maintaining shared vision	Maintaining the shared vision for the Programme during a period of significant changes	4	4	12	↑	Effective communication strategy to engage with members, staff and other stakeholders embedded within the Programme. Corporate agreement to appropriate handover period to maintain the programme and its aims and objectives	Executive Directors, Senior Members & New Management Team
7	Management Risk - Organisational transition	Managing organisational transition to the new operating model, in particular reduction in customer satisfaction and/or drop in service standards	4	2	8	↔	Decision taken in 2013 to implement T18 Programme. Transition Plan for each phase to document and create sufficient organisational capacity to achieve Programme timeframes  Managing ongoing individual service performance	Executive Directors  Group Managers
8	Management Risk - Effective and robust programme management	Establishing an effective and robust programme management arrangement given the complexity of the Programme	4	2	8	↔	Establish appropriate member and officer Programme governance arrangements  Ensure key milestones and programme interdependencies identified	Executive Directors & New Management Team
9	Management Risk - Inappropriate existing management skill sets	Inappropriate existing management skill sets across the organisations in relation to the new model	4	3	12	↔	Establish appropriate selection process to the model. Training will take place in relation to the new performance management framework	Executive Directors;

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10	Management Risk - Loss of key staff	Loss of key staff during implementation of the Programme	4	4	16	↑	<p>Establish effective working arrangements to facilitate knowledge transfer across team members including appropriate handover periods.</p> <p>Ensure detailed transition plan is developed which includes knowledge transfer plan</p>	Executive Directors & New Management Team;
11	Political commitment	On-going political commitment to ensure that the Programme is delivered in the context of major external change and the inevitable challenges that will emerge during a major programme	4	2	8	↔	<p>Ongoing liaison with Members to maintain shared vision</p> <p>Ensure that the new model delivers and retains separate Council identities</p> <p>Raise awareness of the scale of organisational change and the impact on existing arrangements for both Members and Staff</p> <p>Managing interest from potential partners in terms of securing critical project timescales and taking account of organisational capacity</p>	Executive Directors

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12	Political Risk - national and local elections 2015	Potential impact of national/local elections in 2015	3	2	6	↔	<p>Monitor national direction of travel and focus on the flexibility of the model in relation to any local government changes affecting both future governance and funding availability</p> <p>Ongoing engagement with Members focusing on the benefits of the Programme, particularly improved customer interaction, rather than solely a response to budget reductions</p>	Executive Directors
13	Staffing Risk - Officer capacity and staff morale	Officer capacity and retention of staff morale during significant change	4	3	12	↔	<p>Effective communication strategy embedded as part of the Programme</p> <p>Maintain the pace of the change to ensure that key staff are not lost from the organisations</p>	Executive Directors;
14	Staffing Risk - Major cultural change	Securing successful implementation of major cultural change in relation to the development of skills and approaches to working arrangements within the new operating model	4	2	8	↔	<p>Support cultural change with a comprehensive corporate training and development programme and develop recruitment, induction, appraisal and performance management frameworks</p> <p>Communication strategy embedded as a key element of the Programme</p> <p>Procure external skills to respond to expertise or capacity gap - T18 budgets include external assistance for the Programme</p> <p>Ensure new systems and processes are resilient and sustainable</p>	Executive Directors;

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15	Staffing Risk - Potential Union/Staff responses	Potential Union/staff response to elements of the Programme	4	2	8	↔	<p>Ongoing engagement with key staff stakeholder groups and develop corporate understanding of those issues which are essential to successful implementation of the Programme and therefore the organisations must be subject to change</p> <p>Communicate potential staff benefits within the model such as developing skills and achieving better work/life balance through agile working</p>	Executive Directors; & New Management Team
16	Asset Risk - accommodation costs and rental receipts drop	Anticipated costs of accommodation changes increase and rental receipts from additional letting of HQs not achieved in current economic climate	4	2	8	↔	<p>Cautious rental assumptions within the business plan</p> <p>Ongoing monitoring of the business plan assumptions and adjustments of marketing strategies accordingly</p>	Executive Directors; & New Management Team

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17	Customer/Community Risk - Potential of greater exclusion for some customers	Although improved access to services through technology is a benefit for many, there is a risk of greater exclusion for some customers	4	2	8	↔	<p>Promote digital by choice rather than digital by default</p> <p>Roll out of rural broadband &amp; enhanced mobile connectivity will reduce risk of digital exclusion</p> <p>Monitor levels of use of each access channel in tandem with customer satisfaction as part of monitoring Programme success measures</p> <p>Supporting vulnerable customers and those unwilling to use technology forms a key part of the operating model</p>	Executive Directors and work stream leads
18	Customer/Community Risk - Disruption/reduction in service levels	Scale of organisational change results in disruption/reduction in service levels and loss of support/confidence in the Programme	5	2	10	↔	<p>Transition Plan will form part of the Programme Plan</p> <p>Monitor service delivery and provide short term injections of capacity to ensure service performance maintained, particularly during transition</p> <p>Ensure appropriate handover periods</p>	Executive Directors; & New Management Team
19	Customer/Community Risk - Operating Model	Operating Model and technology not working as anticipated and creating customer/community dissatisfaction	5	2	10	↔	<p>Test the approach/technology before introducing to the customer/community</p>	Executive Directors; New Management Team and work stream leads

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20	Senior Management Team (SMT) Restructure	Appointment process fails to deliver senior management capability needed to ensure success of the T18 model	5	4	20	↑	To design sufficient capacity into the senior management structure under review and evaluate at the end of years 1 and 2	Members and New Management Team
21	Senior Management Team Restructure - open competition	The decision to restructure the team using open competition has been made and the arguments for it well established	4	3	12	↔	Ensure that appropriate transition plan is in place to deal with changes to the Senior Management Team	Executive Directors; & New Management Team
22	Capacity to deliver	Overall capacity to deliver significant change in the timescales expected  1b timescales in particular are demanding considering the extent of change and the level of appropriately skilled resource available	4	4	16	↔	Detailed capacity planning, work prioritisation and phased delivery with a revised contingency built in to the updated business case	Executive Directors and work stream leads
23	Programme Definition Precision	Some areas of the programme lack sufficiently detailed scope definition and this leads to delivery omissions	4	3	12	↔	Ensure all project definitions in place and approved by appropriate stakeholders	Executive Directors and work stream leads